

Edgar Filing: LINCOLN NATIONAL CORP - Form 8-K

LINCOLN NATIONAL CORP  
Form 8-K  
November 08, 2001

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

FORM 8-K

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report: September 30, 2001

LINCOLN NATIONAL CORPORATION

(Exact name of registrant as specified in its charter)

Indiana 1-6028 35-1140070  
(State of Incorporation) (Commission File Number) (I.R.S. Employer  
Identification No.)

1500 Market Street, Suite 3900, Centre Square West Tower, Philadelphia, PA  
19102

(Address of principal executive offices)

Registrant's telephone number 219-448-1400

2

Item 9

Financial Report for the quarter ended September 30, 2001.

Lincoln  
QUARTERLY

SHAREHOLDERnews

third quarter 2001

[PHOTO OMITTED: JON A. BOSCIA]

THIS issue:

LFG ESTIMATES  
LOSSES RELATED  
TO SEPT. 11 TRAGEDY

KEY FEATURES  
OF Income4LifeSM  
SOLUTION

LINCOLN'S ELITE  
SERIES OF FUNDS

GETTING NET  
FLOW POSITIVE

QUARTERLY  
HIGHLIGHTS

## Edgar Filing: LINCOLN NATIONAL CORP - Form 8-K

To Our Shareholders:

The third quarter of 2001 can be characterized as anything but normal. The tragic events we witnessed on Sept. 11 left an indelible mark on all of our lives. And we at Lincoln continue to grieve for the family members, friends and colleagues who were personally affected.

The tragedy, coupled with the weak stock market clearly had a financial impact on the overall economy, as well as on Lincoln's third quarter earnings. But despite these events, our balance of both wealth accumulation and protection businesses, coupled with our broad array of products and distribution breadth helped to insulate us from an even worse impact.

In addition to growth in our life insurance segment earnings, we had positive net flows in our Annuities segment.

Lincoln reported income from operations of \$143.2 million, or \$.74 per diluted share. This compares to \$190.7 million, or \$.98 per diluted share in the year-ago period.

Our Annuities segment reported earnings of \$72.4 million for the quarter. Despite equity market performance, we had record deposits of \$1.6 billion and reached positive net cash flows for the first time since the second quarter of 1997.

Life Insurance income from operations was \$70.1 million, reflecting \$1.9 million in losses stemming from the Sept. 11 tragedy. Although overall life sales were down, over the course of the year we experienced sales growth in term life insurance products, as well as in MoneyGuard (registered trademark), our universal life product with a long-term care rider.

Income from operations for the Investment Management segment was \$3.5 million, down from the \$9.9 million reported in the third quarter 2000, due primarily to market depreciation. Relative investment performance continued to be strong with 16 of Delaware's 25 largest retail funds exceeding Lipper averages for the last 12 months.

Reinsurance reported income from operations of only \$17.2 million. Earnings were reduced \$31.3 million as a result of the Sept. 11 events.

Lincoln UK earnings were \$10.1 million for the quarter, compared with \$10.6 million a year ago. The decrease is due to the significant decline in equity markets.

All in all, we continue to make good progress on our goals, and will continue to focus on the challenges and opportunities that lie ahead.

Sincerely,

/S/ Jon A. Boscia

Jon A. Boscia  
Chairman and Chief Executive Officer

Lincoln Quarterly THIRD QUARTER 2001

OVERview

## Edgar Filing: LINCOLN NATIONAL CORP - Form 8-K

We're a family of financial services.

Lincoln Financial Group (LFG), is the marketing name for Lincoln National Corporation. LFG provides annuities, life insurance, life-health reinsurance, mutual funds, retirement plans, institutional investment management and financial and estate planning services. The corporation holds a prominent position among financial services companies due primarily to its excellent customer service, risk management expertise and the strategic focus to succeed in the future. LFG retains consolidated assets of \$90 billion and annual consolidated revenues of \$6.9 billion.

### FINANCIAL & ESTATE PLANNING

RETIREMENT PLANS		PENSIONS
MUTUAL FUNDS	Financial Services	ANNUITIES
REINSURANCE		LIFE INSURANCE

### CURRENT events

#### LFG Estimates Losses Related to Sept. 11 Tragedy

The calamity that befell our nation on Tuesday, Sept. 11 leaves us forever changed. And, as the country still mourns this day, the insurance industry is preparing itself for the large, but manageable costs of the claims associated with this tragedy.

According to a Wall Street Journal article, insurance industry analysts predict that direct life-insurers will pay approximately \$4 billion to \$6 billion in claims arising from the attacks, far below the \$40 billion or more that the property-casualty insurers are expected to pay in claims. For the record, LFG exited its property-casualty operations in 1997.

Through the third quarter, Lincoln's direct life insurance segment reported losses of approximately \$1.9 million after-tax, including reserves set up for unreported claims.

In the reinsurance segment, the total impact to operating earnings for the third quarter was \$31.3 million and included a reserve for incurred but unreported claims.

"Lincoln remains in a solid financial position with excellent financial strength ratings, a strong balance sheet and substantial liquidity to meet all policyholder obligations and financial demands," said Jon A. Boscia, chairman and chief executive officer.

### FINANCIAL NEWS

### FINANCIAL HIGHLIGHTS

Edgar Filing: LINCOLN NATIONAL CORP - Form 8-K

(Millions of dollars, except ratios and per share data)		Third Quarter		Change
		2001	2000	
Income from Operations*	Annuities**	72.4	102.9	(29.6%)
	Life Insurance**	70.1	66.5	5.4%
	Reinsurance	17.2	28.2	(39.0%)
	Investment Management**	3.5	9.9	(64.6%)
	Lincoln UK	10.1	10.6	(4.7%)
	Corporate & Other**	(30.1)	(27.4)	
Total Income from Operations*		143.2	190.7	(24.9%)
Net Income	Net Income	119.1	138.6	(14.1%)
Per Share Data	Income from Operations*	\$0.74	\$0.98	(24.5%)
	Net Income	\$0.61	\$0.71	(14.1%)
	Shareholders' Equity (Book Value):			
	Securities at Market	\$28.29	\$23.67	19.5%
	Securities at Cost	\$26.87	\$25.43	5.7%
	Common Shares Outstanding (millions):			
	Average for the Period	194.8	195.6	
	End of Period	193.3	196.2	

\* "Income from Operations" is defined as "Net Income" less gain (loss) on investments, gain (loss) on derivatives, restructuring charges and cumulative effect of accounting changes, net of tax.

\*\* 3rd quarter 2000 was restated from the prior year due to changes in LNC's segments which were effective on January 1, 2001.

STOCK PRICES/DIVIDENDS DECLARED

The table below sets forth, by quarter, the range of high, low and quarter-end closing sale prices for Lincoln National Corporation common stock and the cash dividends declared per common share.

2001 Quarter	High	Low	Close	Cash Dividends Declared
First	\$48.250	\$38.000	\$42.470	\$0.305
Second	\$52.300	\$41.280	\$51.750	\$0.305
Third	\$52.750	\$41.000	\$46.630	\$0.305
Total				\$0.915
=====				
2000 Quarter	High	Low	Close	Cash Dividends Declared

Edgar Filing: LINCOLN NATIONAL CORP - Form 8-K

First	\$41.375	\$22.625	\$33.500	\$0.290
Second	\$40.063	\$29.000	\$36.125	\$0.290
Third	\$56.375	\$35.625	\$48.125	\$0.290
Fourth	\$50.938	\$40.875	\$47.313	\$0.305
Total				\$1.175

LINCOLN NATIONAL CORPORATION'S RATINGS

	Commercial Paper	Debt
Standard & Poor's	A-2 (Satisfactory)	A- (Strong)
Moody's	P-2 (Strong)	A3 (Upper medium grade)
Fitch	F-1 (Very strong)	A+ (Strong)
A.M. Best		a (Strong)

LIFE INSURANCE COMPANY  
FINANCIAL STRENGTH RATINGS

Description	A.M. Best	Fitch	Moody's	Standard & Poor's
Exceptional or Superior Negligible Risk Factors	A++ A+	AAA	Aaa	AAA
Excellent Modest Risk	A A-	AA+ AA AA-	Aa1 Aa2 Aa3	AA+ AA AA-
Very Good, Strong, or High Average Risk	B+	A+ A A-	A1 A2 A3	A+ A A-
Adequate Protection Factors are Average More Vulnerable to Economic Conditions	B B-	BBB+ BBB BBB-	Baa1 Baa2 Baa3	BBB+ BBB BBB-
Below Average Questionable or Uncertain Security	C+ C	BB+ BB BB-	Ba1 Ba2 Ba3	BB+ BB BB-
Poor Vulnerability is High Considered Financially Weak Obligations May Not be Paid	C C-	B+ B BB-	B1 B2 B3	B+ B B-
Very Poor May Not Meet Obligations May be in Default		CCC CC D	Caa Ca C	CCC CC D

Edgar Filing: LINCOLN NATIONAL CORP - Form 8-K

-----  
 Lincoln National Life Ratings are Highlighted.

A.M. BEST RATINGS FOR SELECTED AFFILIATES

-----  
 First Penn-Pacific Life Insurance Company A  
 Lincoln National Health and Casualty Company A

CONSOLIDATED CONDENSED STATEMENTS OF INCOME

(Millions of dollars)		Third Quarter		Nine Months
		2001	2000	2001
Revenue	Insurance Premiums and Fees	821.6	882.1	2,568.5
	Investment Advisory Fees	47.2	53.3	146.3
	Net Investment Income	686.2	690.0	2,033.0
	Realized Gain/(Loss) on Investments	(37.6)	(17.0)	(75.8)
	Other	91.9	107.7	235.1
	<b>Total Revenue</b>	<b>1,609.3</b>	<b>1,716.1</b>	<b>4,907.1</b>
Benefits and Expenses	Benefits and Settlement Expenses	903.1	893.5	2,664.8
	Underwriting, Acquisition, Insurance and Other Expenses	556.6	632.2	1,667.9
	<b>Total Benefits and Expenses</b>	<b>1,459.7</b>	<b>1,525.7</b>	<b>4,332.7</b>
Income	Net Income before Federal Taxes	149.6	190.4	574.4
	Federal Income Taxes	30.5	51.8	137.9
	Net Income from Continuing Operations			
	Discontinued Operations			
	Net Income before Minority Interest & Accounting Changes	119.1	138.6	436.5
	Minority Interest & Accounting Changes	0.0	0.0	(15.5)
	<b>Net Income</b>	<b>119.1</b>	<b>138.6</b>	<b>421.0</b>
		=====	=====	=====
Earnings Per Share	Net Income	\$0.61	\$0.71	\$2.18
		=====	=====	=====

CONSOLIDATED CONDENSED BALANCE SHEETS

September

December 31

## Edgar Filing: LINCOLN NATIONAL CORP - Form 8-K

	(Millions of dollars)	2001	2000
<hr/>			
<b>Assets</b>			
<hr/>			
Investments	Securities Available-for-Sale		
	Fixed Maturities	28,931.6	27,449.8
	Equities	477.7	549.7
	Mortgage Loans on Real Estate	4,663.1	4,663.0
	Real Estate	288.8	282.0
	Policy Loans	1,943.4	1,960.9
	Other Long-Term Investments	483.4	463.3
	<hr/>		
	Total Investments	36,788.0	35,368.7
<hr/>			
Other Assets	Assets Held in Separate Accounts	39,479.8	50,579.9
	Other Assets	13,938.2	13,895.5
	<hr/>		
	Total Assets	90,206.0	99,844.1
		=====	=====
<b>Liabilities and Shareholders' Equity</b>			
<hr/>			
Liabilities	Liabilities for Insurance and Investment Contracts	40,961.0	40,105.2
	Liabilities Related to Separate Accounts	39,479.8	50,579.9
	Other Liabilities	4,396.6	4,204.9
	<hr/>		
	Total Liabilities	84,837.4	94,890.0
<hr/>			
Shareholders' Equity	Preferred Stock	0.8	0.9
	Common Stock	1,252.5	1,003.7
	Retained Earnings	3,840.2	3,915.6
	Net Unrealized Gain on Securities Available-for-Sale	247.9	12.0
	Net Unrealized Gain on Derivatives	20.3	0.0
	Foreign Currency Translation Adjustment	6.9	21.9
	<hr/>		
	Shareholders' Equity	5,368.6	4,954.1
	<hr/>		
	Liabilities and Shareholders' Equity	90,206.0	99,844.1
		=====	=====

### FORM 10-Q DISCLOSURE STATEMENT

The notes to these unaudited condensed interim financial statements have not been included in this report. Those notes, along with more detailed financial information are, however, contained in the corporation's quarterly report on Form 10-Q filed with the Securities and Exchange Commission. Copies of the 10-Q are available electronically at [www.sec.gov](http://www.sec.gov) or [www.lfg.com](http://www.lfg.com) or by writing to: Douglas N. Miller, LNC Controller, 1500 Market Street, Suite 3900, Philadelphia, PA 19102-2112. Requests may also be directed to 215-448-1430 or to [dnmiller@lnc.com](mailto:dnmiller@lnc.com) on the Internet.

## Edgar Filing: LINCOLN NATIONAL CORP - Form 8-K

PRODUCT news

Lincoln's Elite Series of Funds:  
A Whole New Meaning to One-Stop Shopping

[GRAPHIC OMITTED: PHOTO OF NEWSPAPER]

Remember when life was simple? Although we all enjoy the ability to make choices, too many choices can be overwhelming at times. With the launch of Lincoln's Elite Series of Funds, Lincoln has managed to simplify its investment options from an enterprise-wide perspective and bring one-stop shopping to a whole new level. The Lincoln Elite Series of Funds is comprised of 44 variable investment options available in our 401(k), variable annuity and variable life products. This makes it easier for LFG's financial intermediaries to get to know the funds regardless of the product.

Lincoln's Elite Series of Funds also meet the investment objectives of all investor types. Fund managers include: AIM (registered trademark), American Funds<sup>SM</sup>, Delaware Investments, Janus, Franklin (registered trademark) Templeton (registered trademark), Deutsche Asset Management, Fidelity Investments (registered trademark), Neuberger Berman, Alliance Capital (registered trademark) and Putnam Investments.

"Due to customer demand for a high quality, consistent fund lineup, Lincoln's wholesaling group teamed up with its product manufacturers to develop a unique fund platform to be incorporated into Lincoln's products," said Wes Thompson, president and chief executive officer of Lincoln Financial Distributors. "Making it easy to do business with Lincoln is the best value proposition we can provide to our customers," he added.

Prior to the creation of the Lincoln Elite Series of Funds, Lincoln's distribution partners had to familiarize themselves with more than 60 funds from 17 different fund families that populated Lincoln's variable annuities, 401(k) and life insurance products. However, the development of the Lincoln Elite Series of Funds decreased the number of funds to 44 from 11 fund families. This represents a 27% reduction in funds and a 35% reduction in fund families that distributors have to learn and market to end-users. In addition, the smaller number of funds enables LFG to deepen its relationship with fewer fund families.

Fund performance is consistently monitored by an in-house research and due diligence team. Eventually, the Lincoln Elite Series of Funds will be incorporated into additional Lincoln products.

Lincoln Quarterly THIRD QUARTER 2001

FOCUSED feature

Control and Flexibility  
Key Features of Income4Life SM Solution

[GRAPHIC OMITTED: PHOTO OF LINCOLN ADVERTISEMENT WITH CAPTION

"New Income4Life SM solution ad geared toward financial and intermediary trade publications".]

Joan and David Smith have worked all their lives and purchased an annuity as a retirement savings vehicle. As they near retirement, they have the same concern many Americans have regarding their golden years -- What if they run out of money?



## Edgar Filing: LINCOLN NATIONAL CORP - Form 8-K

The couple could turn their variable annuity contract into lifetime income by simply annuitizing it. However, once they do this, they lose control of their assets and won't be able to make withdrawals even in an emergency situation.

Joan and David are hoping for a more flexible option where they can control their hard-earned retirement assets. That's why they decided to put their money in a Lincoln variable annuity and take advantage of the Income4LifeSM Solution. This feature offers control and flexibility, coupled with the benefits of tax advantages and lifetime income. In essence, once they begin the payout phase, they maintain both access and control of their assets and income.

Here's how this state-of-the-art income solution works. Working with a financial advisor, an investor selects one of Lincoln's variable annuities from the American Legacy single manager, the Lincoln ChoicePlusSM multi manager or the new Wells Fargo lineup. When the investor is ready to receive income distribution, he or she elects the Income4LifeSM Solution feature and selects a period of time in which to access the account assets. The investor begins receiving income payments, which will fluctuate based on performance of selected investments. During the access period, the investor can make transfers, additional withdrawals and request other service features, such as portfolio rebalancing of the account value. A survivor benefit is provided during the access period, with the beneficiary receiving 100 percent of the account value. In addition, before the initial access period ends, the investor may opt to change the length of the access period via an internal exchange.

There are a number of benefits to Joan and David. First is a positive experience each and every time they receive their income check. Second, the equity-oriented investment performance can be an excellent way to combat inflation, helping to assure the investors retirement assets retain their purchasing power throughout their retirement years. And, finally, the Smiths don't give up control of their assets in exchange for lifetime income.

A strategic rollout of the Income4LifeSM Solution, which included a marketing campaign geared toward brokers and advisors, began in May 2001. Print ads were placed in financial trade publications including the Wall Street Journal and Barron's, as well as trade publications such as On Wall Street, Registered Representative and Investment News. New marketing materials were also created for the product distributors and an aggressive education program was initiated.

"We are very encouraged by the strong interest in the Income4LifeSM Solution. In July, the first month of one key distributor's summer campaign, we received nearly 4,000 inquiries from broker/dealers," said Bill Boscow, chief marketing officer for Lincoln Annuities. The second phase of the promotional campaign is anticipated for early 2002.

### BRIEF notes

#### Quarterly Highlights

-----  
(bullet) In a display of unity and support for all the victims of the tragic events that occurred on Sept. 11, Lincoln Financial Group employees have donated nearly \$280,000 to the American Red Cross. In support of its employee donation, the LFG Foundation will donate an additional \$280,000 making the total contribution to the American Red Cross \$560,000.

## Edgar Filing: LINCOLN NATIONAL CORP - Form 8-K

(bullet) For the third consecutive year, Delaware Investments' operations department has won the prestigious DALBAR Crystal Pyramid Award for excelling in main office operations. Delaware received top distinction in the following areas: ease of doing business, problem resolution, service relationship management, response to inquiries, back office visits, commission processing, understanding the broker/dealer's business, keeping broker/dealers informed and overall operations support.

(bullet) LFG was promoted as the company of choice for the super affluent in three recent news articles. An article written by LFA's David Megaw, a tax attorney, appeared in the Sept. issue of Investment Advisor and showcased the firm's proficiency in estate planning for the wealthy. In addition, Wes Thompson, LFD's chief executive officer, hosted a roundtable discussion on the financial planning needs of America's affluent. The roundtable discussion which included financial planners, an accountant and two estate planning attorneys, were the focus of two articles published in the Sept. 17 edition of Investment News.

(bullet) For the 15th consecutive year, Lincoln Financial Group was selected among the nation's top companies for working mothers by Working Mother magazine. LFG is one of only five companies to be named to the list of 100 best companies for working mothers for 15 out of 16 years.

### Transfer Agent & Registrar

---

Equiserve  
P.O. Box 2500  
Jersey City, NJ 07303-2500  
Web site: <http://www.equiserve.com>  
1-800-317-4445

### Stock Listing

---

The common stock of Lincoln National Corporation is traded on the New York, Chicago and Pacific stock exchanges under the symbol LNC. In newspapers, stock information is most frequently listed as LincNatCp.

[LOGO OMITTED: LNC AND NYSE]

[LOGO OMITTED: LINCOLN FINANCIAL GROUP]

PRESORTED  
STANDARD  
U.S. POSTAGE  
PAID  
NEW BRUNSWICK, NJ  
PERMIT NO. 772

Lincoln National Corporation  
Centre Square, West Tower  
1500 Market Street, Suite 3900  
Philadelphia, PA 19102-2112  
(215) 448-1400  
[www.LFG.com](http://www.LFG.com)

CONTACTS  
Investor Relations  
Priscilla S. Brown

## Edgar Filing: LINCOLN NATIONAL CORP - Form 8-K

Director, Investor Relations  
(215) 448-1422

Shareholder Services  
Fred Crawford  
Treasurer  
(800) 237-2920

Financial Communications  
LaNella Hooper  
Director, Financial Communications  
(215) 448-1423

Media Relations  
D'Arcy Foster Rudnay  
Director, Media Relations  
(215) 448-1454

Form 19725-3

### The Quest to Getting Net Flow Positive

For the first time since the second quarter of 1997, Lincoln Annuities reached positive net flows. Total annuity deposits were a record \$1.6 billion for the third quarter, up 27 percent over third quarter 2000. This was driven by strong sales of fixed annuities through the bank channel, as well as the sale of American Legacy, Lincoln ChoicePlusSM and Lincoln Alliance products.

What's the significance of this milestone? Generally speaking, net flows are one of the key indicators of Lincoln's future success. In the Annuities and Investment Management business segments, net flows are the result of deposits, or incoming dollars, minus outgoing dollars. The higher the net flows, the more Lincoln can expect to earn in future fee income. Positive net flows also indicate Lincoln's ability to grow the business with new accounts, as well as maintain existing business by stemming fund withdrawals.

Lincoln Annuities implemented a series of strategic initiatives that, in combination, led to increasing deposits and slowing withdrawals and ultimately positive net flows of \$261 million in the third quarter. These initiatives included hiring a number of performance players into critical roles, including a new annuities CEO. In addition, a number of new products and product features were introduced, such as new fixed products and variable riders. Finally, improving retention levels and strengthening distribution alliances were also critical in reaching positive net flows.

During the second quarter of 2001, our Investment Management segment also had positive net flows of \$285 million, driven by institutional net flows. However, during the third quarter of 2001, net flows were negative due to the repositioning of two major institutional clients and the consolidation of 14 funds. The Investment Management segment had slightly positive flows for the two quarters combined, and continues to work on initiatives that are designed to help get it to a consistent net flow positive. These include focusing on investment research and improving the relative investment performance of the Delaware family of funds. For the twelve months ended Sept. 30, 2001, 16 of Delaware's 25 largest retail funds exceeded Lipper averages.

While Lincoln is pleased with the overall positive trends we have

## Edgar Filing: LINCOLN NATIONAL CORP - Form 8-K

witnessed in our Annuities segment and the progress we are making in our Investment Management segment, we recognize that fluctuations will occur as large cases come and go. However, we'll continue to execute on the initiatives started, and look for other opportunities to capitalize on our strengths.