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ATTORNEYS FOR PLAINTIFF

**IN THE COURT OF COMMON PLEAS OF DELAWARE COUNTY, PENNSYLVANIA
CIVIL ACTION – LAW**

ANTHONY MORGAN, Derivatively on Behalf
of LINCOLN NATIONAL CORPORATION,

No.

Plaintiff,

v.

ELLEN G. COOPER, DEIRDRE P.
CONNELLY, WILLIAM H. CUNNINGHAM,
REGINALD DAVIS, ERIC C. JOHNSON,
GARY C. KELLY, M. LEANNE LACHMAN,
DALE LEFEBVRE, JANET LIANG, LYNN
UTTER, DENNIS GLASS, AND RANDAL
FREITAG

Defendants,

and

LINCOLN NATIONAL CORPORATION, an
Indiana Corporation

Nominal Defendant

NOTICE

YOU HAVE BEEN SUED IN COURT. IF YOU WISH TO DEFEND AGAINST THE CLAIMS SET FORTH IN THE FOLLOWING PAGES, YOU MUST TAKE ACTION WITHIN TWENTY (20) DAYS AFTER THIS COMPLAINT AND NOTICE ARE SERVED, BY ENTERING A WRITTEN APPEARANCE PERSONALLY OR BY ATTORNEY AND FILING IN WRITING WITH THE COURT YOUR DEFENSES OR OBJECTIONS TO THE CLAIMS SET FORTH AGAINST YOU. YOU ARE WARNED THAT IF YOU FAIL TO DO SO THE CASE MAY PROCEED WITHOUT YOU AND A JUDGMENT MAY BE ENTERED AGAINST YOU BY THE COURT WITHOUT FURTHER NOTICE FOR ANY MONEY CLAIMED IN THE COMPLAINT OF FOR ANY OTHER CLAIM OR RELIEF REQUESTED BY THE PLAINTIFF. YOU MAY LOSE MONEY OR PROPERTY OR OTHER RIGHTS IMPORTANT TO YOU. YOU SHOULD TAKE THIS PAPER TO YOUR LAWYER AT ONCE. IF YOU DO NOT HAVE A LAWYER OR CANNOT AFFORD ONE, GO TO OR TELEPHONE THE OFFICE SET FORTH BELOW TO FIND OUT WHERE YOU CAN GET LEGAL HELP.

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MEDIA, PA 19063
(610) 566-6625

AVISO

LE HAN DEMANDADO A USTED EN LA CORTE. SI USTED QUIERE DEFENDERSE DE ESTAS DEMANDAS EXPUESTAS EN LAS PAGINAS SIGUIENTES, USTED TIENE VEINTE (20) DIAS DE PLAZO AL PARTIR DE LA FECHA DE LA DEMANDA Y LA NOTIFICACION. HACE FALTA ASCENTAR UNA COMPARENCIA ESCRITA O EN PERSONA O CON UN ABOGADO Y ENTREGAR A LA CORTE EN FORMA ESCRITA SUS DEFENSAS O SUS OBJECIONES A LAS DEMANDAS EN CONTRA DE SU PERSONA. SEA AVISADO QUE SI USTED NO SE DEFIENDE, LA CORTE TOMARA MEDIDAS Y PUEDE CONTINUAR LA DEMANDA EN CONTRA SUYA SIN PREVIO AVISO O NOTIFICACION. ADEMAS, LA CORTE PUEDE DECIDER A FAVOR DEL DEMANDANTE Y REQUIERE QUE USTED CUMPLA CON TODAS LAS PROVISIONES DE ESTA DEMANDA. USTED PUEDE PERDER DINERO O SUS PROPIEDADES U OTROS DERECHOS IMPORTANTES PARA USTED. LLEVE ESTA DEMANDA A UN ABOGADO IMMEDIATAMENTE. SI NO TIENE ABOGADO O SI NO TIENE EL DINERO SUFICIENTE DE PAGAR TAL SERVICIO. VAYA EN PERSONA O LLAME POR TELEFONO A LA OFICINA CUYA DIRECCION SE ENCUENTRA ESCRITA ABAJO PARA AVERIGUAR DONDE SE PUEDE CONSEGUIR ASISTENCIA LEGAL.

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VERIFIED STOCKHOLDER DERIVATIVE COMPLAINT

Plaintiff Anthony Morgan (“Plaintiff”), derivatively on behalf of Lincoln National Corporation (“Lincoln National” or the “Company”), brings this Verified Stockholder Derivative Complaint (the “Complaint”), asserting breach of fiduciary duty and unjust enrichment against the Company’s current and former officers and directors Plaintiff’s allegations are based on personal knowledge as to himself and his own acts, and upon information and belief as to all other matters, based on, inter alia, the investigation conducted by his counsel, including review of publicly available information regarding the Company; the allegations of a class action complaint filed in the securities class action captioned *Meade v. Lincoln Nat’l Corp. et al.*, Case No. 2:24-cv-01704-JFM (E.D. Pa. Apr. 23, 2024); (the “Securities Class Action”); conference call transcripts and announcements; filings with the United States Securities and Exchange Commission (the “SEC”); press releases disseminated by Lincoln; legal filings; news reports; and securities analysts’ reports about the Company.

I. INTRODUCTION

1. Lincoln National is a holding company which operates multiple insurance and retirement businesses through subsidiary companies. The Company provides products and services and reports results through four segments: Annuities, Life Insurance, Group Protection, and Retirement Plan Services. Through its business segments, the Company sells a range of wealth accumulation, wealth protection, group protection and retirement income products and solutions. “Lincoln Financial Group” is the marketing name for Lincoln National and its subsidiary companies. The Life Insurance segment’s book of business includes universal life insurance (“UL”), variable universal life insurance (“VUL”) and indexed universal life insurance (“IUL”)

products, some of which include secondary guarantees. In the Life Insurance segment, profitability is driven by mortality margins, investment margins, expenses and surrender fees.

2. On November 2, 2022, after the market closed, Lincoln National released its third quarter 2022 financial results, reporting a net loss of \$2.6 billion for the quarter. This was compared to a net income of \$318 million for the third quarter of 2021 the previous year. The Company explained “[t]he current quarter’s adjusted operating results included net unfavorable notable items of \$2.0 billion, or \$11.62 per share, related to the company’s annual review of DAC and reserve assumptions.” The Company also disclosed that it “incurred a \$634 million goodwill impairment to the life insurance business.”

3. On this news, Lincoln’s stock price fell \$17.27, or 33.2%, to close at \$34.83 per share on November 3, 2022.

4. Beginning since at least November 2020, the Individual Defendants (defined herein) caused the Company to make materially false and/or misleading statements, as well as failed to disclose material adverse facts about the Company’s business, operations, and prospects. Specifically, Defendants failed to disclose to investors: (1) that the Company was experiencing a decline in its VUL business; (2) that, as a result, the goodwill associated with the life insurance business was overstated; (3) that, as a result, the Company’s policy lapse assumptions were outdated; (4) that, as a result, the Company’s reserves were overstated; (5) that, as a result, the Company’s reported financial results and financial statements were misstated; and (6) that, as a result of the foregoing, Defendants’ positive statements about the Company’s business, operations, and prospects were materially misleading and/or lacked a reasonable basis.

5. As a result of Defendants' breaches of fiduciary duty, the Company has been harmed. Plaintiff has not made a pre-suit demand on the Board as such an effort would have been a futile act.

II. JURISDICTION AND VENUE

6. This Court has jurisdiction over each Defendant named herein. Lincoln National is an Indiana corporation that conducts business and operations in this County. Each Defendant has sufficient minimum contacts with Pennsylvania so as to render the exercise of jurisdiction by the Pennsylvania courts permissible under traditional notions of fair play and substantial justice.

7. Venue is proper in this Court because one or more of the Defendants either resides in or maintains executive offices in this County, a substantial portion of the transactions and wrongs complained of herein, including the Defendants' primary participation in the wrongful acts detailed herein, occurred in this County, and Defendants have received substantial compensation in this County by doing business here and engaging in numerous activities that had an effect in this County. Venue and jurisdiction are additionally proper in this County because many of the acts complained of herein occurred, at least in part, in this County.

III. PARTIES

8. Plaintiff is a shareholder of Lincoln National and has continuously held Lincoln National common stock since July 20, 2020.

9. Nominal Defendant Lincoln National is incorporated under the laws of Indiana with its principal executive offices located in Radnor, Pennsylvania. Lincoln National's common stock trades on the New York Stock Exchange under the symbol "LNC."

10. Defendant Ellen Cooper ("Cooper") has been the Company's Chief Executive Officer ("CEO") since May 27, 2022.

11. Defendant Deirdre P. Connelly (“Connelly”) has served as a director since 2016. Connelly has served on the Board’s Audit Committee at all relevant times.

12. Defendant William H. Cunningham (“Cunningham”) has served as a director since 2006. Cunningham has served on the Board’s Finance Committee at all relevant times.

13. Defendant Reginald Davis (“Davis”) has served as a director since 2020. Davis has served on the Board’s Audit Committee at all relevant times.

14. Defendant Eric C. Johnson (“Johnson”) has served as a director since 1998. Johnson has served as the Chair of the Board’s Finance Committee at all relevant times.

15. Defendant Gary C. Kelly (“Kelly”) has served as a director since 2009. Kelly has served as the Chair of the Board’s Audit Committee and as a member of the Finance Committee at all relevant times.

16. Defendant M. Leanne Lachman (“Lachman”) has served as a director since 1985. Lachman has served on the Board’s Audit Committee at all relevant times.

17. Defendant Dale LeFebvre (“LeFebvre”) has served as a director since 2021. LeFebvre has served on the Board’s Audit Committee at all relevant times.

18. Defendant Janet Liang (“Liang”) has served as a director since 2021. Liang has served on the Board’s Finance Committee at all relevant times.

19. Defendant Lynn Utter (“Utter”) has served as a director since 2017. Utter has served on the Board’s Finance Committee at all relevant times.

20. Defendant Dennis Glass (“Glass”) was the Company’s CEO from July 2007 until May 27, 2022

21. Defendant Randal Freitag (“Freitag”) was the Company’s Chief Financial Officer (“CFO”) at all relevant times.

22. Collectively, Defendants Cooper, Connelly, Cunningham, Davis, Johnson, Kelly, Lachman, LeFebvre, Liang, Glass and Freitag are referred to herein as the “Individual Defendants.”

III. INDIVIDUAL DEFENDANTS’ DUTIES

23. By reason of their positions as officers, directors, and/or fiduciaries of Lincoln National and because of their ability to control the business and corporate affairs of Lincoln National, the Individual Defendants owed Lincoln National and its shareholders fiduciary obligations of good faith, loyalty, and candor, and were and are required to use their utmost ability to control and manage Lincoln National in a fair, just, honest, and equitable manner. The Individual Defendants were and are required to act in furtherance of the best interests of Lincoln National and its shareholders to benefit all shareholders equally and not in furtherance of their personal interest or benefit. Each director and officer of the Company owes to Lincoln National and its shareholders the fiduciary duty to exercise good faith and diligence in the administration of the affairs of the Company and in the use and preservation of its property and assets, and the highest obligations of fair dealing.

24. The Individual Defendants, because of their positions of control and authority as directors and/or officers of Lincoln National, were able to and did, directly and/or indirectly, exercise control over the wrongful acts complained of herein. Because of their advisory, executive, managerial, and directorial positions with Lincoln National, each of the Individual Defendants had knowledge of material non-public information regarding the Company.

25. To discharge their duties, the officers and directors of Lincoln National were required to exercise reasonable and prudent supervision over the management, policies, practices

and controls of the Company. By virtue of such duties, the officers and directors of Lincoln National were required to, among other things:

- A. Exercise good faith to ensure that the affairs of the Company were conducted in an efficient, business-like manner so as to make it possible to provide the highest quality performance of their business;
- B. Exercise good faith to ensure that the Company was operated in a diligent, honest and prudent manner and complied with all applicable federal and state laws, rules, regulations and requirements, and all contractual obligations, including acting only within the scope of its legal authority; and
- C. When put on notice of problems with the Company's business practices and operations, exercise good faith in taking appropriate action to correct the misconduct and prevent its recurrence.

IV. LINCOLN NATIONAL'S CODE OF CONDUCT

26. Lincoln National's Code of Conduct begins with a commitment to upholding a "legacy of ethics, honest and doing the right thing."

27. The Code of Conduct includes a message from Defendant Cooper which states, in pertinent part: our focus on doing what's right is the foundation of our culture and our success here at Lincoln. It's at the heart of everything we do and, as one of Ethisphere's World's Most Ethical Companies, our integrity sets us apart. It's up to all of us to carry on this tradition of excellence, and we should always look to the Code of Conduct for help when needed.

28. The Code of Conduct applies to "everyone, at every level of Lincoln Financial and to every person and entity working on [the Company's] behalf," and violations of the Code of Conduct may lead to disciplinary action, including "anything from written or verbal warnings to probationary periods, termination, civil liability or even criminal charges."

29. In a section titled "Media relations," the Code of Conduct highlights the importance of "ensur[ing] that information communicated about [the] company is consistent and accurate."

30. In a section titled “Competition and antitrust,” the Code of Conduct states: “We believe in a competitive marketplace. As a Lincoln Financial employee, you have a responsibility to comply with laws that promote full and fair competition.” In the same section, the Code of Conduct emphasizes to “[b]e truthful in describing the qualities, features and availability of our products and services to customers.”

A. Audit Committee Charter

31. Lincoln National’s Audit Committee Charter states that the purpose of the Audit Committee is to assist the Board in its oversight of:

- (i) the integrity of the Corporation’s financial statements;
- (ii) the Corporation’s compliance with legal and regulatory requirements;
- (iii) the independent auditor’s qualifications and independence;
- ***
- (v) the Corporation’s policies and processes for risk assessment and risk management.

32. In a section titled “Duties and Powers of the Audit Committee,” the Audit Committee Charter states:

[W]ith respect to the Corporation’s consolidated financial statements, financial reporting process, and systems of internal accounting and financial controls,

- (i) to receive from management and the independent auditor and review a timely analysis of significant financial reporting issues and practices;
- (ii) to discuss with the independent auditor the matters required to be discussed in accordance with Auditing Standard No. 1301, and recommend to the Board whether the audited financial statements should be included in the Corporation’s Form 10-K;
- (iii) to receive from the independent auditor and review the report to the audit committee required to be provided pursuant to Section 10A(k) of the Securities Exchange Act of 1934, as amended;
- (iv) to meet with management, the independent auditor, and the General Auditor:
 - to discuss the annual consolidated financial statements and the quarterly consolidated financial statements and the Corporation’s disclosures

under “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in the Corporation’s SEC filings and annual report to shareholders, if applicable;

- to discuss the independent auditor’s report on management’s assessment of internal controls over financial reporting as required by Section 404 of the Sarbanes-Oxley Act of 2002 and related rules of the SEC;
- to discuss any significant proposed or contemplated changes to the Corporation’s accounting principles, policies, controls, procedures, practices, and auditing plans; and
- to discuss, as appropriate: (a) any major issues regarding accounting principles and financial statement presentations, including any significant changes in the Corporation’s selection or application of accounting principles, and major issues as to the adequacy of the Corporation’s internal controls and any special audit steps adopted in light of material control deficiencies; (b) analyses prepared by management and/or the independent auditor setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analyses of the effects of alternative GAAP methods on the financial statements; (c) the effect of regulatory and accounting initiatives, as well as off-balance sheet structures, on the financial statements of the Corporation; and (d) earnings press releases, including the type and presentation of information therein (paying particular attention to any use of “pro forma,” or “adjusted” non-GAAP, information), as well as financial information and earnings guidance provided to analysts and rating agencies (which discussion may be in general terms).

33. The Audit Committee Charter further tasks the Audit Committee with the following responsibility:

[T]o discuss guidelines and policies governing the process by which management of the Corporation and the relevant departments of the Corporation assess and manage the Corporation’s exposure to risk, and to discuss the Corporation’s major financial risk exposures and the steps management has taken to monitor and control such exposures.

V. SUBSTANTIVE ALLEGATIONS

A. Background

34. Lincoln National is a holding company which operates multiple insurance and retirement businesses through subsidiary companies. The Company provides products and services

and reports results through four segments: Annuities, Life Insurance, Group Protection, and Retirement Plan Services. Through its business segments, the Company sells a range of wealth accumulation, wealth protection, group protection and retirement income products and solutions. “Lincoln Financial Group” is the marketing name for Lincoln National and its subsidiary companies. The Life Insurance segment’s book of business includes universal life insurance, variable universal life insurance, and indexed universal life insurance products, some of which include secondary guarantees. In the Life Insurance segment, profitability is driven by mortality margins, investment margins, expenses and surrender fees.

35. On November 4, 2020, the Company issued a press release announcing its financial results for the third quarter of fiscal year 2020 (the “3Q20 Press Release”), which reported, in relevant part, that the Company had undergone a review of its reserve assumptions, and as a result:

The current quarter’s adjusted operating results included net unfavorable notable items of \$552 million, or \$2.84 per share, primarily related to the company’s annual review of DAC and reserve assumptions. The prior-year quarter included net unfavorable notable items of \$403 million, or \$2.00 per share, related to the company’s annual review of DAC and reserve assumptions.

Life Insurance expense ratio improved 40 basis points.

Total Life Insurance in-force of \$878 billion grew 10% over the prior-year quarter, and average account values of \$55 billion increased 5% over the same period.

The current quarter included net unfavorable notable items of \$440 million related to the company’s annual review of DAC and reserve assumptions while prior year results included net unfavorable notable items of \$320 million related to the company’s annual review of DAC and reserve assumptions.

36. The 3Q20 10-Q reported the following concerning the Company’s policies regarding reserves, excerpted in relevant part:

We calculate the value of the benefit reserves and the embedded derivative reserves based on the specific characteristics of each guaranteed living benefit (“GLB”) feature.

We use a hedging strategy designed to mitigate the risk and income statement volatility caused by changes in the equity markets, interest rates and volatility associated with GLBs offered in our variable annuity products, including products with guaranteed withdrawal benefit and guaranteed income benefit features. Changes in the value of the hedge contracts due to changes in equity markets, interest rates and implied volatilities hedge the income statement effect of changes in embedded derivative GLB reserves caused by those same factors. We rebalance our hedge positions based upon changes in these factors as needed.

37. The 3Q20 10-Q reported that the Company uses an “ongoing valuation process” during which it “assess the reasonableness of our valuation techniques or models and make adjustments as necessary” using a “mortality rate [] based on a combination of company and industry experience, adjusted for improvement factors” to calculate the “components of the transfers into and out” certain “changes in unrealized gains (losses) included in net income, excluding any effect of amortization of DAC, VOBA, DSI and DFEL and changes in future contract benefits, related to financial instruments carried at fair value.”

38. On February 3, 2021, the Company issued a press release announcing its financial results for the quarter and full year ended December 31, 2020, which reported the Company’s financial results as summarized in relevant part:

Life Insurance expense ratio improved 140 basis points compared to the prior-year quarter and 60 basis points for the full year

Life Insurance reported income from operations of \$144 million compared to \$179 million in the prior-year quarter as favorable returns within the company’s alternative investment portfolio and expense management were more than offset by unfavorable mortality related to the pandemic.

39. On February 18, 2021, the Company submitted its annual report for the fiscal year ended December 31, 2020 on a Form 10-K filed with the SEC (the “FY20 10-K”). The FY20 10-

K reported, in relevant part, the following concerning the Company's valuation of goodwill and other intangible assets:

Goodwill and intangible assets with indefinite lives are not amortized, but are reviewed for impairment annually as of October 1 and more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value. Intangibles that do not have indefinite lives are amortized over their estimated useful lives. We perform a quantitative goodwill impairment test where the fair value of the reporting unit is determined and compared to the carrying value of the reporting unit. If the carrying value of the reporting unit exceeds the reporting unit's fair value, goodwill is impaired and written down to the reporting unit's fair value. The results of one test on one reporting unit cannot subsidize the results of another reporting unit. For the purposes of the evaluation of the carrying value of goodwill, our reporting units (Annuities, Retirement Plan Services, Life Insurance and Group Protection) correspond with our reporting segments.

As of October 1, 2020 and 2019, we performed our annual quantitative goodwill impairment test for our reporting units, and, as of each such date, the fair value was in excess of each reporting unit's carrying value for Annuities, Retirement Plan Services, Life Insurance and Group Protection.

40. The FY20 10-K reported that the Company's Life Insurance segment held \$7,383 million in DAC (deferred acquisition costs) and VOBA (value of business acquired) gross, and \$5,660 million in unrealized gain on the same, for a carrying value of \$1,723 million.

41. The FY20 10-K further reported the Company's policies regarding the review and accounting of deferred acquisition costs:

[W]e conduct our annual comprehensive review of the assumptions and projection models underlying the amortization of DAC, VOBA, DSI, DFEL, embedded derivatives and reserves for life insurance and annuity products in the third quarter of each year. We may have unlocking in other quarters as we become aware of information that warrants updating assumptions outside of our annual comprehensive review.

42. The FY20 10-K also reported, the Company's policies regarding reserves, stating in relevant part:

The assumptions on which reserves are based are intended to represent an estimation of experience for the period that policy benefits are payable. If actual

experience is better than or equal to the assumptions, then reserves should be adequate to provide for future benefits and expenses. If experience is worse than the assumptions, additional reserves may be required. This would result in a charge to our net income during the period the increase in reserves occurred. The key experience assumptions include mortality rates, policy persistency and interest rates. We periodically review our experience and update our policy reserves for new issues and reserve for all claims incurred, as we believe appropriate.

43. The FY20 10-K was signed and certified by Defendant Freitag as Executive Vice President and CFO, and Defendant Glass as President and CEO pursuant to Sections 302 and 906 of the Sarbanes-Oxley Act of 2002.

44. On May 5, 2021, the Company issued a press release announcing its financial results for the first quarter of fiscal year 2020, which reported the Company's results, summarized in relevant part:

Life Insurance average in-force face amount of \$901 billion, up 8%.

Life Insurance reported income from operations of \$107 million compared to \$171 million in the prior-year quarter as pandemic-related mortality was partially offset by favorable returns within the company's alternative investment portfolio and expense management.

Total Life Insurance sales were \$114 million compared to \$169 million in the prior-year quarter, however sales were in line with the prior quarter.

Average Life Insurance in-force of \$901 billion grew 8% over the prior-year quarter, and average account values of \$58 billion increased 10% over the same period.

45. The 1Q21 10-Q reported, in substantially similar terms as prior quarters, including the 3Q20 10-Q herein quoted, the Company's policies regarding reserves and hedging.

46. On August 4, 2021, the Company issued a press release announcing its financial results the second quarter of fiscal year 2020, which reported the Company's financial results, summarized in relevant part:

Life Insurance average account values of \$59 billion, up 12%

Life Insurance reported income from operations of \$255 million compared to a loss from operations of \$(37) million in the prior-year quarter driven by favorable returns within the company's alternative investment portfolio and improved mortality results as pandemic impacts have declined.

Total Life Insurance sales were \$126 million compared to \$159 million in the prior-year quarter, however sales increased 11% sequentially.

Average Life Insurance in-force of \$917 billion grew 7% over the prior-year quarter, and average account values of \$59 billion increased 12% over the same period.

47. On August 5, 2021, the Company submitted its quarterly report for the quarter ended June 30, 2021 on a Form 10-Q filed with the SEC (the "2Q20 10-Q"). The 2Q20 10-Q reported, in substantially similar terms as prior quarters, including the 3Q20 10-Q herein quoted, the Company's policies regarding reserves and hedging.

48. The 2Q20 10-Q reported, in substantially similar terms as prior quarters, including the 3Q20 10-Q herein quoted, the Company's use of a "mortality rate [] based on a combination of company and industry experience, adjusted for improvement factors."

49. On November 3, 2021, the Company issued a press release announcing its financial results for the fiscal third quarter of 2021, which reported the Company's financial results, summarized in relevant part:

Life Insurance average account values of \$60 billion, up 9%.

Life Insurance reported income from operations of \$93 million compared to a loss from operations of \$(311) million in the prior-year quarter. Impacts from the company's annual review of DAC and reserve assumptions were unfavorable in both periods, and the current quarter also included a legal expense. Not including the impacts from the company's annual reviews of DAC and reserve assumptions and the legal expense, income from operations increased from the prior-year period driven by favorable returns within the company's alternative investment portfolio, which were partially offset by unfavorable mortality results.

While total Life Insurance sales were \$166 million compared to \$186 million in the prior-year quarter, sales increased 32% sequentially.

Average Life Insurance in-force of \$935 billion grew 7% over the prior-year quarter, and average account values of \$60 billion increased 9% over the same period.

The current quarter included net unfavorable notable items of \$45 million related to the company's annual review of DAC and reserve assumptions and legal expenses while prior-year results included net unfavorable notable items of \$440 million related to the company's annual review of DAC and reserve assumptions.

50. On February 2, 2022, the Company issued a press release announcing its financial results for the fourth quarter and full year 2021, which reported the Company's fiscal results, summarized in relevant part:

Life Insurance reported income from operations of \$80 million compared to \$144 million in the prior-year quarter, primarily driven by strong returns within the company's alternative investment portfolio that were not as favorable as last year and the previously communicated \$10 million impact from the block reinsurance transaction executed in the third quarter of 2021.

51. On August 17, 2022, the Company submitted its annual report for the fiscal year ended December 31, 2021 on a Form 10-K filed with the SEC (the "FY21 10-K"). The FY21 10-K reported, in relevant part, the following concerning the Company's valuation of goodwill and other intangible assets:

Goodwill and intangible assets with indefinite lives are not amortized, but are reviewed for impairment annually as of October 1 and more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value. Intangibles that do not have indefinite lives are amortized over their estimated useful lives. We perform a quantitative goodwill impairment test where the fair value of the reporting unit is determined and compared to the carrying value of the reporting unit. If the carrying value of the reporting unit exceeds the reporting unit's fair value, goodwill is impaired and written down to the reporting unit's fair value. The results of one test on one reporting unit cannot subsidize the results of another reporting unit. For the purposes of the evaluation of the carrying value of goodwill, our reporting units (Annuities, Retirement Plan Services, Life Insurance and Group Protection) correspond with our reporting segments.

As of October 1, 2021 and 2020, we performed our annual quantitative goodwill impairment test for our reporting units, and, as of each such date, the fair value was in excess of each reporting unit's carrying value for Annuities, Retirement Plan Services, Life Insurance and Group Protection.

52. The FY21 10-K reported that the Company's Life Insurance segment held \$6,430 million in DAC and VOBA gross, and \$4,758 million in unrealized gain on the same, for a carrying value of \$1,672 million.

53. The FY21 10-K reported, in substantially similar terms as reported in FY20 10-K, the Company's policies regarding the review deferred acquisition costs, as quoted herein. The FY21 10-K also reported, in substantially similar terms as reported in FY20 10-K, the Company's policies regarding the assumption of reserves, as quoted herein.

54. On May 4, 2022, the Company issued a press release announcing its financial results for the first quarter of fiscal 2022, which reported the Company's financial results, summarized in relevant part:

Life Insurance sales of \$155 million, up 36%, with growth across all major product lines.

Life Insurance reported income from operations of \$58 million compared to \$107 million in the prior-year quarter as improved pandemic-related mortality was more than offset by less favorable returns within the company's alternative investment portfolio and less favorable underlying mortality.

55. On August 3, 2022, the Company issued a press release announcing its financial results for the quarter ended June 30, 2022, which reported the Company's financial results, summarized in relevant part:

Life Insurance sales of \$193 million are up 53% with growth across all products

Life Insurance reported income from operations of \$114 million compared to \$255 million in the prior-year quarter driven primarily by less favorable returns within the company's alternative investment portfolio.

56. The above statements were materially false and/or misleading, and failed to disclose material adverse facts about the Company's business, operations, and prospects. Specifically, Defendants failed to disclose to investors: (1) that the Company was experiencing a decline in its VUL business; (2) that, as a result, the goodwill associated with the life insurance business was overstated; (3) that, as a result, the Company's policy lapse assumptions were outdated; (4) that, as a result, the Company's reserves were overstated; (5) that, as a result, the Company's reported financial results and financial statements were misstated; and (6) that, as a result of the foregoing, Defendants' positive statements about the Company's business, operations, and prospects were materially misleading and/or lacked a reasonable basis.

57. On November 2, 2022, after the market closed, Lincoln National released its third quarter 2022 financial results, reporting a net loss of \$2.6 billion. This was compared to a net income of \$318 million for the third quarter of 2021 the previous year. The Company explained "[t]he current quarter's adjusted operating results included net unfavorable notable items of \$2.0 billion, or \$11.62 per share, related to the company's annual review of DAC and reserve assumptions." The Company also disclosed that it "incurred a \$634 million goodwill impairment to the life insurance business." In greater part, the Company disclosed:

Lincoln Financial Group (NYSE: LNC) today reported a net loss for the third quarter of 2022 of \$(2.6) billion, or \$(15.17) per diluted share available to common stockholders, compared to net income in the third quarter of 2021 of \$318 million, or \$1.68 per diluted share available to common stockholders. Third quarter adjusted loss from operations was \$(1.7) billion, or \$(10.23) per diluted share available to common stockholders, compared to adjusted income from operations of \$307 million, or \$1.62 per diluted share available to common stockholders, in the third quarter of 2021.

The current quarter's adjusted operating results included net unfavorable notable items of \$2.0 billion, or \$11.62 per share, related to the company's annual review of DAC and reserve assumptions. This charge corresponds to an estimated \$550 million statutory capital impact equating to a 22-point decline in the risk-based capital ratio. The review charge and the statutory impact both relate primarily to updated guaranteed universal life insurance lapse assumptions in response to

emerging experience, combined with recently validated external industry perspectives. Separately, Lincoln incurred a \$634 million goodwill impairment to the life insurance business. Additional information on the company's annual review of DAC and reserve assumptions is available in a supplemental presentation on the company's website at <http://www.lincolnfinancial.com/investor>.

The prior-year quarter included net unfavorable notable items of \$108 million, or \$0.57 per share, primarily related to legal expenses and the company's annual review of DAC and reserve assumptions.

"The significant charge we recorded during the third quarter and the statutory capital impact to be booked at the end of 2022 resulted from our annual assumption review primarily due to policyholder lapsation behavior in our guaranteed universal life insurance block and will contribute to a decline in our RBC ratio," said Ellen Cooper, president and CEO of Lincoln Financial Group. "We are confident we have ample capital to effectively operate the business as we replenish statutory capital back to our targeted level."

Cooper concluded, "With a new leadership team in place, we are focused on clear actions to improve distributable earnings, reduce capital volatility and further diversify our business mix. We continue to see solid performance across all businesses with our product strategies, resulting in strong sales growth at or above targeted returns, positive net flows in our Annuity and Retirement businesses, and continued progress on our Group margin improvement."

Review of Life Insurance Goodwill

The company's review of the goodwill asset pertaining to Life Insurance resulted in a non-cash charge of \$634 million, or \$3.73 per share, to net income.

The goodwill impairment is primarily due to variable universal life insurance equity market impacts and the use of a higher discount rate.

58. On this news, Lincoln's stock price fell \$17.27, or 33.2%. The stock has still not recovered.

59. In 2023 the Company's ability to properly communicate its financial position only continued. In a March 27, 2023 8-K filed with the SEC, the Individual Defendants caused the Company to announce a restatement:

As previously disclosed, The Lincoln National Life Insurance Company ("LNL"), a wholly owned subsidiary of Lincoln National Corporation (the "Company"), entered into a reinsurance agreement with Security Life of Denver Insurance Company (a subsidiary of Resolution Life that we refer to herein as "Resolution

Life”) that was effective as of October 1, 2021 to reinsure liabilities under a block of in-force executive benefit and universal life insurance policies. The transaction was structured as coinsurance for the general account reserves and modified coinsurance for the separate account reserves. For the coinsurance portion of the transaction, the Company transferred both the insurance reserves and a portfolio of assets to Resolution Life, which triggered a realized gain on the invested assets for the Company.

As a result of the transaction, the Company recorded a deferred gain on the invested assets transferred pursuant to the transaction, recognizable over the projected life of the reinsured policies. The Company has determined that the realized gain should have been recognized at the time of the transfer of the assets and will correct the accounting treatment for the Resolution Life transaction to reflect a one-time gain related to the transfer of assets rather than a deferred gain. The accounting for the Company’s other reinsurance transactions is not affected by the correction of the accounting for the Resolution Life transaction and there is no change to the Company’s previously reported capital generated from the transaction.

Revised for the correction of the accounting treatment for the fourth quarter of 2021 and full year 2022, the Company’s financial results would have included a one-time gain of approximately \$498 million in net income for the quarter ended December 31, 2021, rather than amortizing approximately \$25 million and \$6 million of the gain that was reflected in net income during the year ended December 31, 2022 and the quarter ended December 31, 2021, respectively. As of year-end December 31, 2022 and December 31, 2021, the Company’s stockholders’ equity will increase by approximately \$467 million and approximately \$492 million, respectively, and the Company’s leverage ratio as of year-end December 31, 2022 will improve by approximately 80 basis points as a result of the correction of the accounting treatment.

As a result, on March 21, 2023, the Board of Directors of the Company, after discussion with the Audit Committee, our senior leadership and independent registered public accounting firm, Ernst & Young LLP (“EY”), determined that our audited consolidated financial statements as of and for the annual periods ended December 31, 2021 and December 31, 2022 and for the quarterly periods ended March 31, June 30 and September 30, 2022 (together, the “Prior Financial Statements”) included in the associated Form 10-K filings and Form 10-Q filings with the Securities and Exchange Commission (“SEC”), should no longer be relied upon solely as a result of the above-described accounting treatment with respect to timing for the recognition of investment gains related to the reinsurance transaction with Resolution Life and will require restatement, and EY concurred. In addition, any previously issued or filed earnings releases, investor presentations or other communication describing the Company’s Prior Financial Statements will be similarly impacted by the restatement.

V. DERIVATIVE AND DEMAND FUTILITY ALLEGATIONS

60. Plaintiff brings this action derivatively in the right of and for the benefit of Lincoln National to redress injuries suffered, and to be suffered, by Lincoln National as a direct result of the Individual Defendants' breaches of fiduciary duties, as well as the aiding and abetting thereof, by the Individual Defendants. Lincoln National is named as a nominal defendant solely in a derivative capacity.

61. Plaintiff will adequately and fairly represent the interests of Lincoln National in enforcing and prosecuting its rights.

62. Plaintiff has been a continuous shareholder of Lincoln National common stock and commits to maintain ownership of Lincoln National stock throughout the duration of this litigation.

63. Plaintiff did not make a pre-suit demand on the Board to pursue this action because such a demand would have been a futile, wasteful and useless act because a majority of the Individual Defendants would have been "interested" in (and therefore conflicted from and unable to fairly consider) a demand.

64. At the time this action was commenced, the Board consisted of the following eleven (11) directors: defendants Cooper, Connelly, Cunningham, Davis, Johnson, Kelly, Lachman, LeFebvre, Liang, Utter and non-party Owen M. Ryan who joined the Board after the complained-of facts.

65. Defendant Cooper's primary occupation throughout the conduct complained of herein was as Lincoln National's CEO pursuant to which she has received substantial monetary compensation and other benefits. The Board has acknowledged Cooper's lack of independence, noting in the Company's April 11, 2024 Proxy Statement filed with the SEC that Cooper cannot be classified as an independent director.

66. Defendants Connelly, Davis, Kelly, Lachman, and LeFebvre serve as members of the Audit Committee and, pursuant to the Charter, were specifically charged with the responsibility of assisting the Board in fulfilling its oversight responsibilities related to internal controls over financial reporting and public disclosure requirements. Throughout the Relevant Period, however, these Defendants breached their fiduciary duties to the Company by failing to prevent, correct, or inform the Board of the issuance of material misstatements and omissions regarding material deficiencies in the Company's accounting practices and the adequacy of the Company's internal controls as alleged above. Therefore, Defendants Connelly, Davis, Kelly, Lachman, and LeFebvre cannot independently consider any demand to sue themselves for breaching their fiduciary duties to the Company, as that would expose them to substantial liability and threaten their livelihood.

67. Furthermore, demand in this case is excused because each of the directors derive substantial revenue from the Company, control the company, and are indebted to each other. These conflicts of interest have precluded the current directors from adequately monitoring the Company's operations and internal controls and calling into question the other Individual Defendants' conduct. Significantly, none of the Individual Defendants have taken remedial action to redress the conduct alleged herein.

COUNT I

Breach of Fiduciary Duty Against All Individual Defendants

68. Plaintiff incorporates by reference and realleges each allegation set forth above, as though fully set forth herein.

69. The Individual Defendants all owed and owe fiduciary duties to Lincoln National. By reason of their fiduciary relationships, the Individual Defendants specifically owed and owe Lincoln National the highest obligation of good faith and loyalty in the administration of the affairs of Lincoln National, including assuring that Lincoln National complied with federal laws.

70. The Individual Defendants willfully ignored their obligations, Lincoln National's internal controls and numerous warnings and government investigations and inquiries specifically relating to failure to address rampant misconduct in the Company's pharmacies. The Individual Defendants failed to make a good faith effort to correct the problems or prevent their recurrence.

71. Defendants, by their actions and by engaging in the wrongdoing described herein, abandoned and abdicated their responsibilities and duties about prudently managing the business of Lincoln National in a manner consistent with the duties imposed upon them by law.

72. By committing the misconduct alleged herein, Individual Defendants breached their duties of due care, diligence and loyalty in the management and administration of Lincoln National's affairs and in the use and preservation of Lincoln National's assets.

73. As a direct and proximate result of the Individual Defendants' conscious failure to perform their fiduciary obligations, Lincoln National has sustained significant damages, not only monetarily, but also to its corporate image and goodwill.

74. As a result of the misconduct alleged herein, Defendants are liable to the Company.

COUNT II

Unjust Enrichment Against All Individual Defendants

75. Plaintiff incorporates by reference and realleges each allegation set forth above, as though fully set forth herein.

76. By their wrongful acts and omissions, the Individual Defendants were unjustly enriched at the expense of and to the detriment of Lincoln National. The Individual Defendants were unjustly enriched as a result of the compensation and remuneration they received while breaching fiduciary duties owed to the Company.

77. Plaintiff, as a shareholder and representative of Lincoln National, seeks restitution from the Individual Defendants, and each of them, and seek an order of this Court disgorging all

profits, benefits and other compensation obtained by the Individual Defendants, and each of them, from their wrongful conduct and fiduciary breaches.

78. Plaintiff, on behalf of Lincoln National, have an inadequate remedy at law.

PRAYER FOR RELIEF

WHEREFORE, Plaintiff demands judgment as follows:

A. Against the Individual Defendants and in favor of the Company for the amount of damages sustained by the Company as a result of the Individual Defendants' breaches of fiduciary duties;

B. Directing Lincoln National to take all necessary actions to reform and improve its corporate governance and internal procedures to comply with applicable laws and to protect the Company and its shareholders from a repeat of the damaging events described herein, including, but not limited to, putting forward for shareholder vote resolutions for amendments to the Company's By-Laws or Articles of Incorporation and taking such other action as may be necessary to place before shareholders for a vote a proposal to strengthen the Board's supervision of operations and develop and implement procedures for greater shareholder input into the policies and guidelines of the Board;

C. Awarding to Lincoln National restitution from the Individual Defendants, and each of them, and ordering disgorgement of all profits, benefits and other compensation obtained by the Individual Defendants;

D. Awarding to Plaintiff the costs and disbursements of the action, including reasonable attorneys' fees, accountants' and experts' fees, costs, and expenses; and

E. Granting such other and further relief as the Court deems just and proper.

JURY DEMAND

Plaintiff demands a trial by jury.

Dated: December 30, 2024

THE WEISER LAW FIRM, P.C.

/s/ James M. Ficaro

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Counsel for Plaintiff

VERIFICATION

I, Anthony Morgan, hereby verify that I am familiar with the allegations in the foregoing Verified Shareholder Derivative Complaint, and that I have authorized the filing of the Verified Shareholder Derivative Complaint, and that the foregoing is true and correct to the best of my knowledge, information, and belief. I make this statement subject to the penalties of Section 4904 of the Crimes Code (18 Pa. C.S.A. § 4904) relating to unsworn falsification to authorities.

Dated: 12/16/24


Anthony Morgan (Dec 16, 2024 05:07 HST)

Anthony Morgan

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