

LINCOLN NATIONAL CORP  
Form 10-Q  
May 09, 2008

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
WASHINGTON, D. C. 20549

**FORM 10-Q**

(Mark One)

**Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
For the quarterly period ended March 31, 2008.

**Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission File Number 1-6028

**LINCOLN NATIONAL CORPORATION**

(Exact name of registrant as specified in its charter)

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Indiana  
(State or other jurisdiction of  
incorporation or organization)

35-1140070  
(I.R.S. Employer  
Identification No.)

150 N. Radnor Chester Road, Radnor, Pennsylvania  
(Address of principal executive offices)

19087  
(Zip Code)

(484) 583-1400

Registrant's telephone number, including area code

1500 Market Street, Suite 3900, Philadelphia, Pennsylvania

Former name, former address and former fiscal year, if changed since last report

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

(Check one): Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of May 1, 2008, there were 259,302,945 shares of the registrant's common stock outstanding.

## PART I FINANCIAL INFORMATION

## Item 1. Financial Statements

## LINCOLN NATIONAL CORPORATION

## CONSOLIDATED BALANCE SHEETS

(in millions, except share data)

	As of March 31, 2008 (Unaudited)	As of December 31, 2007
<b>ASSETS</b>		
Investments:		
Available-for-sale securities, at fair value:		
Fixed maturity (amortized cost: 2008-\$56,449; 2007-\$56,069)	\$ 55,624	\$ 56,276
Equity (cost: 2008-\$556; 2007-\$548)	474	518
Trading securities	2,714	2,730
Mortgage loans on real estate	7,532	7,423
Real estate	175	258
Policy loans	2,804	2,835
Derivative investments	1,091	807
Other investments	1,141	1,075
Total investments	71,555	71,922
Cash and invested cash	2,447	1,665
Deferred acquisition costs and value of business acquired	9,996	9,580
Premiums and fees receivable	468	401
Accrued investment income	917	843
Reinsurance recoverables	8,407	8,237
Goodwill	4,128	4,144
Other assets	2,728	3,530
Separate account assets	84,703	91,113
Total assets	\$ 185,349	\$ 191,435
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>Liabilities</b>		
Future contract benefits	\$ 16,501	\$ 16,007
Other contract holder funds	60,176	59,640
Short-term debt	411	550
Long-term debt	4,627	4,618
Reinsurance related derivative liability	205	220
Funds withheld reinsurance liabilities	2,117	2,117
Deferred gain on indemnity reinsurance	677	696
Payables for collateral under securities loaned and derivatives	1,796	1,135
Other liabilities	3,050	3,621
Separate account liabilities	84,703	91,113
Total liabilities	174,263	179,717

## Contingencies and Commitments (See Note 10)

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**Stockholders Equity**

Series A preferred stock - 10,000,000 shares authorized		
Common stock - 800,000,000 shares authorized; 259,206,033 and 264,233,303 shares issued and outstanding as of March 31, 2008 and December 31, 2007, respectively	7,075	7,200
Retained earnings	4,333	4,293
Accumulated other comprehensive income (loss)	(322)	225
<b>Total stockholders equity</b>	<b>11,086</b>	<b>11,718</b>
<b>Total liabilities and stockholders equity</b>	<b>\$ 185,349</b>	<b>\$ 191,435</b>

See accompanying Notes to Consolidated Financial Statements

**LINCOLN NATIONAL CORPORATION**  
**CONSOLIDATED STATEMENTS OF INCOME**

(in millions, except per share data)

	<b>For the Three Months Ended March 31, 2008      2007 (Unaudited)</b>	
<b>Revenues</b>		
Insurance premiums	\$ 509	\$ 459
Insurance fees	844	779
Investment advisory fees	76	90
Net investment income	968	1,090
Realized gain (loss)	(38)	26
Amortization of deferred gain on indemnity reinsurance	19	19
Other revenues and fees	146	165
<b>Total revenues</b>	<b>2,524</b>	<b>2,628</b>
<b>Benefits and Expenses</b>		
Interest credited	510	605
Benefits	691	589
Underwriting, acquisition, insurance and other expenses	829	815
Interest and debt expense	76	61
<b>Total benefits and expenses</b>	<b>2,106</b>	<b>2,070</b>
Income from continuing operations before taxes	418	558
Federal income taxes	125	170
Income from continuing operations	293	388
Income (loss) from discontinued operations, net of federal incomes taxes	(4)	8
<b>Net income</b>	<b>\$ 289</b>	<b>\$ 396</b>
<b>Earnings Per Common Share - Basic</b>		
Income from continuing operations	\$ 1.13	\$ 1.41
Income (loss) from discontinued operations	(0.02)	0.03
<b>Net income</b>	<b>\$ 1.11</b>	<b>\$ 1.44</b>
<b>Earnings Per Common Share - Diluted</b>		
Income from continuing operations	\$ 1.12	\$ 1.39
Income (loss) from discontinued operations	(0.02)	0.03
<b>Net income</b>	<b>\$ 1.10</b>	<b>\$ 1.42</b>

See accompanying Notes to Consolidated Financial Statements

## LINCOLN NATIONAL CORPORATION

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(in millions, except per share data)

	<b>For the Three Months Ended March 31, 2008      2007 (Unaudited)</b>	
<b>Series A Preferred Stock</b>		
Balance at beginning-of-year	\$	\$ 1
Balance at end-of-period		1
<b>Common Stock</b>		
Balance at beginning-of-year	7,200	7,449
Issued for acquisition		20
Stock compensation/issued for benefit plans	21	41
Deferred compensation payable in stock	3	3
Retirement of common stock/cancellation of shares	(149)	(195)
Balance at end-of-period	7,075	7,318
<b>Retained Earnings</b>		
Balance at beginning-of-year	4,293	4,138
Cumulative effect of adoption of SOP 05-1		(41)
Cumulative effect of adoption of FIN 48		(15)
Cumulative effect of adoption of EITF 06-10	(4)	
Comprehensive income (loss)	(258)	442
Less other comprehensive income (loss), net of tax	(547)	46
Net income	289	396
Retirement of common stock	(137)	(317)
Dividends declared: Common (2008-\$0.415; 2007-\$0.395)	(108)	(107)
Balance at end-of-period	4,333	4,054
<b>Net Unrealized Gain on Available-for-Sale Securities</b>		
Balance at beginning-of-year	86	481
Change during the period	(538)	47
Balance at end-of-period	(452)	528
<b>Net Unrealized Gain on Derivative Instruments</b>		
Balance at beginning-of-year	53	51
Change during the period	(9)	(4)
Balance at end-of-period	44	47
<b>Foreign Currency Translation Adjustment</b>		
Balance at beginning-of-year	175	165
Change during the period	(1)	3

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Balance at end-of-period	174	168
<b>Funded Status of Employee Benefit Plans</b>		
Balance at beginning-of-year	(89)	(84)
Change during the period	1	
Balance at end-of-period	(88)	(84)
Total stockholders' equity at end-of-period	\$ 11,086	\$ 12,032

See accompanying Notes to Consolidated Financial Statements

**LINCOLN NATIONAL CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in millions)

	<b>For the Three Months Ended March 31, 2008                      2007 (Unaudited)</b>	
<b>Cash Flows from Operating Activities</b>		
Net income	\$ 289	\$ 396
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred acquisition costs and value of business acquired deferrals and interest, net of amortization	(181)	(206)
Change in premiums and fees receivable	(67)	(19)
Change in accrued investment income	(74)	(53)
Change in future contract benefits	498	139
Change in other contract holder funds	76	271
Net trading securities purchases, sales and maturities	12	126
Change in amounts recoverable from reinsurers	(170)	(193)
Change in federal income tax accruals	(74)	216
Stock-based compensation expense	12	15
Depreciation, amortization and accretion, net	11	13
Increase in funds withheld liability		27
Realized loss (gain) on investments and derivative instruments	41	(26)
Loss on sale of subsidiaries/businesses and disposals of discontinued operations	9	
Amortization of deferred gain on indemnity reinsurance	(19)	(19)
Change in derivative investments	(169)	17
Other	(96)	(235)
Net adjustments	(191)	73
Net cash provided by operating activities	98	469
<b>Cash Flows from Investing Activities</b>		
Purchases of available-for-sale securities	(1,599)	(5,017)
Sales of available-for-sale securities	300	3,705
Maturities of available-for-sale securities	888	972
Purchases of other investments	(713)	(603)
Sales or maturities of other investments	596	514