

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 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 June 30, 2022

or

☐

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: 001-39367

**Lemonade, Inc.**

(Exact Name of Registrant as Specified in Its Charter)

Delaware

(State or other jurisdiction of  
incorporation or organization)

5 Crosby Street, 3rd Floor  
New York, New York

(Address of principal executive offices)

32-0469673

(I.R.S. Employer  
Identification No.)

10013

(Zip Code)

(844) 733-8666

(Registrant's telephone number, including area code)

N/A

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.00001 par value per share	LMND	New York Stock Exchange

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 for 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 has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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 August 8, 2022, the registrant had 68,945,568 shares of common stock, \$0.00001 par value per share, outstanding.

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## CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q (the "Quarterly Report") contains forward-looking statements. We intend such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. All statements other than statements of historical fact contained in this Quarterly Report, including without limitation statements regarding our future results of operations and financial position, our ability to attract, retain and expand our customer base, our ability to operate under and maintain our business model, our ability to maintain and enhance our brand and reputation, our ability to effectively manage the growth of our business, the effects of seasonal trends on our results of operations, our ability to attain greater value from each customer, our ability to compete effectively in our industry, the future performance of the markets in which we operate, and our ability to maintain reinsurance contracts, and the plans and objectives of management for future operations and capital expenditures are forward-looking statements. These statements involve known and unknown risks, uncertainties and other important factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements.

In some cases, you can identify forward-looking statements by terms such as "may," "will," "should," "expect," "plan," "anticipate," "could," "intend," "target," "project," "contemplate," "believe," "estimate," "predict," "potential", or "continue" or the negative of these terms or other similar expressions. The forward-looking statements in this Quarterly Report are only predictions. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our business, financial condition and results of operations. These forward-looking statements speak only as of the date of this Quarterly Report and are subject to a number of important factors that could cause actual results to differ materially from those in the forward-looking statements, including:

- We have a history of losses and we may not achieve or maintain profitability in the future.
- Our success and ability to grow our business depend on retaining and expanding our customer base. If we fail to add new customers or retain current customers, our business, revenue, operating results and financial condition could be harmed.
- The "Lemonade" brand may not become as widely known as incumbents' brands or the brand may become tarnished.
- Denial of claims or our failure to accurately and timely pay claims could materially and adversely affect our business, financial condition, results of operations, and prospects.
- Our future revenue growth and prospects depend on attaining greater value from each user.
- The novelty of our business model makes its efficacy unpredictable and susceptible to unintended consequences.
- We could be forced to modify or eliminate our Giveback, which could undermine our business model and have a material adverse effect on our results of operations and financial condition.
- Our limited operating history makes it difficult to evaluate our current business performance, implementation of our business model, and our future prospects.
- We may not be able to manage our growth effectively.
- Intense competition in the segments of the insurance industry in which we operate could negatively affect our ability to attain or increase profitability.
- Reinsurance may be unavailable at current levels and prices, which may limit our ability to write new business. Furthermore, reinsurance subjects us to counterparty risk and may not be adequate to protect us against losses, which could have a material effect on our results of operations and financial condition.
- Failure to maintain our risk-based capital at the required levels could adversely affect the ability of our insurance subsidiary to maintain regulatory authority to conduct our business.

- If we are unable to expand our product offerings, our prospects for future growth may be adversely affected.
- Our proprietary artificial intelligence algorithms may not operate properly or as we expect them to, which could cause us to write policies we should not write, price those policies inappropriately or overpay claims that are made by our customers. Moreover, our proprietary artificial intelligence algorithms may lead to unintentional bias and discrimination.
- Regulators may limit our ability to develop or implement our proprietary artificial intelligence algorithms and/or may eliminate or restrict the confidentiality of our proprietary technology, which could have a material adverse effect on our financial condition and results of operations.
- New legislation or legal requirements may affect how we communicate with our customers, which could have a material adverse effect on our business model, financial condition, and results of operations.
- We rely on artificial intelligence and our digital platform to collect data points that we evaluate in pricing and underwriting our insurance policies, managing claims and customer support, and improving business processes, and any legal or regulatory requirements that restrict our ability to collect this data could thus materially and adversely affect our business, financial condition, results of operations and prospects.
- We depend on search engines, social media platforms, digital app stores, content-based online advertising and other online sources to attract consumers to our website and our online app, which may be affected by third-party interference beyond our control and as we grow our customer acquisition costs will continue to rise.
- We may require additional capital to grow our business, which may not be available on terms acceptable to us or at all.
- Security incidents or real or perceived errors, failures or bugs in our systems, website or app could impair our operations, result in loss of personal customer information, damage our reputation and brand, and harm our business and operating results.
- We are periodically subject to examinations by our primary state insurance regulator, which could result in adverse examination findings and necessitate remedial actions. In addition, insurance regulators of other states in which we are licensed to operate may also conduct examinations or other targeted investigations, which may also result in adverse examination findings and necessitate remedial actions.
- We collect, process, store, share, disclose and use customer information and other data, and our actual or perceived failure to protect such information and data, respect customers' privacy or comply with data privacy and security laws and regulations could damage our reputation and brand and harm our business and operating results.
- We may be unable to prevent or address the misappropriation of our data.
- If we are unable to underwrite risks accurately and charge competitive yet profitable rates to our customers, our business, results of operations and financial condition will be adversely affected.
- Our product development cycles are complex and subject to regulatory approval, and we may incur significant expenses before we generate revenues, if any, from new products.
- Our expansion within the United States and any future international expansion strategy will subject us to additional costs and risks and our plans may not be successful.
- Combining the businesses of Lemonade and Metromile may be more difficult, costly or time-consuming than expected and the combined company may fail to realize the anticipated benefits of the mergers, which may adversely affect the combined company's business results and negatively affect the value of the company's common stock.
- The combined company may not be able to retain customers, which could have an adverse effect on the combined company's business and operations. Third parties may terminate or alter existing contracts or relationships with Lemonade or Metromile.

- The combined company may be exposed to increased litigation, which could have an adverse effect on the combined company's business and operations.
- The insurance business, including the market for renters and homeowners insurance, is historically cyclical in nature, and we may experience periods with excess underwriting capacity and unfavorable premium rates, which could adversely affect our business.
- We are subject to extensive insurance industry regulations.
- State insurance regulators impose additional reporting requirements regarding enterprise risk on insurance holding company systems, with which we must comply as an insurance holding company.
- Severe weather events and other catastrophes, including the effects of climate change and global pandemics, are inherently unpredictable and may have a material adverse effect on our financial results and financial condition.
- We expect our results of operations to fluctuate on a quarterly and annual basis. In addition, our operating results and operating metrics are subject to seasonality and volatility, which could result in fluctuations in our quarterly revenues and operating results or in perceptions of our business prospects.
- We rely on data from our customers and third parties for pricing and underwriting our insurance policies, handling claims and maximizing automation, the unavailability or inaccuracy of which could limit the functionality of our products and disrupt our business.
- Our results of operations and financial condition may be adversely affected due to limitations in the analytical models used to assess and predict our exposure to catastrophe losses.
- Our actual incurred losses may be greater than our loss and loss adjustment expense reserves, which could have a material adverse effect on our financial condition and results of operations.
- Our insurance subsidiary is subject to minimum capital and surplus requirements, and our failure to meet these requirements could subject us to regulatory action.
- We are subject to assessments and other surcharges from state guaranty funds, and mandatory state insurance facilities, which may reduce our profitability.
- As a public benefit corporation, our focus on a specific public benefit purpose and producing a positive effect for society may negatively impact our financial performance.
- Our directors have a fiduciary duty to consider not only our stockholders' interests, but also our specific public benefit and the interests of other stakeholders affected by our actions. If a conflict between such interests arises, there is no guarantee such a conflict would be resolved in favor of our stockholders.
- A joint investment committee consisting of our Co-Founders and a former executive of SoftBank will have sole voting and dispositive control over the shares owned by the entities affiliated with SoftBank Group Corp. This joint investment committee further concentrates voting power with our Co-Founders, which could limit your ability to influence the outcome of important transactions, including a change in control.
- We conduct certain of our operations in Israel and therefore our results may be adversely affected by political, economic and military instability in Israel and the region.
- The factors described under the sections "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2021, and the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Quarterly Report.

You should read this Quarterly Report and the documents that we reference in this Quarterly Report completely and with the understanding that our actual future results may be materially different from what we expect. We qualify all of our forward-looking statements by these cautionary statements. Except as required by applicable law, we do not plan to publicly update or revise any forward-looking statements contained herein, whether as a result of any new information, future events, changed circumstances or otherwise.

# PART I—FINANCIAL INFORMATION

## Item 1. Financial Statements.

### **LEMONADE, INC. AND SUBSIDIARIES** **CONDENSED CONSOLIDATED BALANCE SHEETS** (\$ in millions, except share and per share amounts)

	As of	
	June 30, 2022 (Unaudited)	December 31, 2021
<b>Assets</b>		
Investments		
Fixed maturities available-for-sale, at fair value (amortized cost: \$698.4 million and \$696.8 million as of June 30, 2022 and December 31, 2021, respectively)	\$ 674.1	\$ 691.4
Short-term investments (cost: \$85.9 million and \$110.4 million as of June 30, 2022 and December 31, 2021, respectively)	85.9	110.4
Total investments	760.0	801.8
Cash and cash equivalents	199.6	270.6
Premium receivable, net of allowance for credit losses of \$2.2 million and \$1.6 million as of June 30, 2022 and December 31, 2021, respectively	147.6	127.0
Reinsurance recoverable	110.3	89.8
Prepaid reinsurance premium	168.9	149.6
Deferred acquisition costs	7.4	6.2
Property and equipment, net	13.2	11.7
Intangible assets	0.6	0.6
Other assets	53.3	53.2
Total assets	\$ 1,460.9	\$ 1,510.5
<b>Liabilities and Stockholders' Equity</b>		
Unpaid loss and loss adjustment expense	\$ 122.9	\$ 97.9
Unearned premium	241.6	207.7
Trade payables	1.3	1.0
Funds held for reinsurance treaties	119.2	103.1
Deferred ceding commission	42.1	36.5
Ceded premium payable	21.0	18.7
Other liabilities and accrued expenses	63.7	57.4
Total liabilities	611.8	522.3
Contingencies (Note 15)		
Stockholders' equity		
Common stock, \$0.00001 par value, 200,000,000 shares authorized; 61,867,577 and 61,660,996 shares issued and outstanding as of June 30, 2022 and December 31, 2021, respectively	—	—
Additional paid-in capital	1,582.5	1,553.5
Accumulated deficit	(704.6)	(561.9)
Accumulated other comprehensive loss	(28.8)	(3.4)
Total stockholders' equity	849.1	988.2
Total liabilities and stockholders' equity	\$ 1,460.9	\$ 1,510.5





**LEMONADE, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS**  
(\$ in millions, except share and per share amounts)  
**(Unaudited)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
<b>Revenue</b>				
Net earned premium	\$ 31.2	\$ 16.3	\$ 58.6	\$ 30.1
Ceding commission income	15.5	10.6	29.5	19.6
Net investment income	1.2	0.2	2.1	0.4
Commission and other income	2.1	1.1	4.1	1.6
<b>Total revenue</b>	<b>50.0</b>	<b>28.2</b>	<b>94.3</b>	<b>51.7</b>
<b>Expense</b>				
Loss and loss adjustment expense, net	28.1	13.0	52.5	29.5
Other insurance expense	9.7	5.2	18.8	10.0
Sales and marketing	37.0	33.1	75.3	62.2
Technology development	17.8	14.0	34.7	21.1
General and administrative	22.4	15.8	50.6	29.9
<b>Total expense</b>	<b>115.0</b>	<b>81.1</b>	<b>231.9</b>	<b>152.7</b>
<b>Loss before income taxes</b>	<b>(65.0)</b>	<b>(52.9)</b>	<b>(137.6)</b>	<b>(101.0)</b>
Income tax expense	2.9	2.7	5.1	3.6
<b>Net loss</b>	<b>\$ (67.9)</b>	<b>\$ (55.6)</b>	<b>\$ (142.7)</b>	<b>\$ (104.6)</b>
<b>Other comprehensive loss, net of tax</b>				
Unrealized loss on investments in fixed maturities	(4.5)	(0.2)	(18.8)	(0.1)
Foreign currency translation adjustment	(5.5)	0.3	(6.6)	1.0
<b>Comprehensive loss</b>	<b>\$ (77.9)</b>	<b>\$ (55.5)</b>	<b>\$ (168.1)</b>	<b>\$ (103.7)</b>
<b>Per share data:</b>				
Net loss per share attributable to common stockholders—basic and diluted	\$ (1.10)	\$ (0.90)	\$ (2.31)	\$ (1.72)
<b>Weighted average common shares outstanding—basic and diluted</b>	<b>61,816,225</b>	<b>61,444,958</b>	<b>61,757,722</b>	<b>60,643,764</b>

The accompanying notes are an integral part of the unaudited condensed consolidated financial statements.

**LEMONADE, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
(\$ in millions, except share amounts)  
**(Unaudited)**

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive (Loss) Income	Total Stockholders' Equity
	Shares	Amount				
Balance as of December 31, 2021	61,660,996	\$ —	\$ 1,553.5	\$ (561.9)	\$ (3.4)	\$ 988.2
Exercise of stock options and distribution of restricted stock units	97,743	—	0.6	—	—	0.6
Stock-based compensation	—	—	14.1	—	—	14.1
Net loss	—	—	—	(74.8)	—	(74.8)
Other comprehensive loss	—	—	—	—	(15.4)	(15.4)
Balance as of March 31, 2022	61,758,739	\$ —	\$ 1,568.2	\$ (636.7)	\$ (18.8)	\$ 912.7
Exercise of stock options	108,838	—	0.4	—	—	0.4
Stock-based compensation	—	—	13.9	—	—	13.9
Net loss	—	—	—	(67.9)	—	(67.9)
Other comprehensive loss	—	—	—	—	(10.0)	(10.0)
Balance as of June 30, 2022	61,867,577	\$ —	\$ 1,582.5	\$ (704.6)	\$ (28.8)	\$ 849.1
Balance as of December 31, 2020	56,774,294	\$ —	\$ 859.8	\$ (320.6)	\$ 1.8	\$ 541.0
Issuance of common stock upon closing of Follow-on Offering, net of underwriting discounts and commissions and offering costs of \$28.2 million	4,018,647	—	640.3	—	—	640.3
Exercise of stock options	577,162	—	6.1	—	—	6.1
Stock-based compensation	—	—	6.1	—	—	6.1
Net loss	—	—	—	(49.0)	—	(49.0)
Other comprehensive loss	—	—	—	—	(0.8)	(0.8)
Balance as of March 31, 2021	61,370,103	\$ —	\$ 1,512.3	\$ (369.6)	\$ 1.0	\$ 1,143.7
Exercise of stock options	162,024	—	1.7	—	—	1.7
Stock-based compensation	—	—	11.9	—	—	11.9
Net loss	—	—	—	(55.6)	—	(55.6)
Other comprehensive loss	—	—	—	—	(0.1)	(0.1)
Balance as of June 30, 2021	61,532,127	\$ —	\$ 1,525.9	\$ (425.2)	\$ 0.9	\$ 1,101.6

The accompanying notes are an integral part of the unaudited condensed consolidated financial statements.

**LEMONADE, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(\$ in millions)  
(Unaudited)

	Six Months Ended June 30,	
	2022	2021
Cash flows from operating activities:		
Net loss	\$ (142.7)	\$ (104.6)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	3.1	1.7
Stock-based compensation	28.0	18.0
Amortization of discount on bonds	4.6	—
Provision for bad debt	3.6	2.3
Changes in operating assets and liabilities:		
Premium receivable	(24.2)	(24.4)
Reinsurance recoverable	(20.6)	(15.7)
Prepaid reinsurance premium	(19.3)	(29.0)
Deferred acquisition costs	(1.2)	(1.4)
Other assets	(0.3)	(1.5)
Unpaid loss and loss adjustment expense	25.0	18.4
Unearned premium	33.9	42.2
Trade payables	0.3	(0.1)
Funds held for reinsurance treaties	16.1	15.5
Deferred ceding commissions	5.6	7.7
Ceded premium payable	2.3	5.0
Other liabilities and accrued expenses	6.1	9.4
Net cash used in operating activities	(79.7)	(56.5)
Cash flows from investing activities:		
Proceeds from short-term investments sold or matured	81.5	—
Proceeds from bonds sold or matured	53.7	—
Cost of short-term investments acquired	(57.3)	—
Cost of bonds acquired	(60.3)	(64.6)
Purchases of property and equipment	(4.6)	(4.7)
Net cash provided by (used in) investing activities	13.0	(69.3)
Cash flows from financing activities:		
Proceeds from Follow-on Offering, net of underwriting discounts and commissions and offering costs	—	640.3
Proceeds from stock exercises	1.0	7.8
Net cash provided by financing activities	1.0	648.1
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(5.3)	(1.0)
Net (decrease) increase in cash, cash equivalents and restricted cash	(71.0)	521.3
Cash, cash equivalents and restricted cash at beginning of period	270.6	571.4
Cash, cash equivalents and restricted cash at end of period	\$ 199.6	\$ 1,092.7
Supplemental disclosure of cash flow information:		
Cash paid for income taxes	\$ 2.7	\$ 1.1

The accompanying notes are an integral part of the unaudited condensed consolidated financial statements.



## LEMONADE, INC. AND SUBSIDIARIES

### NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

#### 1. Nature of the Business

Lemonade, Inc. is a public benefit corporation organized under Delaware law on June 17, 2015. It provides certain personnel, facilities and services to each of its subsidiaries (together with Lemonade, Inc., the "Company"), all of which are 100% owned, directly or indirectly, by Lemonade, Inc. For the list of the Company's US and EU subsidiaries, see Note 1 - Nature of the Business, of the audited consolidated financial statements and related notes thereto for the year ended December 31, 2021 as included in the Company's Annual Report on Form 10-K for the year ending December 31, 2021 (the "Annual Report on Form 10-K") for more complete descriptions and discussions.

#### 2. Basis of Presentation

The accompanying interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and include the accounts of the Company and its wholly-owned subsidiaries. All material intercompany transactions and balances have been eliminated upon consolidation. All foreign currency amounts in the condensed consolidated statement of operations and comprehensive loss have been translated using an average rate for the reporting period. All foreign currency balances in the balance sheet have been translated using the spot rate at the end of the reporting period. All figures expressed, except share amounts, are in U.S. dollars in millions.

#### *Risk and Uncertainties*

The COVID-19 pandemic has caused national and global economic and financial market disruptions and may adversely impact the Company. Although the Company did not see a material impact on its results of operations for the three and six months ended June 30, 2022 and year ended December 31, 2021 due to the COVID-19 pandemic, the Company cannot predict the duration or magnitude of the pandemic or the full impact that it may have on the Company's financial condition and results of operations, business operations, and workforce.

#### *Unaudited interim financial information*

In the opinion of the Company, the accompanying unaudited condensed consolidated financial statements contain all adjustments, consisting of only normal recurring adjustments, necessary for the fair presentation of its financial position and its results of operations, changes in stockholders' equity and cash flows. The condensed consolidated balance sheet at December 31, 2021, was derived from audited annual financial statements but does not contain all of the footnote disclosures from the annual financial statements. The accompanying unaudited condensed consolidated financial statements and related financial information should be read in conjunction with the audited consolidated financial statements and the related notes thereto for the fiscal year ended December 31, 2021 as included in the Company's Annual Report on Form 10-K.

#### 3. Use of Estimates

The preparation of the condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. On an ongoing basis, the Company's management evaluates estimates, including those related to contingent assets and liabilities as of the date of the financial statements as well as the reported amounts of revenue and expense during the reporting period. Such estimates are based on historical experience and on various other assumptions that are believed to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities at the dates of the condensed consolidated financial statements, and the reported amounts of expenses during the reporting period. Actual results could differ from those estimates. Significant estimates reflected in the Company's condensed consolidated financial statements include, but are not limited to, reserves for loss and loss adjustment expense, reinsurance recoverables on unpaid losses and valuation allowance on deferred tax assets.

#### **4. Summary of Significant Accounting Policies**

##### ***Deferred offering costs***

The Company capitalizes certain legal, accounting and other third-party fees that are directly associated with in-process equity financings as deferred offering costs until such financings are consummated. After consummation of the equity financing, these costs are recorded as a reduction to the carrying value of stockholders' equity, as a reduction of additional paid-in capital generated as a result of such offering. On January 14, 2021, the Company completed a Follow-on Offering of common stock, as defined and discussed in detail in Note 10, which generated net proceeds of \$525.7 million, after deducting underwriting discounts and offering costs. On February 1, 2021, the underwriters exercised their option to purchase additional shares, and generated additional net proceeds to us of \$114.6 million. Deferred offering costs from the Follow-on Offering amounted to \$0.4 million.

##### ***Recently adopted accounting pronouncements***

###### ***Leases***

In February 2016, the FASB issued Leases (Topic 842) ("ASU 2016-02"), as subsequently amended, which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e. lessees and lessors), and replaces the existing guidance in ASC 840, *Leases*. The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine the recognition pattern of lease expense over the term of the lease. In addition, a lessee is required to record (i) a right-of-use asset and a lease liability the balance sheet for all leases with accounting lease terms of more than 12 months regardless of whether it is an operating or financing lease, and (ii) lease expense for operating leases and amortization and interest expense for financing leases, in statement of operations. Leases with a term of 12 months or less may be accounted for similar to existing guidance for operating leases under ASC 840. In July 2018, the FASB issued ASU 2018-11, Leases ("Topic 842"), which added an optional transition method that allows companies to adopt the standard as of the beginning of the year of adoption as opposed to the earliest comparative period presented.

The Company adopted the new standard effective January 1, 2021, using the modified retrospective transition approach which uses the effective date as the date of initial application with no adjustment to prior periods presented. There was no adjustment to the opening balance of retained earnings.

At adoption date, the new standard resulted in the recognition of an operating lease Right-of-Use ("ROU") asset of \$16.9 million included under Other Assets, and a corresponding operating lease liabilities of \$17.2 million included in Other Liabilities on the consolidated balance sheets. The difference of \$0.3 million between the operating lease ROU assets and operating lease liabilities represents reclassification of deferred rent liability (the difference between the straight-line rent expenses and paid rent amounts under the leases) to operating lease ROU assets from other liabilities at the adoption date. The adoption of the standard did not have a material impact on the Company's consolidated statements of operations and comprehensive loss, or consolidated statements of cash flows. The adoption impact relates to the Company's existing operating leases for office spaces in the US, Netherlands and Israel.

The Company has elected to apply the package of practical expedients requiring no reassessment of whether any expired or existing contracts are or contain leases, the lease classification of any expired or existing leases, or the capitalization of initial direct costs for any existing leases. Additionally, the Company elected the practical expedients that permit the exclusions of leases considered to be short-term.

### *Current Expected Credit Losses*

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses ("Topic 326"): Measurement of Credit Losses on Financial Instruments ("ASU 2016-13"). ASU 2016-13 introduced a current expected credit loss ("CECL") model for measuring expected credit losses for certain types of financial instruments held at the reporting date requiring significant judgment in application based on historical experience, current conditions and reasonable supportable forecasts, but is not prescriptive about certain aspects of estimating expected losses. The guidance replaced the current incurred loss model for measuring expected credit losses and provided for additional disclosure requirements. Subsequently, the FASB issued additional ASUs on Topic 326 that did not change the core principle of the guidance in ASU 2016-13, but provided clarification and implementation guidance on certain aspects of ASU 2016-13, and have the same effective date and transition requirements as ASU 2016-13. The Company adopted the guidance using a modified retrospective approach as of January 1, 2021 which resulted in no cumulative-effect adjustment to retained earnings.

The updated guidance in ASU 2016-13 also amended the previous other-than-temporary impairment ("OTTI") model for available-for-sale fixed income securities by requiring the recognition of impairments relating to credit losses through an allowance account and limits the amount of credit loss to the difference between a security's amortized cost basis and its fair value. In addition, the length of time a security has been in an unrealized loss position will no longer impact the determination of whether a credit loss exists. The Company adopted the guidance related to available-for-sale fixed income securities on January 1, 2021 using a prospective transition approach for available-for-sale fixed income securities that were purchased with credit deterioration or had recognized an OTTI write-down prior to the effective date. The effect of the prospective transition approach was to maintain the same amortized cost basis before and after the effective date.

### **5. Acquisition of a Business**

On November 8, 2021, Lemonade entered into a definitive agreement ("Metromile Agreement") to acquire Metromile, Inc. ("Metromile"). Pursuant to the terms of the Metromile Agreement, the Company acquired 100% of the equity of Metromile, through an all-stock transaction based upon the exchange ratio of 0.05263 shares of Lemonade for each outstanding share of Metromile.

Metromile is a leading digital insurance platform in the United States. With data science at its foundation, Metromile offers real-time, personalized auto insurance policies by the mile instead of the industry's reliance on approximations that have historically made prices unfair. Metromile's digitally native offering is built around the modern driver's needs, featuring automated claims and complementary smart driving features. In addition, through Metromile Enterprise, Metromile licenses its technology platform to insurance companies around the world. Metromile's cloud-based software as a service enables carriers to operate with greater efficiency, automate claims to expedite resolution, reduce losses associated with fraud, and unlock the productivity of employees.

## 6. Investments

### *Unrealized gains and losses*

The following tables present cost or amortized cost and fair values of investment in fixed maturities as of June 30, 2022 and December 31, 2021 (\$ in millions):

	Cost or Amortized Cost	Gross Unrealized		Fair Value
		Gains	Losses	
June 30, 2022				
Corporate debt securities	\$ 597.7	\$ —	\$ (20.8)	\$ 576.9
U.S. Government obligations	99.5	—	(3.5)	96.0
Municipal securities	1.2	—	—	1.2
Total	<u>\$ 698.4</u>	<u>\$ —</u>	<u>\$ (24.3)</u>	<u>\$ 674.1</u>
December 31, 2021				
Corporate debt securities	\$ 593.4	\$ —	\$ (4.7)	\$ 588.7
U.S. Government obligations	102.2	0.1	(0.8)	101.5
Municipal securities	1.2	—	—	1.2
Total	<u>\$ 696.8</u>	<u>\$ 0.1</u>	<u>\$ (5.5)</u>	<u>\$ 691.4</u>

Gross unrealized losses for fixed maturities was \$24.3 million as of June 30, 2022 and \$5.5 million as of December 31, 2021. Gross unrealized gains and losses were recorded as a component of accumulated other comprehensive loss.

### *Contractual maturities of bonds*

The following table presents the cost or amortized cost and estimated fair value of investments in fixed maturities as of June 30, 2022 by contractual maturity (\$ in millions). Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	June 30, 2022	
	Cost or Amortized Cost	Fair Value
Due in one year or less	\$ 217.3	\$ 213.7
Due after one year through five years	481.1	460.4
Due after five years through ten years	—	—
Due after ten years	—	—
Total	<u>\$ 698.4</u>	<u>\$ 674.1</u>



### Net investment income

An analysis of net investment income follows (\$ in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Interest on cash and cash equivalents	\$ 0.1	\$ 0.1	\$ 0.1	\$ 0.3
Fixed maturities	1.1	0.1	2.0	0.1
Short-term investments	0.1	—	0.2	—
Total	1.3	0.2	2.3	0.4
Investment expense	0.1	—	0.2	—
Net investment income	\$ 1.2	\$ 0.2	\$ 2.1	\$ 0.4

### Investment gains and losses

The Company had pre-tax net realized capital losses of \$0.4 million for the three months ended June 30, 2022 and six months ended June 30, 2022. There were no pre-tax net realized capital gains or losses for the three and six months ended June 30, 2021.

### Aging of gross unrealized losses

The following table presents the gross unrealized losses and related fair values for the Company's investment in fixed maturities, grouped by duration of time in a continuous unrealized loss position as of June 30, 2022 and December 31, 2021 (\$ in millions):

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
June 30, 2022						
Corporate debt securities	\$ 1.0	\$ —	\$ —	\$ —	\$ 1.0	\$ —
U.S. Government obligations	655.8	(24.3)	0.5	—	656.3	(24.3)
Municipal securities	1.2	—	—	—	1.2	—
Total	\$ 658.0	\$ (24.3)	\$ 0.5	\$ —	\$ 658.5	\$ (24.3)
December 31, 2021						
Corporate debt securities	\$ 581.9	\$ (4.7)	\$ —	\$ —	\$ 581.9	\$ (4.7)
U.S. Government obligations	95.0	(0.8)	0.5	—	95.5	(0.8)
Municipal securities	1.2	—	—	—	1.2	—
Total	\$ 678.1	\$ (5.5)	\$ 0.5	\$ —	\$ 678.6	\$ (5.5)

Gross unrealized losses for investments in fixed maturities for twelve months or more was less than \$0.1 million for both June 30, 2022 and December 31, 2021.

As of June 30, 2022, 287 of the securities held were in an unrealized loss position. The Company determined that unrealized losses on fixed maturities were primarily due to the interest rate environment, and not credit risk related to the issuers of these securities. The Company does not intend to sell these investment in fixed maturities, and it is not more likely than not that the Company will be required to sell these investment in fixed maturities before recovery of the amortized cost basis. No allowance for credit losses related to any of these securities was recorded for the three and six months ended June 30, 2022. The Company does not measure an allowance for credit losses on accrued interest receivable and would instead write off accrued interest receivable at the time an issuer defaults or is expected to default on payments.

## 7. Fair Value Measurements

The following tables present the Company's fair value hierarchy for financial assets and liabilities measured as of June 30, 2022 and December 31, 2021 (\$ in millions):

	June 30, 2022			
	Level 1	Level 2	Level 3	Total
Assets:				
Corporate debt securities	\$ —	\$ 576.9	\$ —	\$ 576.9
U.S. Government obligations	—	96.0	—	96.0
Municipal securities	—	1.2	—	1.2
Fixed maturities	—	674.1	—	674.1
Short term investments	—	85.9	—	85.9
Total	\$ —	\$ 760.0	\$ —	\$ 760.0

	December 31, 2021			
	Level 1	Level 2	Level 3	Total
Assets:				
Corporate debt securities	\$ —	\$ 588.7	\$ —	\$ 588.7
U.S. Government obligations	—	101.5	—	101.5
Municipal securities	—	1.2	—	1.2
Fixed maturities	—	691.4	—	691.4
Short term investments	—	110.4	—	110.4
Total	\$ —	\$ 801.8	\$ —	\$ 801.8

The fair value of all different classes of Level 2 fixed maturities and short-term investments are estimated by using quoted prices from a third-party valuation service provider to gather, analyze and interpret market information and derive fair values based upon relevant methodologies and assumptions for individual instruments.

There were no transfers between Level 1, Level 2, or Level 3 during the three and six months ended June 30, 2022 and during the year ended December 31, 2021, respectively.

## 8. Unpaid Loss and Loss Adjustment Expense

The following table presents the activity in the liability for unpaid loss and loss adjustment expense ("LAE") for the six months ended June 30, 2022 and 2021 (\$ in millions):

	Six Months Ended June 30,	
	2022	2021
Unpaid loss and LAE at beginning of period	\$ 97.9	\$ 46.3
Less: Reinsurance recoverable at beginning of period <sup>(1)</sup>	72.7	36.3
Net unpaid loss and LAE at beginning of period	25.2	10.0
Add: Incurred loss and LAE, net of reinsurance, related to:		
Current year	53.7	29.9
Prior years	(1.2)	(0.4)
Total incurred	52.5	29.5
Deduct: Paid loss and LAE, net of reinsurance, related to:		
Current year	30.0	19.0
Prior years	14.4	5.5
Total paid	44.4	24.5
Unpaid loss and LAE, net of reinsurance recoverable, at end of period	33.4	15.0
Reinsurance recoverable at end of period <sup>(1)</sup>	89.5	49.7
Unpaid loss and LAE, gross of reinsurance recoverable, at end of period	\$ 122.9	\$ 64.7

<sup>(1)</sup> Reinsurance recoverable in this table includes only ceded unpaid loss and LAE

Unpaid loss and LAE includes anticipated salvage and subrogation recoverable.

Considerable variability is inherent in the estimate of the reserve for losses and LAE. Although management believes the liability recorded for losses and LAE is adequate, the variability inherent in this estimate could result in changes to the ultimate liability, which may be material to stockholders' equity. Additional variability exists due to accident year allocations of ceded amounts in accordance with reinsurance agreements, which is not expected to result in any changes to the ultimate liability. Other factors that can impact loss reserve development may also include trends in general economic conditions, including the effects of inflation. The Company had favorable development on net loss and LAE reserves of \$1.2 million for the six months ended June 30, 2022, and favorable development on net loss and LAE reserves of \$0.4 million for the six months ended June 30, 2021. No additional premiums or returned premiums have been accrued as a result of prior year effects.

For the six months ended June 30, 2021, current accident year incurred loss and LAE included \$6.2 million of net incurred loss and LAE from the severe winter storm that affected the Company's customers in the states of Texas and Oklahoma. The net incurred loss and LAE from Winter Storm Uri as of June 30, 2021 represents the Company's best estimates based upon information currently available.

In the ordinary course of business, the Company cedes losses and LAE to other reinsurance companies. These arrangements reduce the net loss potentially arising from large or catastrophic risks. Certain of these arrangements consist of excess of loss and catastrophe contracts, which protect against losses exceeding stipulated amounts. The ceding of risk through reinsurance does not relieve the Company from its obligations to policyholders. The Company remains liable with respect to losses and LAE ceded in the event that any reinsurer does not meet obligations assumed under the reinsurance agreements. The Company does not have any significant unsecured aggregate recoverable for losses, paid and unpaid including Incurred But Not Reported ("IBNR"), loss adjustment expenses, and unearned premium with any individual reinsurer.

Through June 30, 2021, the Company had proportional reinsurance contracts which cover all of the Company's products and geographies, and transferred, or "ceded," 75% of the premium to reinsurers ("Proportional Reinsurance Contracts"). In exchange, these reinsurers paid a ceding commission of 25% for every dollar ceded, in addition to funding all of the corresponding claims, or 75% of all claims. The Company opted to manage the remaining 25% of the business with alternative forms of reinsurance through non-proportional reinsurance contracts ("Non-Proportional Reinsurance Contracts").

A portion of the Company's proportional reinsurance program expired on June 30, 2021 and on June 30, 2022. As the business continues to grow and diversify, and with stability in the Company's insurance results, the Company decreased the overall share of proportional reinsurance from 75% of premium to 55% effective July 1, 2022. In addition, the Company purchased a reinsurance program to protect against catastrophe risk in the U.S that exceed \$80 million in losses effective July 1, 2022. Other non-proportional reinsurance contracts were renewed with terms similar to the expired contracts.

## 9. Other Liabilities and Accrued Expenses

Other liabilities and accrued expenses as of June 30, 2022 and December 31, 2021 consist of the following (\$ in millions):

	June 30, 2022	December 31, 2021
Lease liabilities	\$ 21.9	\$ 22.3
Accrued advertising costs	10.2	11.2
Employee compensation	8.1	5.4
Income taxes payable	6.2	4.7
Accrued professional fees	3.8	4.6
Advance premiums	3.7	2.0
Premium taxes payable	3.6	5.4
Other payables	6.2	1.8
Total	<u>\$ 63.7</u>	<u>\$ 57.4</u>

## 10. Stockholders' Equity

### Common stock

Upon closing of the initial public offering ("IPO") in 2020, the Company filed an amended and restated certificate of incorporation on July 7, 2020 with the Secretary of State of the State of Delaware to authorize the issuance of up to 200,000,000 shares of common stock, par value \$0.00001 per share, and 10,000,000 shares of undesignated preferred stock, par value \$0.00001 per share.

On January 14, 2021, the Company completed a Follow-on Offering of common stock (the "Follow-on Offering"), which resulted in the issuance and sale of 3,300,000 shares of common stock of the Company, and 1,524,314 shares of common stock by certain selling shareholders, and generated net proceeds to us of \$525.7 million after deducting underwriting discounts and commissions and other offering costs. On February 1, 2021, the underwriters exercised their option to purchase additional shares, which resulted in the issuance and sale of an additional 718,647 shares of common stock of the Company, and generated additional net proceeds of \$114.6 million to us after deducting underwriting discounts.

As of June 30, 2022 and December 31, 2021, the Company was authorized to issue 200,000,000 shares of par value \$0.00001 per share common stock. The voting, dividend and liquidation rights of the holders of the Company's common stock is subject to and qualified by the rights, powers and preferences of the holders of the preferred stock.

The Company in 2020 made a contribution of 500,000 newly issued shares of common stock to a related party, the Lemonade Foundation (see Note 14). In connection with the Follow-on Offering noted above, Lemonade Foundation sold 100,000 of the contributed shares of the Company.

### ***Undesignated Preferred Stock***

As of both June 30, 2022 and December 31, 2021, the Company's certificate of incorporation, as amended and restated, authorized the Company to issue up to 10,000,000 shares of undesignated preferred stock, par value \$0.00001 per share. As of both June 30, 2022 and December 31, 2021, there were no shares of undesignated preferred stock issued or outstanding.

## **11. Stock-based Compensation**

### ***Share option plans***

#### ***2020 Incentive Compensation Plan***

On July 2, 2020, the Company's board of directors adopted and the Company's stockholders approved the 2020 Incentive Compensation Plan (the "2020 Plan"), which became effective immediately prior to the effectiveness of the registration statement for the Company's IPO on July 2, 2020. The 2020 Plan provides for the issuance of incentive stock options, non-qualified stock options, stock awards, stock units, stock appreciation rights and other stock-based awards.

The number of shares initially reserved for issuance under the 2020 Plan is 5,503,678 shares, inclusive of available shares previously reserved for issuance under the 2015 Incentive Share Option Plan, as amended and restated on September 4, 2019 (the "2015 Plan"). In addition, the number of shares reserved for issuance under the 2020 Plan is subject to increase for awards previously issued under the 2015 Plan which are forfeited or lapse unexercised. Annually, on the first day of each calendar year beginning on January 1, 2021 and ending on and including January 1, 2030, the reserve will be increased by an amount equal to the lesser of (A) 5% of the shares outstanding (on an as-converted basis) on the last day of the immediately preceding fiscal year and (B) such smaller number of shares as determined by the Company's board of directors, provided that no more than 3,650,000 shares may be issued upon the exercise of incentive stock options. On January 1, 2022, the 2020 Plan share pool was increased by 3,083,050 shares, equal to 5% of the aggregate number of outstanding common stock as of December 31, 2021. As of June 30, 2022, there were 4,986,203 shares of common stock available for future grants.

#### ***2020 Employee Stock Purchase Plan***

On July 2, 2020, the Company's board of directors adopted and the Company's stockholders approved the 2020 Employee Stock Purchase Plan (the "2020 ESPP"), which became effective immediately prior to the effectiveness of the registration statement for the Company's IPO on July 2, 2020. The total shares of common stock initially reserved for issuance under the 2020 ESPP is limited to 1,000,000 shares. In addition, the number of shares available for issuance under the 2020 ESPP will be increased on January 1 of each calendar year beginning in 2021 and ending in and including 2030, by an amount equal to the lesser of (A) 1,000,000 shares, (B) 1% of the shares outstanding on the final day of the immediately preceding calendar year and (C) such smaller number of shares as is determined by the board of directors. The board of directors or a committee of the board of directors will administer and will have authority to interpret the terms of the 2020 ESPP and determine eligibility of participants. On January 1, 2022, there was no increase in the 2020 ESPP share pool. As of June 30, 2022, there were no shares of common stock issued under the 2020 ESPP.

#### ***2015 Incentive Share Option Plan***

In July 2015, the Company adopted the 2015 Incentive Share Option Plan ("2015 Plan"). The 2015 Plan has been amended and restated from time to time to increase the number of shares reserved for grant and to enable the grant of options to employees of the Company's subsidiaries. Under the 2015 Plan, options to purchase common stock of the Company may be granted to employees, officers, directors and consultants of the Company. Each option granted can be exercised for one share of common stock of the Company. Options granted to employees generally vest over a period of no more than four years. The options expire ten years from the date of grant.

Pursuant to the 2015 Plan, the Company had reserved 7,312,590 shares of common stock for issuance. Effective immediately upon the approval of the 2020 plan, the remaining shares of common stock available for future grant under the 2015 Plan were transferred to the 2020 Plan. As of June 30, 2022, there were no shares of common stock available for future grant under the 2015 Plan. Subsequent to the approval of the 2020 Plan, no additional grants will be made under the 2015 Plan and any outstanding awards under the 2015 Plan will continue with their original terms.

### Options granted to employees and non-employees

The fair value of each option granted for the six months ended June 30, 2022 and 2021 is estimated on the date of grant using the Black-Scholes model based on the following assumptions:

	Six Months Ended June 30,	
	2022	2021
Weighted average expected term (years)	6.1	6.3
Risk-free interest rate	2.6%	1.3%
Volatility	47%	49%
Expected dividend yield	0%	0%

Expected volatility is calculated based on implied volatility from market comparisons of certain publicly traded companies and other factors. The expected term of options granted is based on the simplified method, which uses the midpoint between the vesting date and the contractual term in accordance with ASC Topic 718, "Compensation — Stock Compensation." The risk-free interest rate is based on observed interest rates appropriate for the term of the Company's stock options. The dividend yield assumption is based on the Company's historical and expected future dividend payouts and may be subject to substantial change in the future.

The following tables summarize activity of stock options and restricted stock units ("RSUs") (\$ in millions, except for number of options and weighted average amounts):

#### Stock options

	Number of Options	Weighted- Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding as of December 31, 2021	6,573,744	\$ 46.03	8.29	\$ 85.86
Granted	2,906,961	27.20		
Exercised	(170,362)	6.23		
Cancelled	(405,797)	54.38		
Outstanding as of June 30, 2022	8,904,546	\$ 40.26	8.38	\$ 15.73
Options exercisable as of June 30, 2022	2,725,019	\$ 24.36	6.72	\$ 14.32
Options unvested as of June 30, 2022	6,179,527	\$ 47.28	9.11	\$ 1.41

#### Restricted Stock Units

	Number of shares	Grant Date Fair Value
Outstanding as of December 31, 2021	335,814	\$ 66.94
Granted	577,360	21.60
Vested	(36,219)	70.76
Cancelled	(39,666)	46.75
Outstanding as of June 30, 2022	837,289	\$ 36.47

### ***Stock-based compensation expense***

Stock-based compensation expense from stock options and RSUs granted as included and classified in the condensed consolidated statements of operations for the three and six months ended June 30, 2022 and 2021 is as follows (\$ in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Loss and loss adjustment expense, net	\$ 0.6	\$ 0.5	\$ 1.2	\$ 0.7
Other insurance expense	0.5	0.2	0.8	0.4
Sales and marketing	1.7	1.3	3.2	2.4
Technology development	5.8	6.8	11.2	7.5
General and administrative	5.3	3.1	11.6	7.0
Total stock-based compensation expense	<u>\$ 13.9</u>	<u>\$ 11.9</u>	<u>\$ 28.0</u>	<u>\$ 18.0</u>

Stock-based compensation expense classified by award type as included in the condensed consolidated statements of operations is as follows (\$ in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Stock options	\$ 11.9	\$ 10.5	\$ 24.0	\$ 16.0
RSUs	2.0	1.4	4.0	2.0
Total stock-based compensation expense	<u>\$ 13.9</u>	<u>\$ 11.9</u>	<u>\$ 28.0</u>	<u>\$ 18.0</u>

The total unrecognized expense granted to employees and non-employees outstanding at June 30, 2022 was \$105.5 million for the stock options and \$27.9 million for the RSUs, with a remaining weighted-average vesting period of 1.5 years for the stock options and 1.7 years for the RSUs.

## **12. Income Taxes**

The consolidated effective tax rate for the six months ended June 30, 2022 and 2021 was (3.7)% and (3.6)%, respectively. The change in effective tax rate over the two periods was predominantly reflective of the change in profit before tax of its wholly-owned subsidiaries in Israel and the Netherlands. The Company believes that as of June 30, 2022, it had no material uncertain tax positions. Interest and penalties related to unrecognized tax expenses (benefits) are recognized in income tax expense, when applicable.

There were no material liabilities for interest and penalties accrued as of June 30, 2022.

### 13. Net Loss per Share

Basic and diluted net loss per share attributable to common stockholders was calculated as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Numerator:				
Net loss attributable to common stockholders (\$ in millions)	\$ (67.9)	\$ (55.6)	\$ (142.7)	\$ (104.6)
Denominator:				
Weighted average common shares outstanding — basic and diluted	61,816,225	61,444,958	61,757,722	60,643,764
Net loss per share attributable to common stockholders — basic and diluted	\$ (1.10)	\$ (0.90)	\$ (2.31)	\$ (1.72)

The Company's potentially dilutive securities, which include stock options and unvested RSUs, have been excluded from the computation of diluted net loss per share as the effect would be anti-dilutive. Therefore, the weighted average number of common shares outstanding used to calculate both basic and diluted net loss per share attributable to common stockholders is the same. The Company excluded the following potential common shares, presented based on amounts outstanding at each period end, from the computation of diluted net loss per share attributable to common stockholders for the periods indicated because including them would have had an anti-dilutive effect.

	Six Months Ended June 30,	
	2022	2021
Options to purchase common stock	8,904,546	6,034,609
Unvested restricted stock	837,289	55,129
Total	9,741,835	6,089,738

### 14. Related Party Transactions

The Company uses the services of a travel agency owned by a relative of one of the Company's key stockholders. The Company incurred travel expenses in the amount of approximately less than \$0.1 million for the three and six months ended June 30, 2022 and June 30, 2021.

The Company has historically leased office spaces in the United States and The Netherlands from an affiliate. Rental expense in connection with the leased space was approximately less than \$0.1 million for the three and six months ended June 30, 2022 and June 30, 2021. There were no outstanding amounts due from or to related parties as of June 30, 2022 and December 31, 2021.

The Company's Co-Chief Executive Officers, both of whom are also members of the Company's board of directors, are the two sole members of the board of directors of the Lemonade Foundation. The Company contributed 500,000 shares of common stock with a fair market value of \$24.36 per share (see Note 10). In connection with the Follow-on Offering as discussed in Note 10, Lemonade Foundation sold 100,000 shares of the contributed shares of the Company. As of June 30, 2022, there were no outstanding amounts due to or from the Lemonade Foundation.



## 15. Contingencies

The Company is occasionally a party to routine claims or litigation incidental to its business. The Company records accruals for loss contingencies with these legal matters when it is probable that a liability will be incurred, and the amount of the loss can be reasonably estimated. The Company has been made a party to class action litigation alleging that certain of our business practices were improper. The Company has determined that the liability associated with this matter is probable and can be reasonably estimated and therefore has accrued a liability for this matter in accordance with ASC 450, *Contingencies*. The Company will continue to monitor all legal issues and adjust the accrued liability as new information and further developments arise.

## 16. Geographical Breakdown of Gross Written Premium

The Company has a single reportable segment and offers insurance coverage under the homeowners multi-peril, inland marine and general liability lines of business. Gross written premium by jurisdiction are as follows (\$ in millions):

Jurisdiction	Three Months Ended June 30,				Six Months Ended June 30,			
	2022		2021		2022		2021	
	Amount	% of GWP	Amount	% of GWP	Amount	% of GWP	Amount	% of GWP
California	\$ 28.3	22.4 %	\$ 22.2	24.8 %	\$ 55.4	23.4 %	\$ 41.4	25.0 %
Texas	24.1	19.1 %	18.7	20.9 %	44.3	18.7 %	33.7	20.4 %
New York	15.9	12.6 %	10.9	12.2 %	30.7	13.0 %	20.9	12.6 %
New Jersey	5.9	4.7 %	3.7	4.1 %	11.2	4.7 %	6.8	4.1 %
Illinois	6.6	5.2 %	4.1	4.6 %	11.0	4.6 %	7.1	4.3 %
Georgia	5.0	4.0 %	4.3	4.8 %	9.4	4.0 %	8.0	4.8 %
Colorado	3.9	3.1 %	2.0	2.2 %	6.9	2.9 %	3.4	2.1 %
Pennsylvania	3.2	2.5 %	2.3	2.6 %	5.9	2.5 %	4.1	2.5 %
Virginia	2.7	2.1 %	1.9	2.1 %	5.1	2.2 %	3.4	2.1 %
Maryland	2.5	2.0 %	1.8	2.0 %	4.7	2.0 %	3.4	2.1 %
All other	28.0	22.3 %	17.6	19.7 %	52.1	22.0 %	33.1	20.0 %
	<u>\$ 126.1</u>	<u>100.0 %</u>	<u>\$ 89.5</u>	<u>100.0 %</u>	<u>\$ 236.7</u>	<u>100.0 %</u>	<u>\$ 165.3</u>	<u>100.0 %</u>

## **17. Subsequent Event**

On July 28, 2022, the Company completed the acquisition of Metromile, Inc. ("Metromile"), a leading digital insurance platform in the United States that offers real-time, personalized auto insurance policies by the mile. The Company acquired 100% of the equity of Metromile, through an all-stock transaction based upon the exchange ratio of 0.05263 shares of Lemonade for each outstanding share of Metromile, for a total consideration of approximately \$146.0 million at close date.

As the transaction recently closed, the Company is in the process of completing the purchase price accounting related to our acquisition of Metromile. We anticipate that a significant portion of the purchase consideration will be allocated to acquired intangible assets, specifically technology. We expect the preliminary purchase price accounting to be completed when all information on facts and circumstances that existed as of the acquisition date become available, but not to exceed 12 months following the acquisition date. In addition, we are still determining the pro forma financial information and the effect on our operating results.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

*The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes and other information included elsewhere in this Quarterly Report and Annual Report on Form 10-K for the year ending December 31, 2021. The discussion and analysis below includes forward-looking statements that are subject to risks, uncertainties and other factors described in the "Risk Factors" section of our Annual Report on Form 10-K that could cause actual results to differ materially from such forward-looking statements. Additionally, our historical results are not necessarily indicative of the results that may be expected for any period in the future.*

*In this Quarterly Report, unless we indicate otherwise or the context requires, "Lemonade, Inc.," "Lemonade," "the company," "our company," "the registrant," "we," "our," "ours" and "us" refer to Lemonade, Inc. and its consolidated subsidiaries, including Lemonade Insurance Company and Lemonade Insurance Agency, LLC.*

### Our Business

Lemonade is rebuilding insurance from the ground up on a digital substrate and an innovative business model. By leveraging technology, data, artificial intelligence, contemporary design, and behavioral economics, we believe we are making insurance more delightful, more affordable, more precise, and more socially impactful. To that end, we have built a vertically-integrated company with wholly-owned insurance carriers in the United States and Europe, and the full technology stack to power them.

A brief chat with our bot, AI Maya, is all it takes to get covered with renters, homeowners, pet, car or life insurance, and we expect to offer a similar experience for other insurance products over time. Claims are filed by chatting with another bot, AI Jim, who pays claims in as little as three seconds. This breezy experience belies the extraordinary technology that enables it: a state-of-the-art platform that spans marketing to underwriting, customer care to claims processing, finance to regulation. Our architecture melds artificial intelligence with the human kind, and learns from the prodigious data it generates to become ever better at delighting customers and quantifying risk.

In addition to digitizing insurance end-to-end, we also reimagined the underlying business model to minimize volatility while maximizing trust and social impact. In a departure from the traditional insurance model, where profits can literally depend on the weather, we typically retain a fixed fee, currently 25% of premiums, and our gross margin is expected to change little in good years and in bad. At Lemonade, excess claims are generally offloaded to reinsurers, while excess premiums are usually donated to nonprofits selected by our customers as part of our annual "Giveback." These two ballasts, reinsurance and Giveback, reduce volatility, while creating an aligned, trustful, and values-rich relationship with our customers.

Lemonade's cocktail of delightful experience, aligned values, and great prices enjoys broad appeal, while over indexing on younger and first time buyers of insurance. As these customers progress through predictable lifecycle events, their insurance needs typically grow to encompass more and higher-value products: renters regularly acquire more property and frequently upgrade to successively larger homes; home buying often coincides with a growing household and a corresponding need for life or pet insurance, and so forth. These progressions can trigger orders-of-magnitude increases in insurance premiums.

The result is a business with highly-recurring and naturally-growing revenue streams; a level of automation that we believe delights consumers while collapsing costs; and an architecture that generates and employs data to price and underwrite risk with ever-greater precision to the benefit of our company, our customers and their chosen nonprofits.

### Acquisition of Metromile

On July 28, 2022, the Company completed the acquisition of Metromile, Inc. ("Metromile"), a leading digital insurance platform in the United States that offers real-time, personalized auto insurance policies by the mile. The Company acquired 100% of the equity of Metromile, through an all-stock transaction based upon the exchange ratio of 0.05263 shares of Lemonade for each outstanding share of Metromile, for a total consideration of approximately \$146.0 million at close date.

Metromile is a leading digital insurance platform in the United States. With data science at its foundation, Metromile offers real-time, personalized auto insurance policies by the mile instead of the industry's reliance on approximations that have historically made prices unfair. Metromile's digitally native offering is built around the modern driver's needs, featuring automated claims and complementary smart driving features. In addition, through Metromile Enterprise, Metromile licenses its technology platform to insurance companies around the world. Metromile's cloud-based software as a service enables carriers to operate with greater efficiency, automate claims to expedite resolution, reduce losses associated with fraud, and unlock the productivity of employees.

## **Key Factors and Trends Affecting our Operating Results**

Our financial condition and results of operations have been, and will continue to be, affected by a number of factors, including the following:

### ***Seasonality***

Seasonal patterns can impact both our rate of customer acquisition and the incurrence of claims and losses.

Based on historical experience, existing and potential customers move more frequently in the third quarter, compared to the rest of the calendar year. As a result, we may see greater demand for new or expanded insurance coverage, and increased online engagement resulting in proportionately more growth during the third quarter. We expect that as we grow our customers, expand geographically, and launch new products, the impact of seasonal variability on our rate of growth may decrease.

Additionally, seasonal weather patterns impact the level and amount of claims we receive. These patterns include hurricanes, wildfires, and coastal storms in the fall, cold weather patterns, and changing home heating needs in the winter, and tornados and hailstorms in the spring and summer. The mix of geographic exposure and products within our customer base impacts our exposure to these weather patterns.

### ***COVID-19 Impact***

The COVID-19 pandemic has severely impacted businesses worldwide, including many in the insurance sector. Insurers of travel, events or business interruption may be directly and adversely affected by claims from COVID-19 or the lock-down it engendered. Other insurers, in lines of business that are not directly impacted by COVID-19, may nevertheless be dependent on office-based brokers, in-person inspections, or teams that are poorly equipped to work from home — all of which can translate into value erosion. Finally, the broader financial crisis may hurt insurers in other ways, too.

Against this backdrop it is noteworthy that our business has continued to grow, and the key drivers of our business have continued their positive progress, despite the pandemic.

- Lemonade writes insurance in lines that have so far been largely unaffected by COVID-19, or indeed, historically, by recession.
- Our systems are entirely cloud based and accessible to our teams from any browser anywhere in the world. Customers' phone calls are routed to our team's laptops, and answered and logged from wherever they happen to be. Internal communication has been via Slack and Zoom since our founding. The upshot is that while we all enjoy each other's company, our teams are able to access systems, support customers and collaborate with each other from anywhere, much as they did before the pandemic.
- Our customers' experience with Lemonade is likewise largely unaffected by the turmoil, as AI Maya and AI Jim chat with customers, wherever they may be, without triggering concerns about social distancing.

This resilience is reflected in our results in which as of June 30, 2022, our in force premium ("IFP"), was about 54% higher than it was on June 30, 2021. For information regarding how we calculate IFP, see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Key Operating and Financial Metrics — In Force Premium."

While the global economy began to reopen in the first quarter of 2021, and continues to show positive economic growth in the U.S. as the vaccination roll-out has reduced the spread and severity of COVID-19 and variants of the virus, there remains to be an uncertainty about the duration and ultimate impact of COVID-19 and variants of the virus, including the length of time needed to vaccinate a significant segment of the global population and effectiveness of the vaccines with respect to the new variants of the virus. Management continues to monitor and cannot definitively determine the ultimate financial impact of COVID-19 and variants of the virus, and the related economic conditions at this time.

With respect to our investment portfolio which showed a diversified mix of securities beginning in the third quarter of 2021, and given the conservative nature of our portfolio and investment in high-quality securities, we do not expect a material adverse impact in the value of our investment portfolio, or long-term negative impact on our financial condition, results of operations or cash flows as it relates to COVID-19 and variants of the virus.

See “Risk Factors — Risks Relating to our Industry — Severe weather events and other catastrophes, including the effects of climate change and global pandemics, are inherently unpredictable and may have a material adverse effect on our financial results and financial condition.” in our Annual Report on Form 10-K.

## **Reinsurance**

We obtain reinsurance to help manage our exposure to property and casualty insurance risks. Although our reinsurance counterparties are liable to us according to the terms of the reinsurance policies, we remain primarily liable to our policyholders as the direct insurers on all risks reinsured, see "Risk Factors - Risks Relating to Our Business" and "Risks relating to our Industry" in our Annual Report on Form 10-K.

As a result, reinsurance does not eliminate the obligation of our insurance subsidiaries to pay all claims, and we are subject to the risk that one or more of our reinsurers will be unable or unwilling to honor its obligations, that the reinsurers will not pay in a timely fashion, or that our losses are so large that they exceed the limits inherent in our reinsurance contracts, each of which could have a material effect on our results of operations and financial condition. Furthermore, reinsurance may be unavailable at current levels and prices, which may limit our ability to write new business.

Through June 30, 2021, we had proportional reinsurance covering 75% of our business. Under the proportional reinsurance contracts, which cover all of our products and geographies, we transferred, or “ceded,” 75% of our premium to our reinsurers ("Proportional Reinsurance Contracts"). In exchange, these reinsurers paid us a ceding commission of 25% for every dollar ceded, in addition to funding all of the corresponding claims, or 75% of all our claims. This arrangement mirrors our fixed fee, and hence shields our gross profit margin, from the volatility of claims, while boosting our capital efficiency dramatically. We opted to manage the remaining 25% of our business with alternative forms of reinsurance.

A portion of Lemonade’s proportional reinsurance program expired on June 30, 2021 and on June 30, 2022. As the business continued to grow and diversify, and with stability in our insurance results, we decreased the overall share of proportional reinsurance from 75% of premium to 55% effective July 1, 2022. In addition, we purchased a reinsurance program to protect us against natural catastrophe risk in the U.S. that exceeds \$80 million in losses effective July 1, 2022. Other non-proportional reinsurance contracts were renewed with terms similar to the expiring contracts.

## **Components of our Results of Operations**

### ***Revenue***

#### ***Gross Written Premium***

Gross written premium is the amount received, or to be received, for insurance policies written by us during a specific period of time without reduction for premiums ceded to reinsurance. The volume of our gross written premium in any given period is generally influenced by new business submissions, binding of new business submissions into policies, renewals of existing policies, and average size and premium rate of bound policies.

#### ***Ceded Written Premium***

Ceded written premium is the amount of gross written premium ceded to reinsurers. We enter into reinsurance contracts to limit our exposure to potential losses as well as to provide additional capacity for growth. Ceded written premium is earned over the reinsurance contract period in proportion to the period of risk covered. The volume of our ceded written premium is impacted by the level of our gross written premium and any decision we make to increase or decrease in reinsurance limits, retention levels, and co-participation. Our ceded written premium can also be impacted significantly in certain periods due to changes in reinsurance agreements. In periods where we start or stop ceding a large volume of our premium, ceded written premium may increase or decrease significantly compared to prior periods and these fluctuations may not be indicative of future trends.

#### ***Gross Earned Premium***

Gross earned premium represents the earned portion of our gross written premium. Our insurance policies generally have a term of one year and premium is earned pro rata over the term of the policy.

#### ***Ceded Earned Premium***

Ceded earned premium is the amount of gross earned premium ceded to reinsurers.

#### ***Net Earned Premium***

Net earned premium represents the earned portion of our gross written premium, less the earned portion that is ceded to third-party reinsurers under our reinsurance agreements. Premium is earned pro rata over the term of the policy, which is generally one year.

#### ***Ceding Commission Income***

Ceding commission income is commission we receive based on the premium ceded to third-party reinsurers to reimburse us for acquisition and underwriting expenses. We earn commissions on reinsurance premium ceded in a manner consistent with the recognition of the earned premium on the underlying insurance policies, on a pro-rata basis over the terms of the policies reinsured. The portion of ceding commission income which represents reimbursement of successful acquisition costs related to the underlying policies is recorded as an offset to other insurance expense.

#### ***Net Investment Income***

Net investment income represents interest earned from fixed maturity securities, short term securities, and other investments, and the gains or losses from the sale of investments, net of investment fees paid to the Company's investment manager. Our cash and invested assets are primarily comprised of fixed maturity securities, and may also include cash and cash equivalents, equity securities, and short-term investments. The principal factors that influence net investment income are the size of our investment portfolio and the yield on that portfolio. As measured by amortized cost (which excludes changes in fair value, such as changes in interest rates), the size of our investment portfolio is mainly a function of our invested equity capital along with premium we receive from our customers less payments on customer claims. Over time, we expect that net investment income will represent a more meaningful component of our results of operations.

### *Commission and Other Income*

Commission income consists of commissions earned for policies placed with third-party insurance companies where we have no exposure to the insured risk. Such commission is recognized on the effective date of the associated policy. Other income consists of fees collected from policyholders relating to installment premiums. These fees are recognized at the time each policy installment is billed.

### *Expense*

#### *Loss and Loss Adjustment Expense, Net*

Loss and loss adjustment expense ("LAE"), net represent the costs incurred for losses net of amounts ceded to reinsurers. We enter into reinsurance contracts to limit our exposure to potential losses as well as to provide additional capacity for growth. These expenses are a function of the size and term of the insurance policies we write and the loss experience associated with the underlying risks. Loss and LAE are based on an actuarial analysis of the estimated losses, including losses incurred during the period and changes in estimates from prior periods. Loss and LAE may be paid out over a period of years. Certain policies we write are subject to catastrophe losses. Catastrophe losses are losses resulting from events involving claims and policyholders, including earthquakes, hurricanes, floods, storms, terrorist acts or other aggregating events that are designated by internationally recognized organizations, such as Property Claims Services, that track and report on insured losses resulting from catastrophic events.

#### *Other Insurance Expense*

Other insurance expense consists primarily of amortization of commissions costs and premium taxes incurred on the successful acquisition of business written on a direct basis, and credit card processing fees not charged to our customers. Other insurance expense also includes employee compensation, including stock-based compensation and benefits, of our underwriting teams as well as allocated occupancy costs and related overhead based on headcount. Other insurance expense is offset by the portion of ceding commission income which represents reimbursement of successful acquisition costs related to the underlying policies.

#### *Sales and Marketing*

Sales and marketing includes third-party marketing, advertising, branding, public relations and sales expenses. Sales and marketing also includes associated employee compensation, including stock-based compensation and benefits, as well as allocated occupancy costs and related overhead based on headcount. Sales and marketing costs are expensed as incurred.

We plan to continue to invest in sales and marketing to attract and acquire new customers and increase our brand awareness. We expect that sales and marketing costs will increase in absolute dollars in future periods and vary from period-to-period as a percentage of revenue in the near-term. We expect that, in the long-term, our sales and marketing costs will decrease as a percentage of revenue as we continue to drive customer acquisition efficiencies and as the proportion of renewals to our total business increases.

#### *Technology Development*

Technology development consists of employee compensation, including stock-based compensation and benefits, and expenses related to vendors engaged in product management, design, development and testing of our websites and products. Technology development also includes allocated occupancy costs and related overhead based on headcount. We expense technology development costs as incurred, except for costs that are capitalized related to internal-use software development projects and subsequently depreciated over the expected useful life of the developed software.

We expect product technology development costs, a portion of which will be capitalized, to continue to grow in the foreseeable future as we identify opportunities to invest in the development of new products and internal tools and enhancement of our existing products and technologies that we believe will drive the long-term profitability of the business.

### *General and Administrative*

General and administrative includes employee compensation, including stock-based compensation and benefits for executive, finance, accounting, legal, business operations, and other administrative personnel. In addition, general and administrative includes outside professional services, non-income based taxes, insurance, charitable donations, and allocated occupancy costs and related overhead based on headcount. Depreciation and amortization expense is recorded as a component of general and administrative.

We expect to incur incremental general and administrative costs to support our global operational growth and enhancements to support our reporting and planning functions.

We have incurred and expect to continue to incur significant additional general and administrative expense as a result of operating as a public company, including expenses related to compliance with the rules and regulations of the SEC and the listing standards of the New York Stock Exchange, additional corporate, director and officer insurance expenses, greater investor relations expenses and increased legal, audit and consulting fees. We also expect to increase the size of our general and administrative function to support our increased compliance requirements and the growth of our business. As a result, we expect that our general and administrative expense will increase in absolute dollars in future periods and vary from period-to-period as a percentage of revenue.

### *Income Tax Expense*

Our provision for income taxes consists primarily of foreign income taxes related to income generated by our subsidiaries organized under the laws of the Netherlands and Israel. As we expand the scale of our international business activities, any changes in the U.S. and foreign taxation of such activities may increase our overall provision for income taxes in the future.

We have a valuation allowance for our U.S. deferred tax assets, including federal and state net operating losses. We expect to maintain this valuation allowance until it becomes more likely than not, that the benefit of our federal and state deferred tax assets will be realized through expected future taxable income in the United States.



## Key Operating and Financial Metrics

We regularly review a number of metrics, including the following key operating and financial metrics, to evaluate our business, measure our performance, identify trends in our business, prepare financial projections and make strategic decisions. We believe these non-GAAP and operational measures are useful in evaluating our performance, in addition to our financial results prepared in accordance with GAAP. See “—Non-GAAP Financial Measures” for additional information on non-GAAP financial measures, and a reconciliation to the most comparable GAAP measures.

The following table sets forth these metrics as of and for the periods presented:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
	(\$ in millions, except Premium per customer)		(\$ in millions, except Premium per customer)	
Customers (end of period)	1,579,936	1,206,172	1,579,936	1,206,172
In force premium (end of period)	\$ 457.6	\$ 296.8	\$ 457.6	\$ 296.8
Premium per customer (end of period)	\$ 290	\$ 246	\$ 290	\$ 246
Annual dollar retention (end of period)	83 %	82 %	83 %	82 %
Total revenue	\$ 50.0	\$ 28.2	\$ 94.3	\$ 51.7
Gross earned premium	\$ 106.8	\$ 66.9	\$ 202.8	\$ 123.1
Gross profit	\$ 11.3	\$ 9.8	\$ 21.5	\$ 11.7
Adjusted gross profit	\$ 17.5	\$ 12.8	\$ 33.8	\$ 17.8
Net loss	\$ (67.9)	\$ (55.6)	\$ (142.7)	\$ (104.6)
Adjusted EBITDA	\$ (50.3)	\$ (40.4)	\$ (107.7)	\$ (81.7)
Gross profit margin	23 %	35 %	23 %	23 %
Adjusted gross profit margin	35 %	45 %	36 %	34 %
Ratio of Adjusted Gross Profit to Gross Earned Premium	16 %	19 %	17 %	14 %
Gross loss ratio	86 %	74 %	88 %	96 %
Net loss ratio	90 %	80 %	90 %	98 %

### Customers

We define customers as the number of current policyholders underwritten by us or placed by us with third-party insurance partners (who pay us recurring commissions) as of the period end date. A customer that has more than one policy counts as a single customer for the purposes of this metric. We view customers as an important metric to assess our financial performance because customer growth drives our revenue, expands brand awareness, deepens our market penetration, creates additional upsell and cross-sell opportunities, and generates additional data to continue to improve the functioning of our platform.

### In Force Premium

We define in force premium ("IFP"), as the aggregate annualized premium for customers as of the period end date. At each period end date, we calculate IFP as the sum of:

- i) In force written premium — the annualized premium of in force policies underwritten by us; and
- ii) In force placed premium — the annualized premium of in force policies placed with third party insurance companies for which we earn a recurring commission payment. In force placed premium currently reflects approximately 2.0% of IFP.

The annualized value of premiums is a legal and contractual determination made by assessing the contractual terms with our customers. The annualized value of contracts is not determined by reference to historical revenues, deferred revenues or any other GAAP financial measure over any period. IFP is not a forecast of future revenues nor is it a reliable indicator of revenue expected to be earned in any given period. We believe that our calculation of IFP is useful to analysts and investors because it captures the impact of growth in customers and premium per customer at the end of each reported period, without adjusting for known or projected policy updates, cancellations, rescissions, and non-renewals. We use IFP because we believe it gives our management useful insight into the total reach of our platform by showing all in force policies underwritten and placed by us. Other companies, including companies in our industry, may calculate IFP differently or not at all, which reduces the usefulness of IFP as a tool for comparison.

#### *Premium per customer*

We define premium per customer as the average annualized premium customers pay for products underwritten by us or placed by us with third-party insurance partners. We calculate premium per customer by dividing IFP by customers. We view premium per customer as an important metric to assess our financial performance because premium per customer reflects the average amount of money our customers spend on our products, which helps drive strategic initiatives.

#### *Annual Dollar Retention*

We define Annual Dollar Retention ("ADR"), as the percentage of IFP retained over a twelve month period, inclusive of changes in policy value, changes in number of policies, changes in policy type, and churn. To calculate ADR we first aggregate the IFP from all active customers at the beginning of the period and then aggregate the IFP from those same customers at the end of the period. ADR is then equal to the ratio of ending IFP to beginning IFP. We believe that our calculation of ADR is useful to analysts and investors because it captures our ability to retain customers and sell additional products and coverage to them over time. We view ADR as an important metric to measure our ability to provide a delightful end-to-end customer experience, satisfy our customers' evolving insurance needs and maintain our customers' trust in our products. Our customers become more valuable to us every year they continue to subscribe to our products. Other companies, including companies in our industry, may calculate ADR differently or not at all, which reduces the usefulness of ADR as a tool for comparison.

#### *Gross Earned Premium*

Gross earned premium is the earned portion of our gross written premium.

We use this operating metric as we believe it gives our management and other users of our financial information useful insight into the gross economic benefit generated by our business operations and allows us to evaluate our underwriting performance without regard to changes in our underlying reinsurance structure. See "— Components of Our Results of Operations — Revenue — Gross Earned Premium."

Unlike net earned premium, gross earned premium excludes the impact of premiums ceded to reinsurers, and therefore should not be used as a substitute for net earned premium, total revenue, or any other measure presented in accordance with GAAP.

#### *Gross Profit*

Gross profit is calculated in accordance with GAAP as total revenue less loss and loss adjustment expense, net, other insurance expense, and depreciation and amortization (allocated to cost of revenue).

#### *Adjusted Gross Profit*

We define adjusted gross profit, a non-GAAP financial measure, as:

- Gross profit, excluding net investment income, plus
- Employee-related costs, plus
- Professional fees and other, plus

- 
- Depreciation and amortization (allocated to cost of revenue).
  - See “— Non-GAAP Financial Measures” for a reconciliation of total revenue to adjusted gross profit.

#### *Adjusted EBITDA*

We define adjusted EBITDA, a non-GAAP financial measure, as net loss excluding the impact of interest expense, income tax expense, depreciation, amortization, stock-based compensation, net investment income, and other transactions that we consider to be unique in nature. See “— Non-GAAP Financial Measures” for a reconciliation of net loss to adjusted EBITDA in accordance with GAAP.

#### *Gross Profit Margin*

We define gross profit margin, expressed as a percentage, as the ratio of gross profit to total revenue.

#### *Adjusted Gross Profit Margin*

We define adjusted gross profit margin, a non-GAAP financial measure, expressed as a percentage, as the ratio of adjusted gross profit to total revenue. See “— Non-GAAP Financial Measures.”

#### *Ratio of Adjusted Gross Profit to Gross Earned Premium*

We define Ratio of Adjusted Gross Profit to Gross Earned Premium, a non-GAAP financial measure, expressed as a percentage, as the ratio of adjusted gross profit to gross earned premium. Our Ratio of Adjusted Gross Profit to Gross Earned Premium provides management with useful insight into our operating performance. See “— Non-GAAP Financial Measures.”

#### *Gross Loss Ratio*

We define gross loss ratio, expressed as a percentage, as the ratio of losses and loss adjustment expense to gross earned premium.

#### *Net Loss Ratio*

We define net loss ratio, expressed as a percentage, as the ratio of losses and loss adjustment expense, less amounts ceded to reinsurers, to net earned premium.

## Results of Operations

### Comparison of the Three Months Ended June 30, 2022 and 2021

	Three Months Ended June 30,			
	2022	2021	Change	% Change
	(\$ in millions)			
Revenue				
Net earned premium	\$ 31.2	\$ 16.3	\$ 14.9	91 %
Ceding commission income	15.5	10.6	4.9	46 %
Net investment income	1.2	0.2	1.0	500 %
Commission and other income	2.1	1.1	1.0	91 %
Total revenue	50.0	28.2	21.8	77 %
Expense				
Loss and loss adjustment expense, net	28.1	13.0	15.1	116 %
Other insurance expense	9.7	5.2	4.5	87 %
Sales and marketing	37.0	33.1	3.9	12 %
Technology development	17.8	14.0	3.8	27 %
General and administrative	22.4	15.8	6.6	42 %
Total expense	115.0	81.1	33.9	42 %
Loss before income taxes	(65.0)	(52.9)	(12.1)	23 %
Income tax expense	2.9	2.7	0.2	7 %
Net loss	\$ (67.9)	\$ (55.6)	\$ (12.3)	22 %

### Net Earned Premium

Net earned premium increased \$14.9 million, or 91%, to \$31.2 million for the three months ended June 30, 2022 compared to the three months ended June 30, 2021, primarily due to the earning of increased gross written premium and increased retention of ceded written premium under our Proportional Reinsurance Contracts as discussed above under "Reinsurance."

	Three Months Ended June 30,			
	2022	2021	Change	% Change
	(\$ in millions)			
Gross written premium	\$ 126.1	\$ 89.5	\$ 36.6	41 %
Ceded written premium	(87.9)	(66.5)	(21.4)	32 %
Net written premium	\$ 38.2	\$ 23.0	\$ 15.2	66 %

Gross written premium increased \$36.6 million, or 41%, to \$126.1 million for the three months ended June 30, 2022 compared to the three months ended June 30, 2021. The increase was primarily due to a 31% increase in net added customers year over year driven by the success of our digital advertising campaigns and partnerships. We also continued to expand our geographic footprint and product offerings. We also saw a 18% increase in premium per customer year over year primarily due to an increasing prevalence of multiple policies per customer, growth in the overall average policy value, and continued shift in the mix of underlying products toward higher value policies.

Ceded written premium increased \$21.4 million, or 32%, to \$87.9 million for the three months ended June 30, 2022 compared to the three months ended June 30, 2021, primarily due to the impact of the change in reinsurance arrangements. The Company renewed the majority of the reinsurance contracts that expired on June 30, 2021 at terms that are very similar to the prior agreements, and decreased the overall share of proportional reinsurance from 75% of premium to 70%. The Company also purchased a new reinsurance program to protect against natural catastrophe risk in the U.S. that exceeds \$60 million in losses effective July 1, 2021. Other non-proportional reinsurance contracts were renewed in 2021 with terms similar to the expired contracts.

Net written premium increased \$15.2 million, or 66%, to \$38.2 million for the three months ended June 30, 2022 compared to the three months ended June 30, 2021. The increase was primarily due to the \$36.6 million, or 41%, increase in gross written premium offset by the increase in ceded written premium of \$21.4 million, or 32%, for the three months ended June 30, 2022, as compared to the three months ended June 30, 2021.

The table below shows the amount of premium we earned on a gross and net basis. Ceded earned premium as a percentage of gross earned premium decreased to approximately 71% for the three months ended June 30, 2022, as compared to approximately 76% for the three months ended June 30, 2021 primarily due to the change in proportional reinsurance contracts.

	Three Months Ended June 30,		Change	% Change
	2022	2021		
	(\$ in millions)			
Gross earned premium	\$ 106.8	\$ 66.9	\$ 39.9	60 %
Ceded earned premium	(75.6)	(50.6)	(25.0)	49 %
Net earned premium	\$ 31.2	\$ 16.3	\$ 14.9	91 %

#### ***Ceding Commission Income***

Ceding commission income increased \$4.9 million, or 46%, to \$15.5 million for the three months ended June 30, 2022 compared to the three months ended June 30, 2021, consistent with the increase in ceded earned premium related to the proportional reinsurance contracts with third-party reinsurers during the period.

#### ***Net Investment Income***

Net investment income amounted to \$1.2 million for the three months ended June 30, 2022 and \$0.2 million for the three months ended June 30, 2021. We mainly invest in cash, money market funds, U.S. Treasury bills, corporate debt securities, notes and other obligations issued or guaranteed by the U.S. Government. Net investment income for the period was primarily driven by interest rates on investment balances, and offset by investment expenses of \$0.1 million.

#### ***Commission and Other Income***

Commission and other income increased \$1.0 million, or 91%, to \$2.1 million for the three months ended June 30, 2022 compared to the three months ended June 30, 2021, due to growth in premiums placed with third-party insurance companies during the period and an increase in installment fees billed.

#### ***Loss and Loss Adjustment Expense, Net***

Loss and LAE, net increased \$15.1 million, or 116%, to \$28.1 million for the three months ended June 30, 2022 compared to the three months ended June 30, 2021. The increase was primarily in line with growth in premium, increase in net retained losses due to change in proportional reinsurance contract and increased claims costs due to impact of inflation. These increases were partially offset by favorable prior period development.

#### ***Other Insurance Expense***

Other insurance expense increased \$4.5 million, or 87%, to \$9.7 million for the three months ended June 30, 2022 compared to the three months ended June 30, 2021. The increase was primarily due to employee-related expense, including stock-based compensation, which increased by \$2.6 million, or 153%, as compared to the three months ended June 30, 2021, driven by an increase in underwriting staff to support our continued growth. Professional fees and other increased \$1.0 million, or 77%, primarily in support of growth and expansion initiatives for new products. Credit card processing fees increased \$0.6 million, or 38%, as a result of the increase in customers and associated premium. Amortization of deferred acquisition costs, net of ceding commissions increased \$0.3 million, or 50%.

### ***Sales and Marketing***

Sales and marketing expense increased \$3.9 million, or 12%, to \$37.0 million for the three months ended June 30, 2022 compared to the three months ended June 30, 2021. Employee-related expense, including stock-based compensation, increased by \$2.4 million, or 38%, as compared to the prior year period, driven by an increase in sales and marketing headcount to support our continued growth and expansion. Expense related to brand and performance advertising also increased by \$0.7 million, or 3%, for the three months ended June 30, 2022 as compared to the three months ended June 30, 2021, as a result of greater spending on search advertising and other customer acquisition channels in response to new product offerings.

### ***Technology Development***

Technology development expense increased \$3.8 million, or 27%, to \$17.8 million for the three months ended June 30, 2022 compared to the three months ended June 30, 2021. Employee-related expense, including stock-based compensation, and net of capitalized costs for the development of internal-use software, increased \$2.4 million, or 19%, as compared to the three months ended June 30, 2021, driven by an increase in payroll expense for product, engineering, design and quality assurance personnel to support our continued growth and product development initiatives, including automation, improvement in machine learning and geographic expansion. Technology tools and software expense increased by \$0.6 million, or 67%.

### ***General and Administrative***

General and administrative expense increased \$6.6 million, or 42%, to \$22.4 million for the three months ended June 30, 2022 compared to the three months ended June 30, 2021. Employee-related expense, including stock-based compensation, increased by \$4.4 million, or 63%, as we increased finance, legal, business operations and administrative personnel. Legal, accounting and other professional fees increased \$0.8 million, or 50%, to support the compliance requirements necessary to operate as a growing global, multi-product line of business and regulated companies. Depreciation expense increased \$0.8 million, or 100%, and software costs increased \$0.6 million, or 86%.

### ***Income Tax Expense***

Income tax expense increased \$0.2 million, or 7%, to \$2.9 million for the three months ended June 30, 2022 compared to the three months ended June 30, 2021 due to increased tax liability related to income generated by our subsidiaries organized under the laws of the Netherlands and Israel.

### ***Net Loss***

Net loss increased \$12.3 million, or 22%, to \$67.9 million for the three months ended June 30, 2022 compared to the three months ended June 30, 2021 due to the factors described above.

**Comparison of the Six Months Ended June 30, 2022 and 2021**

	Six Months Ended June 30,			
	2022	2021	Change	% Change
	(\$ in millions)			
Revenue				
Net earned premium	\$ 58.6	\$ 30.1	\$ 28.5	95 %
Ceding commission income	29.5	19.6	9.9	51 %
Net investment income	2.1	0.4	1.7	425 %
Commission and other income	4.1	1.6	2.5	156 %
Total revenue	94.3	51.7	42.6	82 %
Expense				
Loss and loss adjustment expense, net	52.5	29.5	23.0	78 %
Other insurance expense	18.8	10.0	8.8	88 %
Sales and marketing	75.3	62.2	13.1	21 %
Technology development	34.7	21.1	13.6	64 %
General and administrative	50.6	29.9	20.7	69 %
Total expense	231.9	152.7	79.2	52 %
Loss before income taxes	(137.6)	(101.0)	(36.6)	36 %
Income tax expense	5.1	3.6	1.5	42 %
Net loss	\$ (142.7)	\$ (104.6)	\$ (38.1)	36 %

**Net Earned Premium**

Net earned premium increased \$28.5 million, or 95%, to \$58.6 million for the six months ended June 30, 2022 compared to the six months ended June 30, 2021 primarily due to the earning of increased gross written premium and increased retention of ceded written premium under our Proportional Reinsurance Contracts as discussed above under "Reinsurance."

	Six Months Ended June 30,		Change	% Change
	2022	2021		
	(\$ in millions)			
Gross written premium	\$ 236.7	\$ 165.3	\$ 71.4	43 %
Ceded written premium	(163.5)	(122.1)	(41.4)	34 %
Net written premium	\$ 73.2	\$ 43.2	\$ 30.0	69 %

Gross written premium increased \$71.4 million, or 43%, to \$236.7 million for the six months ended June 30, 2022 compared to the six months ended June 30, 2021. The increase was primarily due to a 31% increase in net added customers year over year driven by the success of our digital advertising campaigns and partnerships. We also continued to expand our geographic footprint and product offerings. We also saw a 18% increase in premium per customer year over year primarily due to an increasing prevalence of multiple policies per customer, growth in the overall average policy value, and continued shift in the mix of underlying products toward higher value policies.

Ceded written premium increased \$41.4 million, or 34%, to \$163.5 million for the six months ended June 30, 2022 compared to the six months ended June 30, 2021. A portion of the Company's proportional reinsurance program expired on June 30, 2021. The Company renewed the majority of the reinsurance contracts that expired on June 30, 2021 at terms that are very similar to the prior agreements, and decreased the overall share of proportional reinsurance from 75% of premium to 70%. The Company also purchased a new reinsurance program to protect against natural catastrophe risk in the U.S. that exceeds \$60.0 million. Other non-proportional reinsurance contracts were renewed with terms similar to the expiring contracts.

Net written premium increased \$30.0 million, or 69%, to \$73.2 million for the six months ended June 30, 2022 compared to the six months ended June 30, 2021. The increase was primarily due to the \$71.4 million, or 43%, increase in gross written premium offset by the increase in ceded written premium for the six months ended June 30, 2022 as compared to the six months ended June 30, 2021.

The table below shows the amount of premium we earned on a gross and net basis. Ceded earned premium as a percentage of gross earned premium decreased to 71% for the six months ended June 30, 2022, as compared to 76% for the six months ended June 30, 2021 primarily due to the change in proportional reinsurance contracts.

	Six Months Ended June 30,			
	2022	2021	Change	% Change
	(\$ in millions)			
Gross earned premium	\$ 202.8	\$ 123.1	\$ 79.7	65 %
Ceded earned premium	(144.2)	(93.0)	(51.2)	55 %
Net earned premium	\$ 58.6	\$ 30.1	\$ 28.5	95 %

#### ***Ceding Commission Income***

Ceding commission income increased \$9.9 million, or 51%, to \$29.5 million for the six months ended June 30, 2022 compared to six months ended June 30, 2021, consistent with the increase in ceded earned premium related to the proportional reinsurance contracts with third-party reinsurers during the period.

#### ***Net Investment Income***

Net investment income increased \$1.7 million, or 425%, to \$2.1 million for the six months ended June 30, 2022 compared to the six months ended June 30, 2021. We mainly invest in cash, money market funds, U.S. Treasury bills, corporate debt securities, notes and other obligations issued or guaranteed by the U.S. Government. Net investment income for the period was primarily driven by interest rates on investment balances, and offset by investment expenses of \$0.2 million.

#### ***Commission and Other Income***

Commission and other income increased \$2.5 million, or 156%, to \$4.1 million for the six months ended June 30, 2022 compared to the six months ended June 30, 2021, due to growth on premium placed with third-party insurance companies during the period and increase in installment fees billed.

#### ***Loss and Loss Adjustment Expense, Net***

Loss and LAE, net increased \$23 million, or 78%, to \$52.5 million for the six months ended June 30, 2022 compared to the six months ended June 30, 2021. The increase was primarily in line with growth in premium, increase in net retained losses due to change in proportional reinsurance contract and increased claims costs due to impact of inflation. These increases were partially offset by favorable prior period development.

#### ***Other Insurance Expense***

Other insurance expense increased \$8.8 million, or 88%, to \$18.8 million for the six months ended June 30, 2022 compared to the six months ended June 30, 2021. The increase was primarily due to employee-related expense, including stock-based compensation, which increased by \$4.7 million, or 138%, as compared to the six months ended June 30, 2021, driven by an increase in underwriting staff to support our continued growth. Professional fees and other increased \$2.2 million, or 85%, primarily in support of growth and expansion initiatives. Amortization of deferred acquisition costs, net of ceding commissions increased \$0.7 million, or 70%.



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### ***Sales and Marketing***

Sales and marketing expense increased \$13.1 million, or 21%, to \$75.3 million for the six months ended June 30, 2022 compared to the six months ended June 30, 2021. Expense related to brand and performance advertising, the largest component of our sales and marketing expenses, increased by \$5.8 million, or 13%, for the six months ended June 30, 2022 as compared to the six months ended June 30, 2021, as a result of greater spending on search advertising and other customer acquisition channels in response to new product offerings. Employee-related expense, including stock-based compensation, increased by \$5.4 million, or 43%, as compared to the prior year period, driven by an increase in sales and marketing headcount to support our continued growth and expansion.

### ***Technology Development***

Technology development expense increased \$13.6 million, or 64%, to \$34.7 million for the six months ended June 30, 2022 compared to the six months ended June 30, 2021. Employee-related expense, including stock-based compensation, net of capitalized costs for the development of internal-use software, increased \$10.7 million, or 57%, as compared to the six months ended June 30, 2021, driven by an increase in payroll expense for product, engineering, design and quality assurance personnel to support our continued growth and product development initiatives, including automation, improvement in machine learning and geographic expansion. Technology tools and software expense increased by \$1.3 million, or 81%.

### ***General and Administrative***

General and administrative expense increased \$20.7 million, or 69%, to \$50.6 million for the six months ended June 30, 2022 compared to the six months ended June 30, 2021. Employee-related expense, including stock-based compensation, increased by \$9.5 million, or 66%, as we increased finance, legal, business operations and administrative personnel. Legal, accounting and other professional fees increased \$5.0 million, or 161%, to support the compliance requirements necessary to operate as a growing global, multi-product line of business and regulated companies. Software cost increased \$1.5 million, or 136%, depreciation expense increased \$1.4 million, or 82%, and bad debt expense increased by \$1.3 million, or 57%.

### ***Income Tax Expense***

Income tax expense increased \$1.5 million, or 42%, to \$5.1 million for the six months ended June 30, 2022 compared to the six months ended June 30, 2021 due to increased tax liability related to income generated by our subsidiaries organized under the laws of the Netherlands and Israel.

### ***Net Loss***

Net loss increased \$38.1 million, or 36%, to \$142.7 million for the six months ended June 30, 2022 compared to the six months ended June 30, 2021 due to the factors described above.

## Non-GAAP Financial Measures

The non-GAAP financial measures below have not been calculated in accordance with GAAP and should be considered in addition to results prepared in accordance with GAAP and should not be considered as a substitute for, or superior to, GAAP results. In addition, adjusted gross profit and adjusted gross profit margin, ratio of adjusted gross profit to gross earned premium, and adjusted EBITDA should not be construed as indicators of our operating performance, liquidity or cash flows generated by operating, investing and financing activities, as there may be significant factors or trends that they fail to address. We caution investors that non-GAAP financial information, by its nature, departs from traditional accounting conventions. Therefore, its use can make it difficult to compare our current results with our results from other reporting periods and with the results of other companies.

Our management uses these non-GAAP financial measures, in conjunction with GAAP financial measures, as an integral part of managing our business and to, among other things: (i) monitor and evaluate the performance of our business operations and financial performance; (ii) facilitate internal comparisons of the historical operating performance of our business operations; (iii) facilitate external comparisons of the results of our overall business to the historical operating performance of other companies that may have different capital structures and debt levels; (iv) review and assess the operating performance of our management team; (v) analyze and evaluate financial and strategic planning decisions regarding future operating investments; and (vi) plan for and prepare future annual operating budgets and determine appropriate levels of operating investments.

### Adjusted Gross Profit and Adjusted Gross Profit Margin

We define adjusted gross profit, a non-GAAP financial measure, as gross profit excluding net investment income plus fixed cost and overhead associated with our underwriting operations including employee-related expense and professional fees and other, and depreciation and amortization allocated to cost of revenue. After these adjustments, the resulting calculation is inclusive of only those variable costs of revenue incurred on the successful acquisition of business and without the volatility of investment income. We use adjusted gross profit as a key measure of our progress towards profitability and to consistently evaluate the variable contribution to our business from underwriting operations from period to period.

We define adjusted gross profit margin, a non-GAAP financial measure, expressed as a percentage, as the ratio of adjusted gross profit to total revenue.

The following table provides a reconciliation of total revenue to adjusted gross profit and the related adjusted gross profit margin for the periods presented:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
	(\$ in millions)			
Total revenue	\$ 50.0	\$ 28.2	\$ 94.3	\$ 51.7
Adjustments:				
Loss and loss adjustment expense, net	\$ (28.1)	\$ (13.0)	\$ (52.5)	\$ (29.5)
Other insurance expense	(9.7)	(5.2)	(18.8)	(10.0)
Depreciation and amortization	(0.9)	(0.2)	(1.5)	(0.5)
Gross profit	\$ 11.3	\$ 9.8	\$ 21.5	\$ 11.7
Gross profit margin (% of total revenue)	23 %	35 %	23 %	23 %
Adjustments:				
Net investment income	\$ (1.2)	\$ (0.2)	\$ (2.1)	\$ (0.4)
Employee-related expense	4.3	1.7	8.2	3.4
Professional fees and other	2.2	1.3	4.7	2.6
Depreciation and amortization	0.9	0.2	1.5	0.5
Adjusted gross profit	\$ 17.5	\$ 12.8	\$ 33.8	\$ 17.8
Adjusted gross profit margin (% of total revenue)	35 %	45 %	36 %	34 %

### ***Ratio of Adjusted Gross Profit to Gross Earned Premium***

The Ratio of Adjusted Gross Profit to Gross Earned Premium measures the relationship between the underlying business volume and gross economic benefit generated by our underwriting operations, on the one hand, and our underlying profitability trends, on the other. We rely on this measure, which supplements our gross profit ratio as calculated in accordance with GAAP, because it provides management with insight into our underlying profitability trends over time.

We use gross earned premium as the denominator in calculating this ratio, which excludes the impact of premiums ceded to reinsurers, because we believe that it reflects the business volume and the gross economic benefit generated by our underlying underwriting operations, which in turn are the key drivers of our future profit opportunities. We exclude the impact of ceded premiums from the denominator because ceded premiums can change rapidly and significantly based on the type and mix of reinsurance structures we use and, therefore, add volatility that is not indicative of our underlying profitability. For example, a shift to a proportional reinsurance arrangement would result in an increase in ceded premium, with offsetting benefits to gross profit from ceded losses and ceding commissions earned, resulting in a nominal overall economic impact. This shift would result in a steep decline in total revenue with a corresponding spike in gross margin, whereas we expect that the Ratio of Adjusted Gross Profit to Gross Earned Premium would remain relatively unchanged. We expect our reinsurance structure to evolve along with our costs and capital requirements, and we believe that our reinsurance structure at a given time does not reflect the performance of our underlying underwriting operations, which we expect to be the key driver of our costs of reinsurance over time.

On the other hand, the numerator, which is adjusted gross profit, includes the net impact of all reinsurance, including ceded premiums and the benefits of ceded losses and ceding commissions earned. Because our reinsurance structure is a key component of our risk management and a key driver of our profitability or loss in a given period, we believe this is meaningful.

Therefore, by providing this Ratio of Adjusted Gross Profit to Gross Earned Premium for a given period, we are able to assess the relationship between business volume and profitability, while eliminating the volatility from the cost of our then-current reinsurance structure, which is driven primarily by the performance of our insurance underwriting platform rather than our business volume.

The following table sets forth our calculation of the Ratio of Adjusted Gross Profit to Gross Earned Premium for the periods presented:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
	(\$ in millions)			
Numerator: Adjusted gross profit	\$ 17.5	\$ 12.8	\$ 33.8	\$ 17.8
Denominator: Gross earned premium	\$ 106.8	\$ 66.9	\$ 202.8	\$ 123.1
Ratio of Adjusted Gross Profit to Gross Earned Premium	16 %	19 %	17 %	14 %

### ***Adjusted EBITDA***

We define adjusted EBITDA, a non-GAAP financial measure, as net loss excluding interest expense, income tax expense, depreciation, amortization, stock-based compensation, net investment income, and other transactions that we would consider to be unique in nature. We exclude these items from adjusted EBITDA because we do not consider them to be directly attributable to our underlying operating performance. We use adjusted EBITDA as an internal performance measure in the management of our operations because we believe it gives our management and other customers of our financial information useful insight into our results of operations and our underlying business performance. Adjusted EBITDA should not be viewed as a substitute for net loss calculated in accordance with GAAP, and other companies may define adjusted EBITDA differently.

The following table provides a reconciliation of adjusted EBITDA to net loss for the periods presented:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
	(\$ in millions)			
Net loss	\$ (67.9)	\$ (55.6)	\$ (142.7)	\$ (104.6)
Adjustments:				
Income tax expense	\$ 2.9	\$ 2.7	\$ 5.1	\$ 3.6
Depreciation and amortization	1.5	0.8	3.0	1.7
Stock-based compensation	13.9	11.9	28.0	18.0
Transaction costs	0.5	—	1.0	—
Net investment income	(1.2)	(0.2)	(2.1)	(0.4)
Adjusted EBITDA	<u>\$ (50.3)</u>	<u>\$ (40.4)</u>	<u>\$ (107.7)</u>	<u>\$ (81.7)</u>

## Liquidity and Capital Resources

As of June 30, 2022, we had \$199.6 million in cash and cash equivalents and \$760.0 million in investments. From the date we commenced operations, we have generated negative cash flows from operations, and we have financed our operations primarily through private and public sales of equity securities. On January 14, 2021, we issued and sold 3,300,000 shares of common stock, and generated net proceeds to us of \$525.7 million after deducting underwriting discounts and other offering costs. On February 1, 2021, the underwriters exercised their option to purchase additional shares, which resulted in the issuance and sale of an additional 718,647 shares of common stock by us, and generated additional net proceeds of \$114.6 million. Excluding capital raises, our principal sources of funds are insurance premiums, investment income, reinsurance recoveries and proceeds from the maturity and sale of invested assets. These funds are primarily used to pay claims, operating expenses and taxes. We believe our existing cash and cash equivalents as of June 30, 2022 will be sufficient to meet our working capital and capital expenditures needs over at least the next 12 months.

Our cash flows used in operations may differ substantially from our net loss due to non-cash charges or due to changes in balance sheet accounts.

The timing of our cash flows from operating activities can also vary among periods due to the timing of payments made or received. Some of our payments and receipts, including loss settlements and subsequent reinsurance receipts, can be significant. Therefore, their timing can influence cash flows from operating activities in any given period. The potential for a large claim under an insurance or reinsurance contract means that our insurance subsidiaries may need to make substantial payments within relatively short periods of time, which would have a negative impact on our operating cash flows.

We are a holding company that transacts a majority of our business through operating subsidiaries. Consequently, our ability to pay dividends to stockholders, meet debt payment obligations and pay taxes and operating expenses is largely dependent on dividends or other distributions from our subsidiaries and affiliates, whose ability to pay us is highly regulated.

Our U.S. and Dutch insurance company subsidiaries, and our Dutch insurance holding company, are restricted by statute as to the amount of dividends that they may pay without the prior approval of their respective competent regulatory authorities. As of June 30, 2022, cash and short-term investments held by these companies was \$194.8 million.

Insurance companies in the United States are also required by state law to maintain a minimum level of policyholder's surplus. Insurance regulators in the states in which we operate have a risk-based capital standard designed to identify property and casualty insurers that may be inadequately capitalized based on inherent risks of the insurer's assets and liabilities and its mix of net written premium. Insurers falling below a calculated threshold may be subject to varying degrees of regulatory action. As of June 30, 2022, the total adjusted capital of our U.S. insurance subsidiary was in excess of its respective prescribed risk-based capital requirements.

The following table summarizes our cash flow data for the periods presented:

	Six Months Ended June 30,	
	2022	2021
	(\$ in millions)	
Net cash used in operating activities	\$ (79.7)	\$ (56.5)
Net cash provided by (used in) by investing activities	\$ 13.0	\$ (69.3)
Net cash provided by financing activities	\$ 1.0	\$ 648.1

### Operating Activities

Cash used in operating activities was \$79.7 million for the six months ended June 30, 2022, an increase of \$23.2 million from \$56.5 million for the six months ended June 30, 2021. This reflected the \$38.1 million increase in our net loss, primarily offset by increases in unearned premium, unpaid loss and loss adjustment expense and funds held that exceeded the increases in premiums receivable and amounts expected to be recovered from our reinsurance partners and prepaid reinsurance premium. The increase in cash used in operating activities from the six months ended June 30, 2022 compared to the six months ended June 30, 2021 was primarily due to claim payments, settlements with our reinsurance partners, and increased spend related to growth and expansion.

Cash used in operating activities was \$56.5 million for six months ended June 30, 2021. This resulted from our net loss of \$104.6 million, partially offset by non-cash charges and net cash provided by changes in our operating assets and liabilities. Non-cash charges primarily consisted of non-cash stock-based compensation. Net cash provided by changes in operating assets and liabilities primarily consisted of increases in unearned premiums, unpaid loss and loss adjustment expense, funds held and accrued and other liabilities partially offset by increases in prepaid reinsurance, premiums receivables and amounts expected to be recovered from our reinsurance partners.

### ***Investing Activities***

Cash provided by investing activities was \$13.0 million for the six months ended June 30, 2022 primarily due to proceeds from sales and maturities and offset by purchases of U.S. government obligations, corporate debt securities, short term investments, and property and equipment purchased during the period.

Cash used in investing activities was \$69.3 million for the six months ended June 30, 2021 primarily due to purchases of fixed maturities and property and equipment.

### ***Financing Activities***

Cash provided by financing activities was \$1.0 million for the six months ended June 30, 2022 primarily due to proceeds from stock option exercises.

Cash provided by financing activities was \$648.1 million for the six months ended June 30, 2021 primarily due to proceeds received from our Follow-on Offering (as defined in Note 10 to the unaudited interim condensed financial statements included elsewhere in this Quarterly Report) and proceeds from stock option exercises.

We do not have any current plans for material capital expenditures other than current operating requirements. We believe that we will generate sufficient cash flows from operations to satisfy our liquidity requirements for at least the next 12 months and for the foreseeable future. There have been no material changes as of June 30, 2022 to our contractual obligations from those described in our Annual Report on Form 10-K. To the extent our future operating cash flows are insufficient to cover our net losses from catastrophic events, we had \$959.6 million in cash and investments available at June 30, 2022. We also have the ability to access additional capital through pursuing third-party borrowings, sales of our equity, issuance of debt securities or entrance into new reinsurance arrangements.

## **Critical Accounting Policies and Estimates**

Our consolidated financial statements are prepared in accordance with GAAP in the United States. The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States requires our management to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the period. We evaluate our significant estimates on an ongoing basis, including, but not limited to, estimates related to unpaid loss and loss adjustment expense, reinsurance assets, stock-based compensation prior to the Company's initial public offering ("IPO"), income tax assets and liabilities, including recoverability of our net deferred tax asset, income tax provisions and certain non-income tax accruals. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results could differ from those estimates.

Our critical accounting policies are described under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates" in our Annual Report on Form 10-K and the notes to the unaudited interim condensed consolidated financial statements appearing elsewhere in this Quarterly Report. During the six months ended June 30, 2022, there were no material changes to our critical accounting policies from those discussed in our Annual Report on Form 10-K.

## **Recently Issued and Adopted Accounting Pronouncements**

See "Note 4 — Summary of Significant Accounting Policies" in the notes to the unaudited condensed consolidated financial statements included elsewhere in this Quarterly Report for a discussion of accounting pronouncements recently adopted and their impact to our unaudited condensed consolidated financial statements.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

Market risk is the risk of economic losses due to adverse changes in the estimated fair value of a financial instrument as the result of changes in equity prices, interest rates, foreign currency exchange rates and commodity prices. Our consolidated balance sheets include assets and liabilities with estimated fair values that are subject to market risk, and the primary components of market risk affecting the Company are interest rate risk and credit risk on investments in fixed maturities. The Company does not have equity price risk or exposure to commodity risk. There were no invested assets denominated in foreign currencies.

#### ***Overview***

The Company's investment portfolio is primarily fixed income securities issued by the U.S. government and government agencies and corporate issuers with relatively short durations. The investment portfolio is managed in accordance with the investment policies and guidelines approved by the board of directors. The Company's investment policy and objectives provide a balance between current yield, conservation of capital, and liquidity requirements of the Company's operations setting guidelines that provide for a well-diversified investment portfolio that is compliant with insurance regulations applicable to the states in which we operate. The policy, which may change from time to time, and is approved by the board of directors and reviewed on a regular basis in order to ensure that the policy evolves in response to changes in the financial markets.

#### ***Interest Rate Risk***

Interest rate risk is the risk that the Company will incur a loss due to adverse changes in interest rates relative to the interest rate characteristics of interest bearing assets and liabilities. As market interest rates decrease, the value of the portfolio increases and vice versa. A common measure of the interest sensitivity of fixed maturity assets is modified duration, a calculation that utilizes maturity, coupon rate, yield and call terms to calculate an average age to receive the present value of all the cash flows generated by such assets, including reinvestment of interest. The longer the duration, the more sensitive the asset is to market interest rate fluctuations. We manage this interest rate risk by investing in securities with relatively short durations. In addition, if a 10% change in interest rates were to have immediately occurred on June 30, 2022, this change would not have a material effect on the fair value of our investments as of that date.

#### ***Credit Risk***

We are also exposed to credit risk on our investment portfolio and reinsurance recoverable. Credit risk results from uncertainty in a counterparty's ability to meet its obligations. We monitor our investment portfolio to ensure that credit risk does not exceed prudent levels. The majority of our investment portfolio is invested in high credit quality, investment grade fixed maturity securities. As of June 30, 2022, none of our fixed maturity portfolio was unrated or rated below investment grade.

#### ***Inflation Risk***

Inflationary factors such as increases in overhead costs may adversely affect our operating results. Although we do not believe that inflation has had a material impact on our financial position or results of operations to date, a high rate of inflation may have an adverse effect on our ability to maintain current levels of operating expenses as a percentage of revenue, if the selling prices of our products do not increase with these increased costs.



#### **Item 4. Controls and Procedures.**

##### ***Limitations on Effectiveness of Controls and Procedures***

In designing and evaluating our disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply judgment in evaluating the benefits of possible controls and procedures relative to their costs.

##### ***Evaluation of Disclosure Controls and Procedures***

Our management, with the participation of our co-principal executive officers and principal financial officer, evaluated, as of the end of the period covered by this Quarterly Report, the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Based on that evaluation, our co-principal executive officers and principal financial officer concluded that, as of June 30, 2022, our disclosure controls and procedures were effective at the reasonable assurance level as of June 30, 2022.

##### ***Changes in Internal Control over Financial Reporting***

There were no changes in our internal control over financial reporting as defined in Rules 13a-15(f) and 15(d)-(f) under the Exchange Act) during the quarter ended June 30, 2022 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II—OTHER INFORMATION**

### **Item 1. Legal Proceedings.**

The Company is occasionally a party to routine claims or litigation incidental to its business and has been made a party to class action litigation alleging that certain of our business practices were improper. See Note 15 - Contingencies in our unaudited condensed consolidated financial statements included elsewhere in this Quarterly Report. The Company does not believe that it is a party to any pending legal proceeding that is likely to have a material adverse effect on its business, financial condition or results of operations.

### **Item 1A. Risk Factors.**

The Company's business, results of operations, and financial condition are subject to various risks described in the Company's Annual Report on Form 10-K. There have been no material changes to the risk factors identified in the Company's Annual Report on Form 10-K.

### **Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

#### **Recent Sales of Unregistered Securities; Purchases of Equity Securities by the Issuer or Affiliated Purchaser**

None.

#### **Use of Proceeds**

On July 1, 2020, the SEC declared effective our registration statement on Form S-1 (File No. 333-239007), as amended, filed in connection with our IPO (the "Registration Statement").

The net proceeds of approximately \$335.6 million from our IPO have been invested in investment grade, interest-bearing instruments. There has been no material change in the expected use of the net proceeds from our IPO as described in our final prospectus, dated July 1, 2020, filed with the SEC pursuant to Rule 424(b) relating to our Registration Statement.

### **Item 3. Defaults Upon Senior Securities.**

None.

### **Item 4. Mine Safety Disclosures.**

Not applicable.

### **Item 5. Other Information.**

None.

## Item 6. Exhibits.

Exhibit Number	Description	Incorporated by Reference			
		Form	File No.	Exhibit	Filing Date
<u>2.1</u>	<u>Agreement and Plan of Merger, dated as of November 8, 2021, by and among Lemonade, Inc., Metromile, Inc., Citrus Merger Sub A, Inc. a wholly-owned subsidiary of Lemonade, Inc. and Citrus Merger Sub B, LLC, a wholly-owned subsidiary of Lemonade, Inc.</u>	S-4	333-261629	2.3	12/14/2021
<u>3.1</u>	<u>Amended and Restated Certificate of Incorporation of Lemonade, Inc.</u>	8-K	001-39367	3.1	7/10/2020
<u>3.2</u>	<u>Amended and Restated By-laws of Lemonade, Inc.</u>	8-K	001-39367	3.2	7/10/2020
<u>4.1</u>	<u>Specimen Common Stock Certificate of Lemonade, Inc.</u>	S-1/A	333-239007	4.1	6/23/2020
<u>10.1*</u>	<u>Property Per Risk Excess of Loss Reinsurance Contract Issued to Lemonade Insurance Company and Lemonade Insurance N.V. by the Subscribing Issuers</u>				
<u>10.2*</u>	<u>Automatic Facultative Property Per Risk Excess of Loss Reinsurance Contract issued to Lemonade Insurance Company by the Subscribing Reinsurer</u>				
<u>31.1*</u>	<u>Certification of Co-Chief Executive Officer pursuant to Exchange Act Rule 13a-14(a).</u>				
<u>31.2*</u>	<u>Certification of Co-Chief Executive Officer pursuant to Exchange Act Rule 13a-14(a).</u>				
<u>31.3*</u>	<u>Certification of Chief Financial Officer pursuant to Exchange Act Rule 13a-14(a).</u>				
<u>32.1**</u>	<u>Certification of Co-Chief Executive Officer pursuant to 18 U.S.C. Section 1350.</u>				
<u>32.2**</u>	<u>Certification of Co-Chief Executive Officer pursuant to 18 U.S.C. Section 1350.</u>				
<u>32.3**</u>	<u>Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350.</u>				
101.INS*	Inline XBRL Instance Document				
101.SCH*	Inline XBRL Taxonomy Extension Schema Document				
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document				
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document				
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document				
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document				
104*	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)				

\* Filed herewith.

\*\* Furnished herewith.

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

### **Lemonade, Inc.**

Date: August 9, 2022

By: /s/ Daniel Schreiber  
Daniel Schreiber  
Co-Chief Executive Officer

Date: August 9, 2022

By: /s/ Shai Wininger  
Shai Wininger  
Co-Chief Executive Officer

Date: August 9, 2022

By: /s/ Tim Bixby  
Tim Bixby  
Chief Financial Officer

**Certain information marked as [\*\*\*] has been excluded from this exhibit because it is both (i) not material and (ii) is the type that the Company treats as private or confidential.**

**PROPERTY PER RISK EXCESS OF LOSS REINSURANCE CONTRACT**

issued to

**LEMONADE INSURANCE COMPANY  
New York, New York**

and

**LEMONADE INSURANCE N.V.  
Amsterdam, Netherlands**

including any and/or all companies that are or may hereafter become affiliated therewith

# PROPERTY PER RISK EXCESS OF LOSS REINSURANCE CONTRACT

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**PROPERTY PER RISK EXCESS OF LOSS REINSURANCE CONTRACT**

(the “Contract”) issued to

**LEMONADE INSURANCE COMPANY**  
**New York, New York**

and

**LEMONADE INSURANCE N.V.**  
**Amsterdam, Netherlands**

including any and/or all companies that are or may hereafter become affiliated therewith (collectively, the “Company”)

by

**THE SUBSCRIBING REINSURER(S) IDENTIFIED  
IN THE INTERESTS AND LIABILITIES AGREEMENT(S) ATTACHED TO AND FORMING  
PART OF THIS CONTRACT**

(the “Reinsurer”)

- A. This Contract extends to cover all companies that are now or may hereafter become affiliated with the Company to the extent and under the same conditions and limitations as would be provided by this Contract if such affiliated companies were made a party under this Contract, provided that notice be given to the Reinsurer of any such companies that may hereafter become affiliated with the Company as soon as practicable, with full particulars as to how such affiliation is likely to affect this Contract. In the event of either party maintaining that such affiliation calls for alteration in existing terms, and an agreement not being arrived at, then the business of such affiliated company is covered only for a period of forty-five days after notice by either party that they do not wish the company so affiliated to be covered.
- B. Balances payable or recoverable by the Reinsurer or individually named reinsured company shall not serve to offset any balances payable or recoverable to or from any other individually named reinsured company party to this Contract. Reports and remittances made to the Reinsurer in accordance with the provisions of this Contract are to be in sufficient detail to identify both the Reinsurer’s loss obligations due each individually named reinsured company and each individually named reinsured company’s premium remittance under the report.



- C. Any limits, retentions and premiums due hereunder may be treated as applying to each individually named reinsured company in accordance with the allocation agreement between those companies.

## **ARTICLE 1**

### **BUSINESS COVERED**

This Contract is to indemnify the Company in respect of the liability that may accrue to the Company as a result of loss or losses under all Policies in force at the inception of this Contract, or written or renewed by the Company during the term of this Contract and classified by the Company as Property business, as well as Third Party Property Damage for Renters', Condo and Co-op business, subject to the terms and conditions herein contained.

## **ARTICLE 2**

### **RETENTION AND LIMIT**

- A. The Reinsurer shall be liable in respect of each loss, each risk, for the Ultimate Net Loss over and above an initial Ultimate Net Loss of \$500,000 each loss, each risk, subject to a limit of liability to the Reinsurer of \$2,500,000 each loss, each risk, and further subject to a limit of liability to the Reinsurer of \$7,500,000 each Loss Occurrence.
- B. Notwithstanding the above, the Reinsurer shall be subject to a limit of liability of \$20,000,000 in the aggregate for all losses occurring during the term of this Contract.

## **ARTICLE 3**

### **TERM**

- A. This Contract shall take effect at 12:01 a.m., Standard Time, July 1, 2022, and shall remain in effect until 12:01 a.m., Standard Time, July 1, 2023, applying to losses occurring during the term of this Contract. "Standard Time" shall be as defined in the Company's Policies.
- B. The Reinsurer shall have no liability for losses occurring after expiration of this Contract.
- C. However, at the Company's option, the Reinsurer shall remain liable hereunder in respect of Policies in force at expiration, until the earlier of the expiration or next renewal of such Policies. In such event, the Company shall pay to the Reinsurer an additional premium equal to the rate set forth in the Premium Article, multiplied by the Gross Net Earned Premium Income during the run-off period, payable within 45 days after the end of each quarter.

- D. In the event this Contract expires on a run-off basis, the Reinsurer's liability hereunder shall continue if the Company is required by statute or regulation to continue coverage, until the earliest date on which the Company may cancel the Policy.

#### **ARTICLE 4**

##### **SPECIAL TERMINATION**

- A. The Company may terminate a Subscribing Reinsurer's percentage share in this Contract at any time by giving written notice to the Subscribing Reinsurer in the event of any of the following circumstances:
1. The Subscribing Reinsurer ceases underwriting operations.
  2. A state insurance department or other legal authority orders the Subscribing Reinsurer to cease writing business, or the Subscribing Reinsurer is placed under regulatory supervision.
  3. The Subscribing Reinsurer has become insolvent or has been placed into liquidation or receivership (whether voluntary or involuntary), or there have been instituted against it proceedings for the appointment of a receiver, liquidator, rehabilitator, conservator, trustee in bankruptcy, or other agent known by whatever name, to take possession of its assets or control of its operations.
  4. The Subscribing Reinsurer's policyholders' surplus (or the equivalent under the Subscribing Reinsurer's accounting system) as reported in such financial statements of the Subscribing Reinsurer as designated by the Company, has been reduced by 20% of the amount thereof at any date during the prior 12-month period (including the period prior to the inception of this Contract).
  5. The Subscribing Reinsurer has merged with or has become acquired or controlled by any company, corporation, or individual(s) not controlling the Subscribing Reinsurer's operations at the inception of this Contract.
  6. The Subscribing Reinsurer has retroceded its entire liability under this Contract without the Company's prior written consent, except for retrocessions to members of the Subscribing Reinsurer's holding company group.
  7. The Subscribing Reinsurer has been assigned an A.M. Best's rating of less than "A-" and/or an S&P rating of less than "BBB+." However, as respects Underwriting Members of Lloyd's, London, a Lloyd's Market Rating of less than "A-" by A.M. Best and/or less than "BBB+" by S&P shall apply.
- B. Termination shall be effected on a cut-off or run-off basis at the option of the Company as outlined in the Term Article. The reinsurance premium due the Subscribing Reinsurer hereunder (including any minimum reinsurance premium) shall be prorated based on the

period of the Subscribing Reinsurer's participation hereon, and the Subscribing Reinsurer shall immediately return any excess reinsurance premium received. Reinstatement premium, if any, shall be calculated based on the Subscribing Reinsurer's reinsurance premium earned during the period of the Subscribing Reinsurer's participation hereon.

- C. Additionally, in the event of any of the circumstances listed in paragraph A of this Article, the Company shall have the option to commute the Subscribing Reinsurer's liability for losses on Policies covered by this Contract. In the event the Company and the Subscribing Reinsurer cannot agree on the commutation amount, they shall appoint an actuary and/or appraiser to assess such amount and shall share equally any expense of the actuary and/or appraiser. If the Company and the Subscribing Reinsurer cannot agree on an actuary and/or appraiser, the Company and the Subscribing Reinsurer each shall nominate three individuals, of whom the other shall decline two, and the final appointment shall be made by drawing lots. Payment by the Subscribing Reinsurer of the amount of liability ascertained shall constitute a complete and final release of both parties in respect of liability arising from the Subscribing Reinsurer's participation under this Contract.
- D. The Company's option to require commutation under paragraph C above shall survive the termination or expiration of this Contract.

## **ARTICLE 5**

### **TERRITORY**

The territorial limits of this Contract shall be identical with those of the Company's Policies.

## **ARTICLE 6**

### **TRADE AND ECONOMIC SANCTIONS**

Wherever potential coverage provided by this Contract would be in violation of any applicable economic or trade sanctions, any such coverage will conform to applicable law.

## **ARTICLE 7**

### **EXCLUSIONS**

This Contract shall not apply to and specifically excludes:

- A. Losses excluded by the attached:
  - 1. Nuclear Incident Exclusion Clause – Physical Damage – Reinsurance – U.S.A.
  - 2. Nuclear Incident Exclusion Clause – Liability – Reinsurance – U.S.A.

3. Nuclear Energy Risks Exclusion Clause (Reinsurance) (1994) (Worldwide Excluding U.S.A. and Canada).

- B. Liability of the Company arising by contract, operation of law, or otherwise, from its participation or membership, whether voluntary or involuntary, in any Insolvency Fund. "Insolvency Fund" includes any guaranty fund, insolvency fund, plan, pool, association, fund or other arrangement, howsoever denominated, established or governed, that provides for any assessment of or payment or assumption by the Company of part or all of any claim, debt, charge, fee, or other obligation of an insurer, or its successors or assigns, that has been declared by any competent authority to be insolvent, or that is otherwise deemed unable to meet any claim, debt, charge, fee or other obligation in whole or in part.
- C. Loss or liability excluded by the attached Pools, Associations & Syndicates Exclusion Clause.
- D. Any loss resulting from an "Act of Terrorism," as defined herein, when the loss directly or indirectly involves a release of biological, chemical, radiological or nuclear materials.
- E. Any loss or damage which is occasioned by war, invasion, hostilities, acts of foreign enemies, civil war, rebellion, insurrection, military or usurped power, or martial law or confiscation by order of any government or public authority, but not excluding loss or damage which would be covered under a standard Policy form containing a standard war exclusion clause.
- F. Financial Guarantee and Insolvency.
- G. All treaty reinsurance assumed by the Company.
- H. Loss resulting from pollution, to the extent excluded under the Company's Policy involved in the loss.
- I. The perils of flood and earthquake when written on a stand-alone basis.
- J. Loss or liability in any way or to any extent arising out of the actual, alleged or threatened presence of fungi, including, but not limited to, mold, mildew, mycotoxins, microbial volatile organic compounds or other "microbial contamination." This includes:
  - 1. Any supervision, instruction, recommendations, warnings or advice given or which should have been given in connection with the above; and
  - 2. Any obligation to share damages with or repay someone else who must pay damages because of such injury or damage.

For purposes of this exclusion, "microbial contamination" means any contamination, either airborne or surface, which arises out of or is related to the presence of fungi, mold, mildew,

mycotoxins, microbial volatile organic compounds or spores, including, without limitation, Penicillium, Aspergillus, Fursarium, Aspergillus Flavus and Stachybotrys chartarum.

Losses resulting from the above causes are excluded hereunder unless arising out of one or more of the following perils, in which case this exclusion does not apply:

Fire, lightning, explosion, aircraft or vehicle impact, escape of water from appliances, falling objects, windstorm, hail, tornado, cyclone, hurricane, earthquake, volcano, flood, freeze or weight of snow.

- K. Aviation.
- L. Fidelity and Surety.
- M. Credit insurance.
- N. Title insurance.
- O. Any policy or policy endorsement written by the Company that is 100% reinsured to another company.
- P. Loss or liability excluded by the attached Communicable Disease Exclusion (Property Treaty Reinsurance).
- Q. Loss or liability excluded by the attached Cyber Loss Limited Exclusion Clause (Property Treaty Reinsurance) No. 1.

## **ARTICLE 8**

### **SPECIAL ACCEPTANCE**

Business that is not within the scope of this Contract may be submitted to Hannover Re Germany and Lloyd's Syndicate 2791 MAP (the "Lead Reinsurers") for special acceptance hereunder, and such business, if accepted by the Lead Reinsurers shall be covered hereunder, subject to the terms and conditions of this Contract, except as modified by the special acceptance. Any special acceptance agreed to by the Lead Reinsurers shall be binding on all Subscribing Reinsurers hereon. The Lead Reinsurers shall be deemed to have accepted a risk, if it has not responded within three business days after receiving the underwriting information on such risk. Any renewal of a special acceptance agreed to for a predecessor contract to this Contract shall automatically be covered hereunder.

## **ARTICLE 9**

### **PREMIUM**

[\*\*\*].

## **ARTICLE 10**

### **DEFINITIONS**

- A. The Company shall be the sole judge of what constitutes “one risk” for purposes of this Contract. It is understood and agreed that as respects HO-4 and HO-6 Policies the Company may combine the total insured values of all insured at a single location as “one risk”.
- B.
  - 1. “Ultimate Net Loss” means the actual loss paid by the Company or which the Company becomes liable to pay, such loss to include Loss Adjustment Expense, 90% of any Extra Contractual Obligation and 90% of any Loss in Excess of Policy Limits as defined in the Extra Contractual Obligations/Excess of Policy Limits Article. For the avoidance of doubt, the “Ultimate Net Loss” shall include loss arising from the Third Party Property Damage coverage provided under the HO-4 and HO-6 Policies consistent with the definition of “one risk” as outlined in under paragraph A above.
  - 2. Salvages and all recoveries (including amounts due from all reinsurances that inure to the benefit of this Contract, whether recovered or not), shall be first deducted from such loss to arrive at the amount of liability attaching hereunder.
  - 3. All salvages, recoveries or payments recovered or received subsequent to loss settlement hereunder shall be applied as if recovered or received prior to the aforesaid settlement, and all necessary adjustments shall be made by the parties hereto.

4. Notwithstanding the above, Loss Adjustment Expense incurred in obtaining salvages or recoveries, or in the reduction or reversal of any award or judgment, shall be apportioned between the Company and the Reinsurer in the proportion that each benefits from such salvage, recovery, reduction or reversal. However, if such expense exceeds the amount recovered, the expense shall be included in Ultimate Net Loss.
  5. The Company shall be deemed to be “liable to pay” a loss when a judgment has been rendered that the Company does not plan to appeal, and/or the Company has obtained a release, and/or the Company has accepted a proof of loss.
  6. Nothing in this clause shall be construed to mean that losses are not recoverable hereunder until the Company’s “Ultimate Net Loss” has been ascertained.
- C. “Loss Adjustment Expense” means costs and expenses incurred by the Company in connection with the investigation, appraisal, adjustment, settlement, litigation, defense or appeal of a specific claim or loss, or alleged loss, including but not limited to:
1. court costs;
  2. costs of supersedeas and appeal bonds;
  3. monitoring counsel expenses;
  4. legal expenses and costs incurred in connection with coverage questions and legal actions connected thereto, including but not limited to declaratory judgment actions;
  5. post-judgment interest;
  6. pre-judgment interest, unless included as part of an award or judgment;
  7. a pro rata share of salaries and expenses of Company employees, calculated in accordance with the time occupied in adjusting such loss, and expenses of other Company employees who have been temporarily diverted from their normal and customary duties and assigned to the adjustment of losses covered by this Contract; and
  8. subrogation, salvage and recovery expenses.
- “Loss Adjustment Expense” does not include salaries and expenses of the Company’s employees, except as provided in subparagraph (7) above, and office and other overhead expenses.
- D. “Policy” means any binder, policy, or contract of insurance or reinsurance issued, accepted or held covered provisionally or otherwise, by or on behalf of the Company.
- E. “Act(s) of Terrorism” shall be defined as in the Company’s original Policies or, if not defined therein, shall mean: the use of force or violence and/or the threat thereof

committed for political, religious, or ideological purposes and with the intention to influence any government and/or to put the public, or any section of the public, in fear.

- F. "Gross Net Earned Premium Income" means gross earned premium of the Company for the classes of business reinsured hereunder, less the earned portion of premiums ceded by the Company for reinsurance that inures to the benefit of this Contract.
- G 1. "Loss Occurrence" means the sum of all individual losses directly occasioned by any one disaster, accident or loss or series of disasters, accidents or losses arising out of one event. However, the duration and extent of any one "Loss Occurrence" shall be limited to all individual losses sustained by the Company occurring during any period of 168 consecutive hours arising out of and directly occasioned by the same event except that the term "Loss Occurrence" shall be further defined as follows:
- a. As regards windstorm, hail, tornado, hurricane, cyclone, including ensuing collapse and water damage, all individual losses sustained by the Company occurring during any period of 120 consecutive hours arising out of and directly occasioned by the same event.
  - b. As regards riot, riot attending a strike, civil commotion, vandalism and malicious mischief, all individual losses sustained by the Company occurring during any period of 72 consecutive hours arising out of and directly occasioned by the same event. The maximum duration of 72 consecutive hours may be extended in respect of individual losses which occur beyond such 72 consecutive hours during the continued occupation of an assured's premises by strikers, provided such occupation commenced during the aforesaid period.
  - c. As regards earthquake and fire following directly occasioned by the earthquake, those earthquake losses and individual fire losses that commence during the period of 168 consecutive hours may be included in the Company's "Loss Occurrence."
  - d. As regards "freeze," only individual losses directly occasioned by collapse, breakage of glass and water damage (caused by the freezing and/or melting of ice, snow or sleet, or bursting frozen pipes and tanks, but not water damage caused by flood or surface water) may be included in the Company's "Loss Occurrence."
  - e. As regards firestorms, brush fires and any other fires, irrespective of origin (except as provided in subparagraphs b and c above), which spread through trees, grassland or other vegetation, all individual losses sustained by the Company which occur during any period of 168 consecutive hours within a 150- mile radius of any fixed point selected by the Company may be included in the Company's "Loss Occurrence." However, an individual loss subject to this subparagraph cannot be included in more than one "Loss Occurrence."



2. The Company may choose the date and time when any such period of consecutive hours commences provided that it is not earlier than the date and time of the occurrence of the first recorded individual loss sustained by the Company arising out of that disaster, accident or loss.
3. Only one period of consecutive hours shall apply with respect to one event, except that, as respects those “Loss Occurrences” referred to in subparagraphs G.1.a. and G.1.b. above, if the disaster, accident or loss occasioned by the event is of greater duration than 120 or 72 consecutive hours, respectively, then the Company may divide that disaster, accident or loss into two or more “Loss Occurrences” provided no two periods overlap and no individual loss is included in more than one such period and provided that no period commences earlier than the date and time of the occurrence of the first recorded individual loss sustained by the Company arising out of that disaster, accident or loss.
4. Losses arising from a combination of two or more perils as a result of the same event shall be considered as having arisen from one “Loss Occurrence.” Notwithstanding the foregoing, the hourly limitations as stated above shall not be exceeded as respects the applicable perils, and no single “Loss Occurrence” shall encompass a time period greater than 168 consecutive hours.

## **ARTICLE 11**

### **EXTRA CONTRACTUAL OBLIGATIONS/EXCESS OF POLICY LIMITS**

- A. This Contract shall cover Extra Contractual Obligations, as provided in the definition of Ultimate Net Loss. “Extra Contractual Obligations” shall be defined as those liabilities not covered under any other provision of this Contract and that arise from the handling of any claim on business covered hereunder, such liabilities arising because of, but not limited to, the following: failure by the Company to settle within the Policy limit, or by reason of alleged or actual negligence, fraud or bad faith in rejecting an offer of settlement or in the preparation of the defense or in the trial of any action against its insured or reinsured or in the preparation or prosecution of an appeal consequent upon such action.
- B. This Contract shall cover Loss in Excess of Policy Limits, as provided in the definition of Ultimate Net Loss. “Loss in Excess of Policy Limits” shall be defined as Loss in excess of the Policy limit, having been incurred because of, but not limited to, failure by the Company to settle within the Policy limit or by reason of alleged or actual negligence, fraud or bad faith in rejecting an offer of settlement or in the preparation of the defense or in the trial of any action against its insured or reinsured or in the preparation or prosecution of an appeal consequent upon such action.
- C. An Extra Contractual Obligation and/or Loss in Excess of Policy Limits shall be deemed to have occurred on the same date as the loss covered under the Company’s Policy, and shall constitute part of the original loss.

- D. For the purposes of the Loss in Excess of Policy Limits coverage hereunder, the word “Loss” shall mean any amounts for which the Company would have been contractually liable to pay had it not been for the limit of the original Policy.
- E. Loss Adjustment Expense in respect of Extra Contractual Obligations and/or Loss in Excess of Policy Limits shall be covered hereunder in the same manner as other Loss Adjustment Expense.
- F. However, this Article shall not apply where the loss has been incurred due to final legal adjudication of fraud of a member of the Board of Directors or a corporate officer of the Company acting individually or collectively or in collusion with any individual or corporation or any other organization or party involved in the presentation, defense or settlement of any claim covered hereunder.
- G. In no event shall coverage be provided to the extent not permitted under law.

## **ARTICLE 12**

### **NET RETAINED LIABILITY**

- A. This Contract applies only to that portion of any loss that the Company retains net for its own account (prior to deduction of any reinsurance that inures solely to the benefit of the Company).
- B. The amount of the Reinsurer’s liability hereunder in respect of any loss or losses shall not be increased by reason of the inability of the Company to collect from any other reinsurer(s), whether specific or general, any amounts that may have become due from such reinsurer(s), whether such inability arises from the insolvency of such other reinsurer(s) or otherwise.

## **ARTICLE 13**

### **ORIGINAL CONDITIONS**

All reinsurance under this Contract shall be subject to the same terms, conditions, waivers and interpretations, and to the same modifications and alterations as the respective Policies of the Company. However, in no event shall this be construed in any way to provide coverage outside the terms and conditions set forth in this Contract.

## **ARTICLE 14**

### **NO THIRD PARTY RIGHTS**

This Contract is solely between the Company and the Reinsurer, and in no instance shall any insured, claimant or other third party have any rights under this Contract except as may be expressly provided otherwise herein.

## **ARTICLE 15**

### **NOTICE OF LOSS AND LOSS SETTLEMENTS**

- A. The Company shall advise the Reinsurer promptly of all losses that, in the opinion of the Company based upon its reasonable knowledge, may result in a claim hereunder and of all subsequent developments thereto that may materially affect the position of the Reinsurer.
- B. The Company alone and at its full discretion shall adjust, settle or compromise all claims and losses.
- C. As respects losses subject to this Contract, all loss settlements made by the Company, whether under strict Policy terms or by way of compromise, and any Extra Contractual Obligations and/or Loss in Excess of Policy Limits, shall be binding upon the Reinsurer, and the Reinsurer agrees to pay or allow, as the case may be, its share of each such settlement immediately upon receipt of proof of loss.

## **ARTICLE 16**

### **OFFSET**

Each party hereto shall have, and may exercise at any time and from time to time, the right to offset any and all balances due from a party to the other arising under this Contract. In the event of the insolvency of a party hereto, offsets shall only be allowed in accordance with the provisions of any applicable law governing offset entitlement.

## **ARTICLE 17**

### **CURRENCY**

- A. Where the word “Dollars” and/or the sign “\$” appear in this Contract, they shall mean United States Dollars, and all payments hereunder shall be in United States Dollars.
- B. For purposes of this Contract, where the Company receives premiums or pays losses in currencies other than United States Dollars, such premiums or losses shall be converted into United States Dollars at the actual rates of exchange at which these premiums or losses are entered in the Company’s books.

## **ARTICLE 18**

### **UNAUTHORIZED REINSURANCE**

- A. This Article applies:
  - 1. only to the extent a Subscribing Reinsurer does not qualify for credit with any insurance regulatory authority having jurisdiction over the Company’s reserves, or

2. to a Subscribing Reinsurer qualified as a reciprocal jurisdiction reinsurer with any such insurance regulatory authority in the event such Subscribing Reinsurer resists enforcement of a final judgment that is enforceable under the law of the jurisdiction in which it was obtained or a properly enforceable arbitration or arbitral award obtained by the Company or any legal successor, in which case such Subscribing Reinsurer shall fund 100% of its share of the Reinsurer's Obligations as hereinafter provided.
- B. The Company agrees, in respect of its Policies or bonds falling within the scope of this Contract, that when it files with its insurance regulatory authority, or sets up on its books liabilities as required by law, it shall forward to the Reinsurer a statement showing the proportion of such liabilities applicable to the Reinsurer. The "Reinsurer's Obligations" shall be defined as follows:
1. unearned premium (if applicable);
  2. known outstanding losses that have been reported to the Reinsurer and Loss Adjustment Expense relating thereto;
  3. losses and Loss Adjustment Expense paid by the Company but not recovered from the Reinsurer;
  4. losses incurred but not reported and Loss Adjustment Expense relating thereto;
  5. all other amounts for which the Company cannot take credit on its financial statements unless funding is provided by the Reinsurer.
- C. The Reinsurer's Obligations shall be funded by funds withheld, cash advances, Trust Agreement or a Letter of Credit (LOC). The Reinsurer shall have the option of determining the method of funding provided it is acceptable to the insurance regulatory authorities having jurisdiction over the Company's reserves.
- D. When funding by Trust Agreement, the Reinsurer shall ensure that the Trust Agreement complies with the provisions of the "Trust Agreement Requirements Clause" attached hereto. When funding by an LOC, the Reinsurer agrees to apply for and secure timely delivery to the Company of a clean, irrevocable and unconditional LOC issued by a bank and containing provisions acceptable to the insurance regulatory authorities having jurisdiction over the Company's reserves in an amount equal to the Reinsurer's Obligations. Such LOC shall be issued for a period of not less than one year, and shall be automatically extended for one year from its date of expiration or any future expiration date unless 30 days (or such other time period as may be required by insurance regulatory authorities), prior to any expiration date the issuing bank shall notify the Company by certified or registered mail that the issuing bank elects not to consider the LOC extended for any additional period.
- E. The Reinsurer and the Company agree that any funding provided by the Reinsurer pursuant to the provisions of this Contract may be drawn upon at any time, notwithstanding any

other provision of this Contract, and be utilized by the Company or any successor, by operation of law, of the Company including, without limitation, any liquidator, rehabilitator, receiver or conservator of the Company, for the following purposes, unless otherwise provided for in a separate Trust Agreement:

1. to reimburse the Company for the Reinsurer's Obligations, the payment of which is due under the terms of this Contract and that has not been otherwise paid;
  2. to make refund of any sum that is in excess of the actual amount required to pay the Reinsurer's Obligations under this Contract (or in excess of 102% of the Reinsurer's Obligations, if funding is provided by a Trust Agreement);
  3. to fund an account with the Company for the Reinsurer's Obligations. Such cash deposit shall be held in an interest bearing account separate from the Company's other assets, and interest thereon not in excess of the prime rate shall accrue to the benefit of the Reinsurer. Any taxes payable on accrued interest shall be paid out of the assets in the account that are in excess of the Reinsurer's Obligations (or in excess of 102% of the Reinsurer's Obligations, if funding is provided by a Trust Agreement). If the assets are inadequate to pay taxes, any taxes due shall be paid or reimbursed by the Reinsurer;
  4. to pay the Reinsurer's share of any other amounts the Company claims are due under this Contract.
- F. If the amount drawn by the Company is in excess of the actual amount required for paragraphs E(1) or E(3) above, or in the case of paragraph E(4) above, the actual amount determined to be due, the Company shall promptly return to the Reinsurer the excess amount so drawn. All of the foregoing shall be applied without diminution because of insolvency on the part of the Company or the Reinsurer.
- G. The issuing bank shall have no responsibility whatsoever in connection with the propriety of withdrawals made by the Company or the disposition of funds withdrawn, except to ensure that withdrawals are made only upon the order of properly authorized representatives of the Company.
- H. At annual intervals, or more frequently at the discretion of the Company, but never more frequently than quarterly, the Company shall prepare a specific statement of the Reinsurer's Obligations for the sole purpose of amending the LOC or other method of funding, in the following manner:
1. If the statement shows that the Reinsurer's Obligations exceed the balance of the LOC as of the statement date, the Reinsurer shall, within 30 days after receipt of the statement, secure delivery to the Company of an amendment to the LOC increasing the amount of credit by the amount of such difference. Should another method of funding be used, the Reinsurer shall, within the time period outlined above, increase such funding by the amount of such difference.

2. If, however, the statement shows that the Reinsurer's Obligations are less than the balance of the LOC (or that 102% of the Reinsurer's Obligations are less than the trust account balance if funding is provided by a Trust Agreement), as of the statement date, the Company shall, within 30 days after receipt of written request from the Reinsurer, release such excess credit by agreeing to secure an amendment to the LOC reducing the amount of credit available by the amount of such excess credit. Should another method of funding be used, the Company shall, within the time period outlined above, decrease such funding by the amount of such excess.

## **ARTICLE 19**

### **TAXES**

- A. In consideration of the terms under which this Contract is issued, the Company undertakes not to claim any deduction of the premium hereon when making Canadian tax returns or when making tax returns, other than Income or Profits Tax returns, to any state or territory of the United States of America or to the District of Columbia.
- B.
  1. Each Subscribing Reinsurer has agreed to allow, for the purpose of paying the Federal Excise Tax, the applicable percentage of the premium payable hereon (as imposed under the Internal Revenue Code) to the extent such premium is subject to Federal Excise Tax.
  2. In the event of any return of premium becoming due hereunder, the Subscribing Reinsurer shall deduct the applicable percentage of the premium from the amount of the return, and the Company or its agent should take steps to recover the Tax from the U.S. Government.

## **ARTICLE 20**

### **ACCESS TO RECORDS**

- A. The Reinsurer or its duly authorized representatives shall have the right to visit the offices of the Company to inspect, examine, audit, and verify any of the policy, accounting or claim files ("Records") relating to business reinsured under this Contract during regular business hours after giving five working days' prior notice. This right shall be exercisable during the term of this Contract or after the expiration of this Contract. Notwithstanding the above, the Reinsurer shall not have any right of access to the Records of the Company if it is not current in all undisputed payments due the Company.
- B. Notwithstanding the above, the Company reserves the right to withhold from the Reinsurer any Privileged Documents. However, the Company shall permit and not object to the Reinsurer's access to Privileged Documents in connection with the underlying claim reinsured hereunder following final settlement or final adjudication of the case or cases involving such claim, with prejudice against all claimants and all parties to such

adjudications; the Company may defer release of such Privileged Documents if there are subrogation, contribution, or other third party actions with respect to that claim or case, and the Company's defense might be jeopardized by release of such Privileged Documents. In the event that the Company seeks to defer release of such Privileged Documents, it shall, in consultation with the Reinsurer, take other steps as reasonably necessary to provide the Reinsurer with the information it reasonably requires to indemnify the Company without causing a loss of such privileges or protections. The Reinsurer shall not have access to Privileged Documents relating to any dispute between the Company and the Reinsurer.

C. For purposes of this Article:

1. "Privileged Documents" means any documents that are Attorney-Client Privilege Documents and/or Work Product Privilege Documents.
2. "Attorney-Client Privilege Documents" means communications of a confidential nature between (a) the Company, or anyone retained by or at the direction of the Company, or its in-house or outside legal counsel, or anyone in the control of such legal counsel, and (b) any in-house or outside legal counsel, if such communications relate to legal advice being sought by the Company and/or contain legal advice being provided to the Company.
3. "Work Product Privilege Documents" means communications, written materials and tangible things prepared by or for in-house or outside counsel, or prepared by or for the Company, in anticipation of or in connection with litigation, arbitration, or other dispute resolution proceedings.

## **ARTICLE 21**

### **CONFIDENTIALITY**

- A. The Reinsurer hereby acknowledges that the documents, information and data provided to it by the Company, whether directly or through an authorized agent, in connection with the placement and execution of this Contract ("Confidential Information") are proprietary and confidential to the Company. Confidential Information shall not include documents, information or data that the Reinsurer can show:
1. are publicly known or have become publicly known through no unauthorized act of the Reinsurer;
  2. have been rightfully received from a third person without obligation of confidentiality; or
  3. were known by the Reinsurer prior to the placement of this Contract without an obligation of confidentiality.

- B. Absent the written consent of the Company, the Reinsurer shall not disclose any Confidential Information to any third parties, except:
1. when required by retrocessionaires as respects business ceded to this Contract;
  2. when required by regulators performing an audit of the Reinsurer's records and/or financial condition; or
  3. when required by external auditors performing an audit of the Reinsurer's records in the normal course of business.
- Further, the Reinsurer agrees not to use any Confidential Information for any purpose not related to the performance of its obligations or enforcement of its rights under this Contract.
- C. Notwithstanding the above, in the event that the Reinsurer is required by court order, other legal process or any regulatory authority to release or disclose any or all of the Confidential Information, the Reinsurer agrees to provide the Company with written notice of same at least 10 days prior to such release or disclosure and to use its best efforts to assist the Company in maintaining the confidentiality provided for in this Article.
- D. The provisions of this Article shall extend to the officers, directors and employees of the Reinsurer and its affiliates, and shall be binding upon their successors and assigns.
- E. Notwithstanding the above, this Confidentiality Article and the Access to Records Article of this Contract shall comply with the confidentiality and non-disclosure agreement previously signed by the Company and the Reinsurer (the "NDA"). The provisions of the NDA shall prevail in the event of conflict between the provisions of this Contract and the provisions of the NDA.

## **ARTICLE 22**

### **INDEMNIFICATION AND ERRORS AND OMISSIONS**

- A. The Reinsurer is reinsuring, subject to the terms and conditions of this Contract, the obligations of the Company under any Policy. The Company shall be the sole judge as to:
1. what shall constitute a claim or loss covered under any Policy;
  2. the Company's liability thereunder;
  3. the amount or amounts that it shall be proper for the Company to pay thereunder.
- B. The Reinsurer shall be bound by the judgment of the Company as to the obligation(s) and liability(ies) of the Company under any Policy.



- C. Any inadvertent error, omission or delay in complying with the terms and conditions of this Contract shall not be held to relieve either party hereto from any liability that would attach to it hereunder if such error, omission or delay had not been made, provided such error, omission or delay is rectified immediately upon discovery.

## **ARTICLE 23**

### **INSOLVENCY**

- A. If more than one reinsured company is referenced within the definition of “Company” in the Preamble to this Contract, this Article shall apply severally to each such company. Further, this Article and the laws of the domiciliary location shall apply in the event of the insolvency of any company covered hereunder. In the event of a conflict between any provision of this Article and the laws of the domiciliary location of any company covered hereunder, that domiciliary location’s laws shall prevail.
- B. In the event of the insolvency of the Company, this reinsurance (or the portion of any risk or obligation assumed by the Reinsurer, if required by applicable law) shall be payable directly to the Company, or to its liquidator, receiver, conservator or statutory successor, either: (1) on the basis of the liability of the Company, or (2) on the basis of claims filed and allowed in the liquidation proceeding, whichever may be required by applicable statute, without diminution because of the insolvency of the Company or because the liquidator, receiver, conservator or statutory successor of the Company has failed to pay all or a portion of any claim. It is agreed, however, that the liquidator, receiver, conservator or statutory successor of the Company shall give written notice to the Reinsurer of the pendency of a claim against the Company indicating the Policy or bond reinsured, which claim would involve a possible liability on the part of the Reinsurer within a reasonable time after such claim is filed in the conservation or liquidation proceeding or in the receivership, and that during the pendency of such claim, the Reinsurer may investigate such claim and interpose, at its own expense, in the proceeding where such claim is to be adjudicated any defense or defenses that it may deem available to the Company or its liquidator, receiver, conservator or statutory successor. The expense thus incurred by the Reinsurer shall be chargeable, subject to the approval of the court, against the Company as part of the expense of conservation or liquidation to the extent of a pro rata share of the benefit that may accrue to the Company solely as a result of the defense undertaken by the Reinsurer.
- C. Where two or more reinsurers are involved in the same claim and a majority in interest elect to interpose defense to such claim, the expense shall be apportioned in accordance with the terms of this reinsurance Contract as though such expense had been incurred by the Company.
- D. As to all reinsurance made, ceded, renewed or otherwise becoming effective under this Contract, the reinsurance shall be payable as set forth above by the Reinsurer to the Company or to its liquidator, receiver, conservator or statutory successor, (except as

provided by Section 4118(a)(1)(A) of the New York Insurance Law, provided the conditions of 1114(c) of such law have been met, if New York law applies) or except

(1) where the Contract specifically provides another payee in the event of the insolvency of the Company, or (2) where the Reinsurer, with the consent of the direct insured or insureds, has assumed such Policy obligations of the Company as direct obligations of the Reinsurer to the payees under such Policies and in substitution for the obligations of the Company to such payees. Then, and in that event only, the Company, with the prior approval of the certificate of assumption on New York risks by the Superintendent of Financial Services of the State of New York, or with the prior approval of such other regulatory authority as may be applicable, is entirely released from its obligation and the Reinsurer shall pay any loss directly to payees under such Policy.

## ARTICLE 24

### ARBITRATION

- A. Any dispute arising out of the interpretation, performance or breach of this Contract, including the formation or validity thereof, shall be submitted for decision to a panel of three arbitrators. Notice requesting arbitration shall be in writing and sent certified or registered mail, return receipt requested.
- B. One arbitrator shall be chosen by each party and the two arbitrators shall then choose an impartial third arbitrator who shall preside at the hearing. If either party fails to appoint its arbitrator within 30 days after being requested to do so by the other party, the latter, after 10 days' prior notice by certified or registered mail of its intention to do so, may appoint the second arbitrator.
- C. If the two arbitrators do not agree on a third arbitrator within 60 days of their appointment, the third arbitrator shall be chosen in accordance with the procedures for selecting the third arbitrator in force on the date the arbitration is demanded, established by the AIDA Reinsurance and Insurance Arbitration Society – U.S. (ARIAS). The members of the arbitration panel will be impartial, disinterested, and not currently representing any party participating in the arbitration, and will be current or former senior officers of insurance or reinsurance concerns, experienced in the line(s) of business that are the subject of this Contract. If a member of the panel dies, becomes disabled or is otherwise unwilling or unable to serve, a substitute shall be selected in the same manner as the departing member was chosen and the arbitration shall continue.
- D. Within 30 days after all arbitrators have been appointed, the panel shall meet and determine timely periods for briefs, discovery procedures and schedules of hearings.
- E. The panel shall be relieved of all judicial formality and shall not be bound by the strict rules of procedure and evidence. Notwithstanding anything to the contrary in this Contract, the arbitrators may at their discretion, consider underwriting and placement information provided by the Company to the Reinsurer, as well as any correspondence exchanged by

the parties that is related to this Contract. The arbitration shall take place in New York, or at such other place as the parties shall agree. The decision of any two arbitrators shall be in writing and shall be final and binding. The panel is empowered to grant interim relief as it may deem appropriate.

- F. The panel shall interpret this Contract as an honorable engagement rather than as merely a legal obligation and shall make its decision considering the custom and practice of the applicable insurance and reinsurance business as promptly as possible after the hearings. Judgment upon an award may be entered in any court having jurisdiction thereof.
- G. Each party shall bear the expense of its own arbitrator and shall jointly and equally bear with the other party the cost of the third arbitrator. The remaining costs of the arbitration shall be allocated by the panel. The panel may, at its discretion, award such further costs and expenses as it considers appropriate, including but not limited to attorneys' fees, to the extent permitted by law.

## **ARTICLE 25**

### **SERVICE OF SUIT**

- A. This Article applies only to those Subscribing Reinsurers not domiciled in the United States of America, and/or not authorized in any state, territory and/or district of the United States of America where authorization is required by insurance regulatory authorities.
- B. This Article shall not be read to conflict with or override the obligations of the parties to arbitrate their disputes as provided for in the Arbitration Article. This Article is intended as an aid to compelling arbitration or enforcing such arbitration or arbitral award, not as an alternative to the Arbitration Article for resolving disputes arising out of this Contract.
- C. In the event of the failure of the Reinsurer to perform its obligations hereunder, the Reinsurer, at the request of the Company, shall submit to the jurisdiction of a court of competent jurisdiction within the United States. Nothing in this Article constitutes or should be understood to constitute a waiver of the Reinsurer's rights to commence an action in any court of competent jurisdiction in the United States, to remove an action to a United States District Court, or to seek a transfer of a case to another court as permitted by the laws of the United States or of any state in the United States. The Reinsurer, once the appropriate court is selected, whether such court is the one originally chosen by the Company and accepted by the Reinsurer or is determined by removal, transfer, or otherwise, as provided for above, shall comply with all requirements necessary to give said court jurisdiction and, in any suit instituted against the Reinsurer upon this Contract, shall abide by the final decision of such court or of any appellate court in the event of an appeal.

D. Service of process in such suit may be made upon:

1. as respects Underwriting Members of Lloyd's, London: Lloyd's America, Inc., Attention: Legal Department, 280 Park Avenue, East Tower, 25<sup>th</sup> Floor, New York, New York 10017;
2. as respects any other Subscribing Reinsurer: Messrs. Mendes and Mount, 750 Seventh Avenue, New York, New York 10019-6829, or another party specifically designated in the Subscribing Reinsurer's Interests and Liabilities Agreement attached hereto.

The above-named are authorized and directed to accept service of process on behalf of the Reinsurer in any such suit.

- E. Further, pursuant to any statute of any state, territory or district of the United States that makes provision therefor, the Reinsurer hereby designates the Superintendent, Commissioner or Director of Insurance, or other officer specified for that purpose in the statute, or his successor or successors in office, as its true and lawful attorney upon whom may be served any lawful process in any action, suit or proceeding instituted by or on behalf of the Company or any beneficiary hereunder arising out of this Contract, and hereby designates the above-named as the person to whom the said officer is authorized to mail such process or a true copy thereof.

#### **ARTICLE 26**

#### **SEVERABILITY**

If any provision of this Contract shall be rendered illegal or unenforceable by the laws, regulations or public policy of any state, such provision shall be considered void in such state, but this shall not affect the validity or enforceability of any other provision of this Contract or the enforceability of such provision in any other jurisdiction.

#### **ARTICLE 27**

#### **GOVERNING LAW**

This Contract shall be governed as to performance, administration and interpretation by the laws of the State of New York, exclusive of conflict of law rules. However, with respect to credit for reinsurance, the rules of all applicable states shall apply.

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## **ARTICLE 28**

### **ENTIRE AGREEMENT**

This Contract, together with the Non Disclosure Agreement with the Reinsurer, sets forth all of the duties and obligations between the Company and the Reinsurer and supersedes any and all prior or contemporaneous written agreements with respect to matters referred to in this Contract. This Contract may not be modified or changed except by an amendment to this Contract in writing signed by both parties. However, this Article shall not be construed as limiting the admissibility of evidence regarding the formation, interpretation, purpose or intent of this Contract.

## **ARTICLE 29**

### **NON-WAIVER**

The failure of the Company or the Reinsurer to insist on compliance with this Contract or to exercise any right or remedy hereunder shall not constitute a waiver of any rights contained in this Contract nor prevent either party from thereafter demanding full and complete compliance nor prevent either party from exercising such remedy in the future.

## **ARTICLE 30**

### **AGENCY AGREEMENT**

For purposes of sending and receiving notices and payments required by this Contract, Lemonade Insurance Company shall be deemed the agent of all other reinsured companies referenced in this Contract. In no event, however, shall any reinsured company be deemed the agent of another with respect to the terms of the Insolvency Article.

## **ARTICLE 31**

### **INTERMEDIARY**

Guy Carpenter & Company, LLC, is hereby recognized as the Intermediary negotiating this Contract for all business hereunder. All communications (including notices, statements, premiums, return premiums, commissions, taxes, losses, Loss Adjustment Expenses, salvages, and loss settlements) relating thereto shall be transmitted to the Company or the Reinsurer through the Intermediary. Payments by the Company to the Intermediary shall be deemed payment to the Reinsurer. Payments by the Reinsurer to the Intermediary shall be deemed payment to the Company only to the extent that such payments are actually received by the Company.

## ARTICLE 32

### MODE OF EXECUTION

- A. This Contract may be executed by:
1. an original written ink signature of paper documents;
  2. an exchange of facsimile copies showing the original written ink signature of paper documents;
  3. electronic signature technology employing computer software and a digital signature or digitizer pen pad to capture a person's handwritten signature in such a manner that the signature is unique to the person signing, is under the sole control of the person signing, is capable of verification to authenticate the signature and is linked to the document signed in such a manner that if the data is changed, such signature is invalidated.
- B. The use of any one or a combination of these methods of execution shall constitute a legally binding and valid signing of this Contract. This Contract may be executed in one or more counterparts, each of which, when duly executed, shall be deemed an original.

**IN WITNESS WHEREOF**, the Company has caused this Contract to be executed by its duly authorized representative(s), who also confirms the Company's review of and agreement to be bound by the terms and conditions of the Interests and Liabilities Agreements attached to and forming part of this Contract,

Signed this 2nd day of August, in the year of 2022.

**LEMONADE INSURANCE COMPANY**

including any and/or all companies that are or may hereafter become affiliated therewith

By: /s/ Daniel Schreiber Title: President/CEO

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and signed this 2<sup>nd</sup> day of August, in the year of 2022.

**LEMONADE INSURANCE N.V.**

including any and/or all companies that are or may hereafter become affiliated therewith

By: /s/ Daniel Schreiber Title: CEO

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**PROPERTY PER RISK EXCESS OF LOSS REINSURANCE CONTRACT**

#### **NUCLEAR INCIDENT EXCLUSION CLAUSE - PHYSICAL DAMAGE - REINSURANCE - U.S.A.**

1. This Reinsurance does not cover any loss or liability accruing to the Reassured, directly or indirectly, and whether as Insurer or Reinsurer, from any Pool of Insurers or Reinsurers formed for the purpose of covering Atomic or Nuclear Energy risks.
2. Without in any way restricting the operation of paragraph (1) of this clause, this Reinsurance does not cover any loss or liability accruing to the Reassured, directly or indirectly and whether as Insurer or Reinsurer, from any insurance against Physical Damage (including business interruption or consequential loss arising out of such Physical Damage) to:
  - I. Nuclear reactor power plants including all auxiliary property on the site, or
  - II. Any other nuclear reactor installation, including laboratories handling radioactive materials in connection with reactor installations, and “critical facilities” as such, or
  - III. Installations for fabricating complete fuel elements or for processing substantial quantities of “special nuclear material”, and for reprocessing, salvaging, chemically separating, storing or disposing of “spent” nuclear fuel or waste materials, or
  - IV. Installations other than those listed in paragraph (2) III above using substantial quantities of radioactive isotopes or other products of nuclear fission.
3. Without in any way restricting the operations of paragraphs (1) and (2) hereof, this Reinsurance does not cover any loss or liability by radioactive contamination accruing to the Reassured, directly or indirectly, and whether as Insurer or Reinsurer, from any insurance on property which is on the same site as a nuclear reactor power plant or other nuclear installation and which normally would be insured therewith except that this paragraph (3) shall not operate
  - (a) where Reassured does not have knowledge of such nuclear reactor power plant or nuclear installation, or
  - (b) where said insurance contains a provision excluding coverage for damage to property caused by or resulting from radioactive contamination, however caused. However on and after 1st January 1960 this sub-paragraph (b) shall only apply provided the said radioactive contamination exclusion provision has been approved by the Governmental Authority having jurisdiction thereof.
4. Without in any way restricting the operations of paragraphs (1), (2) and (3) hereof, this Reinsurance does not cover any loss or liability by radioactive contamination accruing to the Reassured, directly or indirectly, and whether as Insurer or Reinsurer, when such radioactive contamination is a named hazard specifically insured against.



5. It is understood and agreed that this clause shall not extend to risks using radioactive isotopes in any form where the nuclear exposure is not considered by the Reassured to be the primary hazard.
6. The term “special nuclear material” shall have the meaning given it in the Atomic Energy Act of 1954 or by any law amendatory thereof.
7. Reassured to be sole judge of what constitutes:
  - (a) substantial quantities, and
  - (b) the extent of installation, plant or site.

*Note:* Without in any way restricting the operation of paragraph (1) hereof, it is understood and agreed that

- (a) all policies issued by the Reassured on or before 31st December 1957 shall be free from the application of the other provisions of this Clause until expiry date or 31st December 1960 whichever first occurs whereupon all the provisions of this Clause shall apply.
- (b) with respect to any risk located in Canada policies issued by the Reassured on or before 31st December 1958 shall be free from the application of the other provisions of this Clause until expiry date or 31st December 1960 whichever first occurs whereupon all the provisions of this Clause shall apply.

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NOTES: Wherever used herein the terms:

“Reassured” shall be understood to mean “Company”, “Reinsured”, “Reassured” or whatever other term is used in the attached reinsurance document to designate the reinsured company or companies.

“Agreement” shall be understood to mean “Agreement”, “Contract”, “Policy” or whatever other term is used to designate the attached reinsurance document.

“Reinsurers” shall be understood to mean “Reinsurers”, “Underwriters” or whatever other term is used in the attached reinsurance document to designate the reinsurer or reinsurers.

## NUCLEAR INCIDENT EXCLUSION CLAUSE - LIABILITY - REINSURANCE - U.S.A.

- (1) This reinsurance does not cover any loss or liability accruing to the Reassured as a member of, or subscriber to, any association of insurers or reinsurers formed for the purpose of covering nuclear energy risks or as a direct or indirect reinsurer of any such member, subscriber or association.
- (2) Without in any way restricting the operation of paragraph (1) of this Clause it is understood and agreed that for all purposes of this reinsurance all the original policies of the Reassured (new, renewal and replacement) of the classes specified in Clause II of this paragraph (2) from the time specified in Clause III in this paragraph (2) shall be deemed to include the following provision (specified as the Limited Exclusion Provision):

### **Limited Exclusion Provision.\***

- I. It is agreed that the policy does not apply under any liability coverage, to

*injury, sickness, disease, death or destruction*

bodily injury or property damage

with respect to which an insured under the policy is also an insured under a nuclear energy liability policy issued by Nuclear Energy Liability Insurance Association, Mutual Atomic Energy Liability Underwriters or Nuclear Insurance Association of Canada, or would be an insured under any such policy but for its termination upon exhaustion of its limit of liability.

- II. Family Automobile Policies (liability only), Special Automobile Policies (private passenger automobiles, liability only), Farmers Comprehensive Personal Liability Policies (liability only), Comprehensive Personal Liability Policies (liability only) or policies of a similar nature; and the liability portion of combination forms related to the four classes of policies stated above, such as the Comprehensive Dwelling Policy and the applicable types of Homeowners Policies.

- III. The inception dates and thereafter of all original policies as described in II above, whether new, renewal or replacement, being policies which either

(a) become effective on or after 1st May, 1960, or

(b) become effective before that date and contain the Limited Exclusion Provision set out above;

provided this paragraph (2) shall not be applicable to Family Automobile Policies, Special Automobile Policies, or policies or combination policies of a similar nature, issued by the Reassured on New York risks, until 90 days following approval of the Limited Exclusion Provision by the Governmental Authority having jurisdiction thereof.

- (3) Except for those classes of policies specified in Clause II of paragraph (2) and without in any way restricting the operation of paragraph (1) of this Clause, it is understood and agreed that for all purposes of this reinsurance the original liability policies of the Reassured (new, renewal and replacement) affording the following coverages:

Owners, Landlords and Tenants Liability, Contractual Liability, Elevator Liability, Owners or Contractors (including railroad) Protective Liability, Manufacturers and Contractors Liability, Product Liability, Professional and Malpractice Liability, Storekeepers Liability, Garage Liability, Automobile Liability (including Massachusetts Motor Vehicle or Garage Liability)

shall be deemed to include, with respect to such coverages, from the time specified in Clause V of this paragraph (3), the following provision (specified as the Broad Exclusion Provision):

**Broad Exclusion Provision.\***

It is agreed that the policy does not apply:

I. Under any Liability Coverage, to

*injury, sickness, disease, death or destruction*

bodily injury or property damage

- (a) with respect to which an insured under the policy is also an insured under a nuclear energy liability policy issued by Nuclear Energy Liability Insurance Association, Mutual Atomic Energy Liability Underwriters or Nuclear Insurance Association of Canada, or would be an insured under any such policy but for its termination upon exhaustion of its limit of liability; or
- (b) resulting from the hazardous properties of nuclear material and with respect to which (1) any person or organization is required to maintain financial protection pursuant to the Atomic Energy Act of 1954, or any law amendatory thereof, or  
(2) the insured is, or had this policy not been issued would be, entitled to indemnity from the United States of America, or any agency thereof, under any agreement entered into by the United States of America, or any agency thereof, with any person or organization.

II. Under any Medical Payments Coverage, or under any Supplementary Payments Provision relating to

*immediate medical or surgical relief*

first aid,

to expenses incurred with respect to

*bodily injury, sickness, disease or death*

bodily injury

resulting from the hazardous properties of nuclear material and arising out of the operation of a nuclear facility by any person or organization.

III. Under any Liability Coverage, to

*injury, sickness, disease, death or destruction*

bodily injury or property damage

resulting from the hazardous properties of nuclear material, if

- (a) the nuclear material (1) is at any nuclear facility owned by, or operated by or on behalf of, an insured or (2) has been discharged or dispersed therefrom;
- (b) the nuclear material is contained in spent fuel or waste at any time possessed, handled, used, processed, stored, transported or disposed of by or on behalf of an insured; or
- (c) the

*injury, sickness, disease, death or destruction*

bodily injury or property damage

arises out of the furnishing by an insured of services, materials, parts or equipment in connection with the planning, construction, maintenance, operation or use of any nuclear facility, but if such facility is located within the United States of America, its territories or possessions or Canada, this exclusion

(c) applies only to

*injury to or destruction of property at such nuclear facility.*

property damage to such nuclear facility and any property thereat.

IV. As used in this endorsement:

“**hazardous properties**” include radioactive, toxic or explosive properties; “**nuclear material**” means source material, special nuclear material or byproduct material; “**source material**”, “**special nuclear material**”, and “**byproduct material**” have the

meanings given them in the Atomic Energy Act of 1954 or in any law amendatory thereof; “**spent fuel**” means any fuel element or fuel component, solid or liquid, which has been used or exposed to radiation in a nuclear reactor; “**waste**” means any waste material (1) containing byproduct material other than the tailings or wastes produced by the extraction or concentration of uranium or thorium from any ore processed primarily for its source material content and (2) resulting from the operation by any person or organization of any nuclear facility included under the first two paragraphs of the definition of nuclear facility; “**nuclear facility**” means

- (a) any nuclear reactor,
- (b) any equipment or device designed or used for (1) separating the isotopes of uranium or plutonium, (2) processing or utilizing spent fuel, or (3) handling, processing or packaging waste,
- (c) any equipment or device used for the processing, fabricating or alloying of special nuclear material if at any time the total amount of such material in the custody of the insured at the premises where such equipment or device is located consists of or contains more than 25 grams of plutonium or uranium 233 or any combination thereof, or more than 250 grams of uranium 235,
- (d) any structure, basin, excavation, premises or place prepared or used for the storage or disposal of waste,

and includes the site on which any of the foregoing is located, all operations conducted on such site and all premises used for such operations; “**nuclear reactor**” means any apparatus designed or used to sustain nuclear fission in a self-supporting chain reaction or to contain a critical mass of fissionable material;

*With respect to injury to or destruction of property, the word “injury” or “destruction” includes all forms of radioactive contamination of property. “property damage” includes all forms of radioactive contamination of property.*

- V. The inception dates and thereafter of all original policies affording coverages specified in this paragraph (3), whether new, renewal or replacement, being policies which become effective on or after 1st May, 1960, provided this paragraph (3) shall not be applicable to

- (i) Garage and Automobile Policies issued by the Reassured on New York risks, or
- (ii) statutory liability insurance required under Chapter 90, General Laws of Massachusetts,

until 90 days following approval of the Broad Exclusion Provision by the Governmental Authority having jurisdiction thereof.

- (4) Without in any way restricting the operation of paragraph (1) of this Clause, it is understood and agreed that paragraphs (2) and (3) above are not applicable to original liability policies of the Reassured in Canada and that with respect to such policies this Clause shall be deemed to include the Nuclear Energy Liability Exclusion Provisions adopted by the Canadian Underwriters' Association or the Independent Insurance Conference of Canada.

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**\*NOTE. The words printed in italics in the Limited Exclusion Provision and in the Broad Exclusion Provision shall apply only in relation to original liability policies which include a Limited Exclusion Provision or a Broad Exclusion Provision containing those words.**

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NOTES: Wherever used herein the terms:

“Reassured” shall be understood to mean “Company”, “Reinsured”, “Reassured” or whatever other term is used in the attached reinsurance document to designate the reinsured company or companies.

“Agreement” shall be understood to mean “Agreement”, “Contract”, “Policy” or whatever other term is used to designate the attached reinsurance document.

“Reinsurers” shall be understood to mean “Reinsurers”, “Underwriters” or whatever other term is used in the attached reinsurance document to designate the reinsurer or reinsurers.

21/9/67  
NMA 1590 (amended)

**NUCLEAR ENERGY RISKS EXCLUSION CLAUSE (REINSURANCE) (1994) (WORLDWIDE EXCLUDING U.S.A. AND CANADA)**

This Agreement shall exclude Nuclear Energy Risks whether such risks are written directly and/or by way of reinsurance and/or via Pools and/or Associations.

For all purposes of this Agreement Nuclear Energy Risks shall mean all first party and/or third party insurances or reinsurances (other than Workers' Compensation and Employers' Liability) in respect of:

- (I) All Property on the site of a nuclear power station.  
Nuclear Reactors, reactor buildings and plant and equipment therein on any site other than a nuclear power station.
- (II) All Property, on any site (including but not limited to the sites referred to in (I) above) used or having been used for:
  - (a) the generation of nuclear energy; or
  - (b) the Production, Use or Storage of Nuclear Material.
- (III) Any other Property eligible for insurance by the relevant local Nuclear Insurance Pool and/or Association but only to the extent of the requirements of that local Pool and/or Association.
- (IV) The supply of goods and services to any of the sites, described in (I) to (III) above, unless such insurances or reinsurances shall exclude the perils of irradiation and contamination by Nuclear Material.

Except as undernoted, Nuclear Energy Risks shall not include:

- (i) Any insurance or reinsurance in respect of the construction or erection or installation or replacement or repair or maintenance or decommissioning of Property as described in (I) to (III) above (including contractors' plant and equipment);
- (ii) Any Machinery Breakdown or other Engineering insurance or reinsurance not coming within the scope of (i) above.

Provided always that such insurance or reinsurance shall exclude the perils of irradiation and contamination by Nuclear Material.

However, the above exemption shall not extend to:

- (1) The provision of any insurance or reinsurance whatsoever in respect of:

- (a) Nuclear Material;
  - (b) Any Property in the High Radioactivity Zone or Area of any Nuclear Installation as from the introduction of Nuclear Material or - for reactor installations - as from fuel loading or first criticality where so agreed with the relevant local Nuclear Insurance Pool and/or Association.
- (2) The provision of any insurance or reinsurance for the undernoted perils:
- fire, lightning, explosion;
  - earthquake;
  - aircraft and other aerial devices or
  - articles dropped therefrom;
  - irradiation and radioactive contamination;
  - any other peril insured by the relevant local Nuclear Insurance Pool and/or Association;

in respect of any other Property not specified in (1) above which directly involves the Production, Use or Storage of Nuclear Material as from the introduction of Nuclear Material into such Property.

#### Definitions

“Nuclear Material” means:

- (i) Nuclear fuel, other than natural uranium and depleted uranium, capable of producing energy by a self-sustaining chain process of nuclear fission outside a Nuclear Reactor, either alone or in combination with some other material; and
- (ii) Radioactive Products or Waste.

“Radioactive Products or Waste” means any radioactive material produced in, or any material made radioactive by exposure to the radiation incidental to the production or utilization of nuclear fuel, but does not include radioisotopes which have reached the final stage of fabrication so as to be usable for any scientific, medical, agricultural, commercial or industrial purpose.

“Nuclear Installation” means:

- (i) Any Nuclear Reactor;
- (ii) Any factory using nuclear fuel for the production of Nuclear Material, or any factory for the processing of Nuclear Material, including any factory for the reprocessing of irradiated nuclear fuel; and
- (iii) Any facility where Nuclear Material is stored, other than storage incidental to the carriage of such material.



“Nuclear Reactor” means any structure containing nuclear fuel in such an arrangement that a self-sustaining chain process of nuclear fission can occur therein without an additional source of neutrons.

“Production, Use or Storage of Nuclear Material” means the production, manufacture, enrichment, conditioning, processing, reprocessing, use, storage, handling and disposal of Nuclear Material.

“Property” shall mean all land, buildings, structures, plant, equipment, vehicles, contents (including but not limited to liquids and gases) and all materials of whatever description whether fixed or not.

“High Radioactivity Zone or Area” means:

- (i) For nuclear power stations and Nuclear Reactors, the vessel or structure which immediately contains the core (including its supports and shrouding) and all the contents thereof, the fuel elements, the control rods and the irradiated fuel store; and
- (ii) For non-reactor Nuclear Installations, any area where the level of radioactivity requires the provision of a biological shield.

N.M.A. 1975(a)  
April 1, 1994

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NOTES: Wherever used herein the terms:

“Reinsured” shall be understood to mean “Company”, “Reinsured”, “Reassured” or whatever other term is used in the attached reinsurance document to designate the reinsured company or companies.

“Agreement” shall be understood to mean “Agreement”, “Contract”, “Policy” or whatever other term is used to designate the attached reinsurance document.

“Reinsurers” shall be understood to mean “Reinsurers”, “Underwriters” or whatever other term is used in the attached reinsurance document to designate the reinsurer or reinsurers.

### **TRUST AGREEMENT REQUIREMENTS CLAUSE**

- A. Except as provided in paragraph B of this Clause, if the Reinsurer satisfies its funding obligations under the Unauthorized Reinsurance Article by providing a Trust Agreement, the Reinsurer shall ensure that the Trust Agreement:
1. Requires the Reinsurer to establish a trust account for the benefit of the Company, and specifies what the Trust Agreement is to cover;
  2. Stipulates that assets deposited in the trust account shall be valued according to their current fair market value and shall consist only of cash (United States legal tender), certificates of deposit (issued by a United States bank and payable in United States legal tender), and investments of the types permitted by the regulatory authorities having jurisdiction over the Company's reserves, or any combination of the three, provided that the investments are issued by an institution that is not the parent, subsidiary or affiliate of either the Reinsurer or the Company;
  3. Requires the Reinsurer, prior to depositing assets with the trustee, to execute assignments or endorsements in blank, or to transfer legal title to the trustee of all shares, obligations or any other assets requiring assignments, in order that the Company, or the trustee upon the direction of the Company, may whenever necessary negotiate these assets without consent or signature from the Reinsurer or any other entity;
  4. Requires that all settlements of account between the Company and the Reinsurer be made in cash or its equivalent; and
  5. Provides that assets in the trust account shall be withdrawn only as permitted in this Contract, without diminution because of the insolvency of the Company or the Reinsurer.
- B. If a ceding insurer is domiciled in California and the Reinsurer satisfies its funding obligations under the Unauthorized Reinsurance Article by providing a Trust Agreement, the Reinsurer shall ensure that the Trust Agreement:
1. Provides that assets deposited in the trust account shall be valued according to their current fair market value and shall consist only of cash in United States dollars, certificates of deposit issued by a United States financial institution as defined in California Insurance Code Section 922.7(a) and payable in United States dollars, and investments permitted by the California Insurance Code, or any combination of the above.
  2. Provides that investments in or issued by an entity controlling, controlled by or under common control with either the grantor or the beneficiary of the trust shall not exceed 5% of total investments.

3. Requires the Reinsurer, prior to depositing assets with the trustee, to execute assignments or endorsements in blank, or to transfer legal title to the trustee of all shares, obligations or any other assets requiring assignments, in order that the ceding insurer, or the trustee upon the direction of the ceding insurer, may, whenever necessary, negotiate these assets without consent or signature from the Reinsurer or any other entity.
  4. Provides that assets in the trust account shall be withdrawn only as permitted in this Contract, without diminution because of the insolvency of the ceding insurer or the Reinsurer.
- C. If there are multiple ceding insurers that collectively comprise the Company, “regulatory authorities” as referenced in subparagraph A(2) above, shall mean the individual ceding insurer’s domestic regulator.

## POOLS, ASSOCIATIONS & SYNDICATES EXCLUSION CLAUSE

### Section A:

This Contract excludes:

- a. All business derived directly or indirectly from any Pool, Association or Syndicate which maintains its own reinsurance facilities.
- b. Any Pool or Scheme (whether voluntary or mandatory) formed after March 1, 1968 for the purpose of insuring property, whether on a country-wide basis or in respect of designated areas. This exclusion shall not apply to so-called Automobile Insurance Plans or other Pools formed to provide coverage for Automobile Physical Damage.

### Section B:

1. This Contract excludes business written by the Company for the same perils, which is known at the time to be insured by, or in excess of underlying amounts placed in, any Pool, Association or Syndicate, whether by way of insurance or reinsurance, formed for the purpose of writing any of the following:

Oil, Gas or Petro-Chemical Plants Oil or Gas Drilling Rigs and/or  
Aviation Risks

2. The exclusion under paragraph 1 of this Section B does not apply:
  - a. Where the Total Insured Value over all interests of the risk in question is less than \$250,000,000.
  - b. To interests traditionally underwritten as Inland Marine and/or Stock and/or Contents written on a Blanket basis.
  - c. To Contingent Business Interruption, except when the Company is aware that the key location is known at the time to be insured in any Pool, Association or Syndicate named above, other than as provided for under subparagraph (a).

NOTES: Wherever used herein the terms:

“Company” shall be understood to mean “Company”, “Reinsured”, “Reassured” or whatever other term is used in the attached reinsurance document to designate the reinsured company or companies.

“Agreement” shall be understood to mean “Agreement”, “Contract”, “Policy” or whatever other term is used to designate the attached reinsurance document.

“Reinsurers” shall be understood to mean “Reinsurers”, “Underwriters” or whatever other term is used in the attached reinsurance document to designate the reinsurer or reinsurers.

#### **COMMUNICABLE DISEASE EXCLUSION (PROPERTY TREATY REINSURANCE)**

1. Notwithstanding any provision to the contrary within this reinsurance agreement, this reinsurance agreement excludes any loss, damage, liability, claim, cost or expense of whatsoever nature, directly or indirectly caused by, contributed to by, resulting from, arising out of, or in connection with a Communicable Disease or the fear or threat (whether actual or perceived) of a Communicable Disease regardless of any other cause or event contributing concurrently or in any other sequence thereto.
2. As used herein, a Communicable Disease means any disease which can be transmitted by means of any substance or agent from any organism to another organism where:
  - 2.1. the substance or agent includes, but is not limited to, a virus, bacterium, parasite or other organism or any variation thereof, whether deemed living or not, and
  - 2.2. the method of transmission, whether direct or indirect, includes but is not limited to, airborne transmission, bodily fluid transmission, transmission from or to any surface or object, solid, liquid or gas or between organisms, and
  - 2.3. the disease, substance or agent can cause or threaten damage to human health or human welfare or can cause or threaten damage to, deterioration of, loss of value of, marketability of or loss of use of property.
3. Notwithstanding the foregoing, losses directly or indirectly caused by, contributed to by, resulting from, arising out of, or in connection with any one of the following perils: fire, lightning, explosion, aircraft or vehicle impact, falling objects, windstorm, hail, tornado, cyclone, hurricane, earthquake, volcano, tsunami, flood, freeze or weight of snow, riot, riot attending a strike, civil commotion, vandalism and malicious mischief shall be covered.

LMA5394 As amended 27 March 2020

## **CYBER LOSS LIMITED EXCLUSION CLAUSE (PROPERTY TREATY REINSURANCE) NO. 1**

1. Notwithstanding any provision to the contrary within this reinsurance agreement or any endorsement thereto, this reinsurance agreement excludes all loss, damage, liability, cost or expense of whatsoever nature directly or indirectly caused by, contributed to by, resulting from, arising out of or in connection with:
  - 1.1 any loss of, alteration of, or damage to or a reduction in the functionality, availability or operation of a Computer System, unless subject to the provisions of paragraph 2;
  - 1.2 any loss of use, reduction in functionality, repair, replacement, restoration or reproduction of any Data, including any amount pertaining to the value of such Data.
2. Subject to the other terms, conditions and exclusions contained in this reinsurance agreement, this reinsurance agreement will cover physical damage to property insured under the original policies
3. and any Time Element Loss directly resulting therefrom where such physical damage is directly occasioned by any of the following perils:  
fire, lightning, explosion, aircraft or vehicle impact, falling objects, windstorm, hail, tornado, cyclone, hurricane, earthquake, volcano, tsunami, flood, freeze or weight of snow

### **Definitions**

4. Computer System means any computer, hardware, software, communications system, electronic device (including, but not limited to, smart phone, laptop, tablet, wearable device), server, cloud or microcontroller including any similar system or any configuration of the aforementioned and including any associated input, output, data storage device, networking equipment or back up facility.
5. Data means information, facts, concepts, code or any other information of any kind that is recorded or transmitted in a form to be used, accessed, processed, transmitted or stored by a Computer System.

Time Element Loss means business interruption, contingent business interruption or any other consequential losses.

Certain information marked as [\*\*\*] has been excluded from this exhibit because it is both (i) not material and (ii) is the type that the Company treats as private or confidential.

**AUTOMATIC FACULTATIVE PROPERTY PER RISK EXCESS OF LOSS REINSURANCE CONTRACT**

issued to

**LEMONADE INSURANCE COMPANY**  
**New York, New York**

including any and/or all companies that are or may hereafter become affiliated therewith



**AUTOMATIC FACULTATIVE PROPERTY PER RISK EXCESS OF LOSS REINSURANCE CONTRACT**  
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## AUTOMATIC FACULTATIVE PROPERTY PER RISK EXCESS OF LOSS REINSURANCE CONTRACT

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**AUTOMATIC FACULTATIVE PROPERTY PER RISK EXCESS OF LOSS REINSURANCE CONTRACT**

(the “Contract”) issued to

**LEMONADE INSURANCE COMPANY**  
**New York, New York**

including any and/or all companies that are or may hereafter become affiliated therewith (collectively, the “Company”)

by

**THE SUBSCRIBING REINSURER(S) IDENTIFIED  
IN THE INTERESTS AND LIABILITIES AGREEMENT(S) ATTACHED TO AND FORMING  
PART OF THIS CONTRACT**

(the “Reinsurer”)

- A. This Contract extends to cover all companies that are now or may hereafter become affiliated with the Company to the extent and under the same conditions and limitations as would be provided by this Contract if such affiliated companies were made a party under this Contract, provided that notice be given to the Reinsurer of any such companies that may hereafter become affiliated with the Company as soon as practicable, with full particulars as to how such affiliation is likely to affect this Contract. In the event of either party maintaining that such affiliation calls for alteration in existing terms, and an agreement not being arrived at, then the business of such affiliated company is covered only for a period of forty-five days after notice by either party that they do not wish the company so affiliated to be covered.
- B. Balances payable or recoverable by the Reinsurer or individually named reinsured company shall not serve to offset any balances payable or recoverable to or from any other individually named reinsured company party to this Contract. Reports and remittances made to the Reinsurer in accordance with the provisions of this Contract are to be in sufficient detail to identify both the Reinsurer’s loss obligations due each individually named reinsured company and each individually named reinsured company’s premium remittance under the report.
- C. Any limits, retentions and premiums due hereunder may be treated as applying to each individually named reinsured company in accordance with the allocation agreement between those companies.

## **ARTICLE 1**

### **BUSINESS COVERED**

- A. The Company shall be obligated to cede to the Reinsurer the business described in this Article, and the Reinsurer shall be obligated to accept such business as reinsurance from the Company.
- B. This Contract is to indemnify the Company in respect of the liability that may accrue to the Company as a result of loss or losses occurring during the Term of this Contract under all Policies ceded to this Contract that are in force at the inception of this Contract, or written or renewed by the Company during the term of this Contract and classified by the Company as an accumulation of multiple HO-4 and HO-6 Policies subject to the terms and conditions herein contained.

## **ARTICLE 2**

### **RETENTION AND LIMIT**

- A. The Reinsurer shall be liable in respect of each risk, each loss, for the Ultimate Net Loss over and above an initial Ultimate Net Loss of \$3,000,000 each risk, each loss, subject to a limit of liability to the Reinsurer of \$10,000,000 each risk, each loss, and further subject to a limit of liability to the Reinsurer of \$10,000,000 each Loss Occurrence.
- B. Notwithstanding paragraph A above, in the event the Company writes a risk that is classified as Fire Resistive construction and built post the year 2000, the Reinsurer shall be liable in respect of each risk, each loss, for the Ultimate Net Loss over and above an initial Ultimate Net Loss of \$3,000,000 each risk, each loss, subject to a limit of liability to the Reinsurer of \$12,000,000 each risk, each loss, and further subject to a limit of liability to the Reinsurer of \$12,000,000 each Loss Occurrence.
- C. The maximum limit of liability the Reinsurer shall pay from risks within Paragraph A and B above shall not exceed \$12,000,000 each Loss Occurrence.

## **ARTICLE 3**

### **TERM**

- A. This Contract shall take effect at 12:01 a.m., Standard Time, July 1, 2022, and shall remain in effect until 12:01 a.m., Standard Time, July 1, 2023, applying to losses occurring during the term of this Contract. "Standard Time" shall be as defined in the Company's Policies.
- B. The Reinsurer shall have no liability for losses occurring after expiration of this Contract.

- C. However, at the Company's option, the Reinsurer shall remain liable hereunder in respect of Policies in force at expiration, until the termination, expiration or renewal of such Policies, whichever occurs first, plus any extending reporting periods. In such event, the Company shall pay to the Reinsurer an additional premium by multiplying the rate set forth in the Premium Article, multiplied by the Company's Total Exposed Value during the run-off period, payable within 30 days after the end of each quarter.
- D. In the event this Contract expires on a run-off basis, the Reinsurer's liability hereunder shall continue if the Company is required by statute or regulation to continue coverage, until the earliest date on which the Company may cancel the Policy.

#### **ARTICLE 4**

##### **SPECIAL TERMINATION**

- A. The Company may terminate a Subscribing Reinsurer's percentage share in this Contract at any time by giving written notice to the Subscribing Reinsurer in the event of any of the following circumstances:
  - 1. The Subscribing Reinsurer ceases underwriting operations.
  - 2. A state insurance department or other legal authority orders the Subscribing Reinsurer to cease writing business, or the Subscribing Reinsurer is placed under regulatory supervision.
  - 3. The Subscribing Reinsurer has become insolvent or has been placed into liquidation or receivership (whether voluntary or involuntary), or there have been instituted against it proceedings for the appointment of a receiver, liquidator, rehabilitator, conservator, trustee in bankruptcy, or other agent known by whatever name, to take possession of its assets or control of its operations.
  - 4. The Subscribing Reinsurer's policyholders' surplus (or the equivalent under the Subscribing Reinsurer's accounting system) as reported in such financial statements of the Subscribing Reinsurer as designated by the Company, has been reduced by 20% of the amount thereof at any date during the prior 12-month period (including the period prior to the inception of this Contract).
  - 5. The Subscribing Reinsurer has merged with or has become acquired or controlled by any company, corporation, or individual(s) not controlling the Subscribing Reinsurer's operations at the inception of this Contract.
  - 6. The Subscribing Reinsurer has retroceded its entire liability under this Contract without the Company's prior written consent, except for retrocessions to members of the Subscribing Reinsurer's holding company group.

7. The Subscribing Reinsurer has been assigned an A.M. Best's rating of less than "A-" and/or an S&P rating of less than "BBB+." However, as respects Underwriting Members of Lloyd's, London, a Lloyd's Market Rating of less than "A-" by A.M. Best and/or less than "BBB+" by S&P shall apply.
- B. Termination shall be effected on a cut-off or run-off basis at the option of the Company as outlined in the Term Article. The reinsurance premium due the Subscribing Reinsurer hereunder (including any minimum reinsurance premium) shall be prorated based on the period of the Subscribing Reinsurer's participation hereon, and the Subscribing Reinsurer shall immediately return any excess reinsurance premium received. Reinstatement premium, if any, shall be calculated based on the Subscribing Reinsurer's reinsurance premium earned during the period of the Subscribing Reinsurer's participation hereon.
- C. Additionally, in the event of any of the circumstances listed in paragraph A of this Article, the Company shall have the option to commute the Subscribing Reinsurer's liability for losses on Policies covered by this Contract. In the event the Company and the Subscribing Reinsurer cannot agree on the commutation amount, they shall appoint an actuary and/or appraiser to assess such amount and shall share equally any expense of the actuary and/or appraiser. If the Company and the Subscribing Reinsurer cannot agree on an actuary and/or appraiser, the Company and the Subscribing Reinsurer each shall nominate three individuals, of whom the other shall decline two, and the final appointment shall be made by drawing lots. Payment by the Subscribing Reinsurer of the amount of liability ascertained shall constitute a complete and final release of both parties in respect of liability arising from the Subscribing Reinsurer's participation under this Contract.
- D. The Company's option to require commutation under paragraph C. above shall survive the termination or expiration of this Contract.

## **ARTICLE 5**

### **TERRITORY**

The territorial limits of this Contract shall be identical with those of the Company's Policies.

## **ARTICLE 6**

### **TRADE AND ECONOMIC SANCTIONS**

Wherever potential coverage provided by this Contract would be in violation of any applicable economic or trade sanctions, any such coverage will conform to applicable law.

## ARTICLE 7

### EXCLUSIONS

This Contract shall not apply to and specifically excludes:

- A. Losses excluded by the attached:
  - 1. Nuclear Incident Exclusion Clause – Physical Damage – Reinsurance – U.S.A.
  - 2. Nuclear Incident Exclusion Clause – Liability – Reinsurance – U.S.A.
- B. Liability of the Company arising by contract, operation of law, or otherwise, from its participation or membership, whether voluntary or involuntary, in any Insolvency Fund. “Insolvency Fund” includes any guaranty fund, insolvency fund, plan, pool, association, fund or other arrangement, howsoever denominated, established or governed, that provides for any assessment of or payment or assumption by the Company of part or all of any claim, debt, charge, fee, or other obligation of an insurer, or its successors or assigns, that has been declared by any competent authority to be insolvent, or that is otherwise deemed unable to meet any claim, debt, charge, fee or other obligation in whole or in part.
- C. Loss or liability excluded by the attached Pools, Associations & Syndicates Exclusion Clause.
- D. Any loss resulting from an “Act of Terrorism,” as defined herein, when the loss directly or indirectly involves a release of biological, chemical, radiological or nuclear materials.
- E. Any loss or damage which is occasioned by war, invasion, hostilities, acts of foreign enemies, civil war, rebellion, insurrection, military or usurped power, or martial law or confiscation by order of any government or public authority, but not excluding loss or damage which would be covered under a standard Policy form containing a standard war exclusion clause.
- F. Financial Guarantee and Insolvency.
- G. All treaty reinsurance assumed by the Company.
- H. Loss resulting from pollution, to the extent excluded under the Company’s Policy involved in the loss.
- I. The perils of flood, earthquake and storm surge per the Company’s original Policies. It is further understood and agreed that the Company shall not offer flood, earthquake or Difference in Conditions coverage on a stand-alone basis.
- J. Loss or liability in any way or to any extent arising out of the actual, alleged or threatened presence of fungi, including, but not limited to, mold, mildew, mycotoxins, microbial volatile organic compounds or other “microbial contamination.” This includes:

1. Any supervision, instruction, recommendations, warnings or advice given or which should have been given in connection with the above; and
2. Any obligation to share damages with or repay someone else who must pay damages because of such injury or damage.

For purposes of this exclusion, “microbial contamination” means any contamination, either airborne or surface, which arises out of or is related to the presence of fungi, mold, mildew, mycotoxins, microbial volatile organic compounds or spores, including, without limitation, *Penicillium*, *Aspergillus*, *Fusarium*, *Aspergillus Flavus* and *Stachybotrys chartarum*.

Losses resulting from the above causes are excluded hereunder unless arising out of one or more of the following perils, in which case this exclusion does not apply:

Fire, lightning, explosion, aircraft or vehicle impact, escape of water from appliances, falling objects, windstorm, hail, tornado, cyclone, hurricane, earthquake, volcano, flood, freeze or weight of snow.

- K. Aviation.
- L. Fidelity and Surety.
- M. Credit insurance.
- N. Title insurance.
- O. Builders risk and renovations.
- P. Protection Classes (PC) 9 and 10.
- Q. Vacant risks.
- R. Risks not 100% insured by the Company.
- S. Risks located on Barrier Islands from Texas to Maine.
- T. Losses emanating from a Named Storm, subject to the following territories:
  1. Risks located in the State of Florida.
  2. Risks located less than 10 miles inland from the coast in the State of Texas.
  3. Risks located less than 10 miles from the coast in the States of Alabama, Georgia, Louisiana, Mississippi, North Carolina, South Carolina, and Virginia (excluding Washington DC) that have ISO Class Types 1 or 2 as described in the attached Exhibit A – ISO Types 1-6: Construction Code Descriptions.



4. Risks located less than one mile inland from the coast in the States of Alabama, Georgia, Louisiana, Mississippi, North Carolina, South Carolina, and Virginia (excluding Washington DC) that have ISO Class Types 3, 4, 5 or 6 as described in the attached Exhibit A – ISO Types 1-6: Construction Code Descriptions.

For purposes of this Contract, “Named Storm” means all loss or damage directly or indirectly caused by, contributed to by, resulting from or arising out of or in connection with any storm or storm system declared by the US National Hurricane Center, US Central Pacific Hurricane Center, US Weather Prediction Center, or their successor organizations, all being divisions of the US National Weather Service to be a hurricane or tropical storm, and any successors thereof, and only if the named storm, and any successors thereof, has made landfall with hurricane or tropical storm force winds as declared by the US National Weather Service.

- U. 1. Notwithstanding any provision to the contrary within this reinsurance agreement, this reinsurance agreement excludes any loss, damage, liability, claim, cost or expense of whatsoever nature, directly or indirectly caused by, contributed to by, resulting from, arising out of, or in connection with a Communicable Disease or the fear or threat (whether actual or perceived) of a Communicable Disease regardless of any other cause or event contributing concurrently or in any other sequence thereto.
2. As used herein, a Communicable Disease means any disease which can be transmitted by means of any substance or agent from any organism to another organism where:
    - 2.1. the substance or agent includes, but is not limited to, a virus, bacterium, parasite or other organism or any variation thereof, whether deemed living or not, and
    - 2.2. the method of transmission, whether direct or indirect, includes but is not limited to, airborne transmission, bodily fluid transmission, transmission from or to any surface or object, solid, liquid or gas or between organisms, and
    - 2.3. the disease, substance or agent can cause or threaten damage to human health or human welfare or can cause or threaten damage to, deterioration of, loss of value of, marketability of or loss of use of property.
  3. Notwithstanding the foregoing, losses directly or indirectly caused by, contributed to by, resulting from, arising out of, or in connection with any one of the following perils: fire, lightning, explosion, aircraft or vehicle impact, falling objects, windstorm, hail, tornado, cyclone, hurricane, earthquake, volcano, tsunami, flood, freeze or weight of snow, riot, riot attending a strike, civil commotion, vandalism and malicious mischief shall be covered.

## **ARTICLE 8**

### **SPECIAL ACCEPTANCE**

- A. Business that is not within the scope of this Contract may be submitted to the Reinsurer for special acceptance hereunder, and such business, if accepted by the Reinsurer shall be covered hereunder, subject to the terms and conditions of this Contract, except as modified by the special acceptance. The Reinsurer shall be deemed to have accepted a risk, if it has not responded within three business days after receiving the underwriting information on such risk.
- B. Notwithstanding the above, a risk that is classified as Fire Resistive construction and built post the year 2000 with accumulated TIV's greater than \$17,000,000 will be submitted to the Reinsurer for Special Acceptance within 45 days after the accumulation breaches \$17,000,000. All other risks with accumulated TIV's greater than \$13,000,000 will be submitted to the Reinsurer for Special Acceptance within 45 days after the accumulation breaches \$13,000,000.

## **ARTICLE 9**

### **PREMIUM**

[\*\*\*].

## **ARTICLE 10**

### **REPORTS**

- A. Within 45 days following the end of each quarter, the Company shall provide to the Reinsurer a bordereau report providing details of each risk ceded under this Contract during the quarter; to include the following information:
1. Street Address.
  2. City.
  3. State.
  4. County.
  5. Zip Code.
  6. Protection Class.
  7. Construction Class.
  8. Total Insured Value (TIV).
  11. Number of Policies per Building.
- B. The Company shall furnish the Reinsurer with such information as may be required by the Reinsurer for completion of its financial statements.

## **ARTICLE 11**

### **DEFINITIONS**

- A. 1. "Ultimate Net Loss" means the actual loss paid by the Company or which the Company becomes liable to pay, such loss to include Loss Adjustment Expense, 90% of any Extra Contractual Obligation and 90% of any Loss in Excess of Policy Limits as defined in the Extra Contractual Obligations/Excess of Policy Limits Article. For the avoidance of doubt, the "Ultimate Net Loss" shall include loss arising from the Third Party Property Damage coverage provided under HO-4 and HO-6 Policies.
2. Salvages and all recoveries (including amounts due from all reinsurances that inure to the benefit of this Contract, whether recovered or not), shall be first deducted from such loss to arrive at the amount of liability attaching hereunder.
3. All salvages, recoveries or payments recovered or received subsequent to loss settlement hereunder shall be applied as if recovered or received prior to the aforesaid settlement, and all necessary adjustments shall be made by the parties hereto.

4. The Company shall be deemed to be “liable to pay” a loss when a judgment has been rendered that the Company does not plan to appeal, and/or the Company has obtained a release, and/or the Company has accepted a proof of loss.
  5. Nothing in this clause shall be construed to mean that losses are not recoverable hereunder until the Company’s “Ultimate Net Loss” has been ascertained.
- B. “Loss Adjustment Expense” means costs and expenses incurred by the Company in connection with the investigation, appraisal, adjustment, settlement, litigation, defense or appeal of a specific claim or loss, or alleged loss, including but not limited to:
1. court costs;
  2. costs of supersedeas and appeal bonds;
  3. monitoring counsel expenses;
  4. legal expenses and costs incurred in connection with coverage questions and legal actions connected thereto, including but not limited to declaratory judgment actions;
  5. post-judgment interest;
  6. pre-judgment interest, unless included as part of an award or judgment;
  7. a pro rata share of salaries and expenses of Company employees, calculated in accordance with the time occupied in adjusting such loss, and expenses of other Company employees who have been temporarily diverted from their normal and customary duties and assigned to the field adjustment of losses covered by this Contract; and
  8. subrogation, salvage and recovery expenses.
- “Loss Adjustment Expense” does not include salaries and expenses of the Company’s employees, except as provided in subparagraph (7) above, and office and other overhead expenses.
- C. “Policy” means any binder, policy, or contract of insurance or reinsurance issued, accepted or held covered provisionally or otherwise, by or on behalf of the Company. It is warranted that the maximum Policy period for any Policy reinsured hereunder shall be 12 months plus odd time, not to exceed 18 months in all, or so deemed.
- D. “Act(s) of Terrorism” shall be defined as in the Company’s original Policies or, if not defined therein, shall mean: the use of force or violence and/or the threat thereof committed for political, religious, or ideological purposes and with the intention to influence any government and/or to put the public, or any section of the public, in fear.

- E. The Company shall be the sole judge of what constitutes “one risk” for purposes of this Contract. It is understood and agreed that one risk is a four wall structure for superior construction and/or by street address(es) for garden apartments.
- F. “Total Exposed Value” means, in respect of risks ceded to this Contract, the sum of total insured values excess of \$3,000,000 each risk, not to exceed \$12,000,000.
- G. 1. “Loss Occurrence” means the sum of all individual losses directly occasioned by any one disaster, accident or loss or series of disasters, accidents or losses arising out of one event. However, the duration and extent of any one “Loss Occurrence” shall be limited to all individual losses sustained by the Company occurring during any period of 168 consecutive hours arising out of and directly occasioned by the same event except that the term “Loss Occurrence” shall be further defined as follows:
- a. As regards windstorm, hail, tornado, hurricane, cyclone, including ensuing collapse and water damage, all individual losses sustained by the Company occurring during any period of 120 consecutive hours arising out of and directly occasioned by the same event.
  - b. As regards riot, riot attending a strike, civil commotion, vandalism and malicious mischief, all individual losses sustained by the Company occurring during any period of 72 consecutive hours arising out of and directly occasioned by the same event. The maximum duration of 72 consecutive hours may be extended in respect of individual losses which occur beyond such 72 consecutive hours during the continued occupation of an assured’s premises by strikers, provided such occupation commenced during the aforesaid period.
  - c. As regards earthquake and fire following directly occasioned by the earthquake, those earthquake losses and individual fire losses that commence during the period of 168 consecutive hours may be included in the Company’s “Loss Occurrence.”
  - d. As regards “freeze,” only individual losses directly occasioned by collapse, breakage of glass and water damage (caused by the freezing and/or melting of ice, snow or sleet, or bursting frozen pipes and tanks, but not water damage caused by flood or surface water) may be included in the Company’s “Loss Occurrence.”
  - e. As regards firestorms, brush fires and any other fires, irrespective of origin (except as provided in subparagraphs b and c above), which spread through trees, grassland or other vegetation, all individual losses sustained by the Company which occur during any period of 168 consecutive hours within a 150- mile radius of any fixed point selected by the Company may be included in the Company’s “Loss Occurrence.” However, an individual loss subject to this subparagraph cannot be included in more than one “Loss Occurrence.”

2. The Company may choose the date and time when any such period of consecutive hours commences provided that it is not earlier than the date and time of the occurrence of the first recorded individual loss sustained by the Company arising out of that disaster, accident or loss.
3. Only one period of consecutive hours shall apply with respect to one event, except that, as respects those “Loss Occurrences” referred to in subparagraphs G.1.a. and G.1.b. above, if the disaster, accident or loss occasioned by the event is of greater duration than 120 or 72 consecutive hours, respectively, then the Company may divide that disaster, accident or loss into two or more “Loss Occurrences” provided no two periods overlap and no individual loss is included in more than one such period and provided that no period commences earlier than the date and time of the occurrence of the first recorded individual loss sustained by the Company arising out of that disaster, accident or loss.
4. Losses arising from a combination of two or more perils as a result of the same event shall be considered as having arisen from one “Loss Occurrence.” Notwithstanding the foregoing, the hourly limitations as stated above shall not be exceeded as respects the applicable perils, and no single “Loss Occurrence” shall encompass a time period greater than 168 consecutive hours.

## **ARTICLE 12**

### **EXTRA CONTRACTUAL OBLIGATIONS/EXCESS OF POLICY LIMITS**

- A. This Contract shall cover Extra Contractual Obligations, as provided in the definition of Ultimate Net Loss. “Extra Contractual Obligations” shall be defined as those liabilities not covered under any other provision of this Contract and that arise from the handling of any claim on business covered hereunder, such liabilities arising because of, but not limited to, the following: failure by the Company to settle within the Policy limit, or by reason of alleged or actual negligence, fraud or bad faith in rejecting an offer of settlement or in the preparation of the defense or in the trial of any action against its insured or reinsured or in the preparation or prosecution of an appeal consequent upon such action.
- B. This Contract shall cover Loss in Excess of Policy Limits, as provided in the definition of Ultimate Net Loss. “Loss in Excess of Policy Limits” shall be defined as Loss in excess of the Policy limit, having been incurred because of, but not limited to, failure by the Company to settle within the Policy limit or by reason of alleged or actual negligence, fraud or bad faith in rejecting an offer of settlement or in the preparation of the defense or in the trial of any action against its insured or reinsured or in the preparation or prosecution of an appeal consequent upon such action.
- C. An Extra Contractual Obligation and/or Loss in Excess of Policy Limits shall be deemed to have occurred on the same date as the loss covered under the Company’s Policy, and shall constitute part of the original loss.

- D. For the purposes of the Loss in Excess of Policy Limits coverage hereunder, the word “Loss” shall mean any amounts for which the Company would have been contractually liable to pay had it not been for the limit of the original Policy.
- E. Loss Adjustment Expense in respect of Extra Contractual Obligations and/or Loss in Excess of Policy Limits shall be covered hereunder in the same manner as other Loss Adjustment Expense.
- F. However, this Article shall not apply where the loss has been incurred due to final legal adjudication of fraud of a member of the Board of Directors or a corporate officer of the Company acting individually or collectively or in collusion with any individual or corporation or any other organization or party involved in the presentation, defense or settlement of any claim covered hereunder.
- G. In no event shall coverage be provided to the extent not permitted under law.

### **ARTICLE 13**

#### **NET RETAINED LIABILITY**

- A. This Contract applies only to that portion of any loss that the Company retains net for its own account (prior to deduction of any reinsurance that inures solely to the benefit of the Company).
- B. The amount of the Reinsurer’s liability hereunder in respect of any loss or losses shall not be increased by reason of the inability of the Company to collect from any other reinsurer(s), whether specific or general, any amounts that may have become due from such reinsurer(s), whether such inability arises from the insolvency of such other reinsurer(s) or otherwise.

### **ARTICLE 14**

#### **ORIGINAL CONDITIONS**

All reinsurance under this Contract shall be subject to the same terms, conditions, waivers and interpretations, and to the same modifications and alterations as the respective Policies of the Company. However, in no event shall this be construed in any way to provide coverage outside the terms and conditions set forth in this Contract.

### **ARTICLE 15**

#### **NO THIRD PARTY RIGHTS**

This Contract is solely between the Company and the Reinsurer, and in no instance shall any insured, Cohort, claimant or other third party have any rights under this Contract except as may be expressly provided otherwise herein.

## **ARTICLE 16**

### **NOTICE OF LOSS AND LOSS SETTLEMENTS**

- A. The Company shall advise the Reinsurer promptly of all losses that, in the opinion of the Company, may result in a claim hereunder and of all subsequent developments thereto that may materially affect the position of the Reinsurer.
- B. The Company in its full discretion shall investigate, defend, and resolve claims or proceedings affecting this Contract. While the Reinsurer does not undertake to adjust, settle or compromise claims or losses, it shall nevertheless have the right and be given the opportunity, at its request and with the full cooperation of the Company, to appoint representatives at its own expense and to provide counsel and advice to the Company in the investigation or handling of any claims or losses involving this Contract. Further, the Company agrees to provide information and updates to the Reinsurer at the Reinsurer's reasonable request regarding such losses so that it might better formulate such counsel and advise. For the purposes of clarity, the Reinsurer shall not have the right to attend meetings or participate in phone calls directly with the Insured or inspect the insured premises.
- C. As respects losses subject to this Contract, all loss settlements made by the Company, whether under strict Policy terms or by way of compromise, and any Extra Contractual Obligations and/or Loss in Excess of Policy Limits, shall be binding upon the Reinsurer, and the Reinsurer agrees to pay or allow, as the case may be, its share of each such settlement immediately upon receipt of proof of loss.

## **ARTICLE 17**

### **OFFSET**

Each party hereto shall have, and may exercise at any time and from time to time, the right to offset any and all balances due from a party to the other arising under this Contract. In the event of the insolvency of a party hereto, offsets shall only be allowed in accordance with the provisions of any applicable law governing offset entitlement.

## **ARTICLE 18**

### **CURRENCY**

- A. Where the word "Dollars" and/or the sign "\$" appear in this Contract, they shall mean United States Dollars, and all payments hereunder shall be in United States Dollars.
- B. For purposes of this Contract, where the Company receives premiums or pays losses in currencies other than United States Dollars, such premiums or losses shall be converted into United States Dollars at the actual rates of exchange at which these premiums or losses are entered in the Company's books.



## ARTICLE 19

### UNAUTHORIZED REINSURANCE

- A. This Article applies:
1. only to the extent a Subscribing Reinsurer does not qualify for credit with any insurance regulatory authority having jurisdiction over the Company's reserves, or
  2. to a Subscribing Reinsurer qualified as a reciprocal jurisdiction reinsurer with any such insurance regulatory authority in the event such Subscribing Reinsurer resists enforcement of a final judgment that is enforceable under the law of the jurisdiction in which it was obtained or a properly enforceable arbitration or arbitral award obtained by the Company or any legal successor, in which case such Subscribing Reinsurer shall fund 100% of its share of the Reinsurer's Obligations as hereinafter provided.
- B. The Company agrees, in respect of its Policies or bonds falling within the scope of this Contract, that when it files with its insurance regulatory authority, or sets up on its books liabilities as required by law, it shall forward to the Reinsurer a statement showing the proportion of such liabilities applicable to the Reinsurer. The "Reinsurer's Obligations" shall be defined as follows:
1. unearned premium (if applicable);
  2. known outstanding losses that have been reported to the Reinsurer and Loss Adjustment Expense relating thereto;
  3. losses and Loss Adjustment Expense paid by the Company but not recovered from the Reinsurer;
  4. losses incurred but not reported and Loss Adjustment Expense relating thereto;
  5. all other amounts for which the Company cannot take credit on its financial statements unless funding is provided by the Reinsurer.
- C. The Reinsurer's Obligations shall be funded by funds withheld, cash advances, Trust Agreement or a Letter of Credit (LOC). The Reinsurer shall have the option of determining the method of funding provided it is acceptable to the insurance regulatory authorities having jurisdiction over the Company's reserves.
- D. When funding by Trust Agreement, the Reinsurer shall ensure that the Trust Agreement complies with the provisions of the "Trust Agreement Requirements Clause" attached hereto. When funding by an LOC, the Reinsurer agrees to apply for and secure timely delivery to the Company of a clean, irrevocable and unconditional LOC issued by a bank and containing provisions acceptable to the insurance regulatory authorities having jurisdiction over the Company's reserves in an amount equal to the Reinsurer's

Obligations. Such LOC shall be issued for a period of not less than one year, and shall be automatically extended for one year from its date of expiration or any future expiration date unless 30 days (or such other time period as may be required by insurance regulatory authorities), prior to any expiration date the issuing bank shall notify the Company by certified or registered mail that the issuing bank elects not to consider the LOC extended for any additional period.

- E. The Reinsurer and the Company agree that any funding provided by the Reinsurer pursuant to the provisions of this Contract may be drawn upon at any time, notwithstanding any other provision of this Contract, and be utilized by the Company or any successor, by operation of law, of the Company including, without limitation, any liquidator, rehabilitator, receiver or conservator of the Company, for the following purposes, unless otherwise provided for in a separate Trust Agreement:
1. to reimburse the Company for the Reinsurer's Obligations, the payment of which is due under the terms of this Contract and that has not been otherwise paid;
  2. to make refund of any sum that is in excess of the actual amount required to pay the Reinsurer's Obligations under this Contract (or in excess of 102% of the Reinsurer's Obligations, if funding is provided by a Trust Agreement);
  3. to fund an account with the Company for the Reinsurer's Obligations. Such cash deposit shall be held in an interest bearing account separate from the Company's other assets, and interest thereon not in excess of the prime rate shall accrue to the benefit of the Reinsurer. Any taxes payable on accrued interest shall be paid out of the assets in the account that are in excess of the Reinsurer's Obligations (or in excess of 102% of the Reinsurer's Obligations, if funding is provided by a Trust Agreement). If the assets are inadequate to pay taxes, any taxes due shall be paid or reimbursed by the Reinsurer;
  4. to pay the Reinsurer's share of any other amounts the Company claims are due under this Contract.
- F. If the amount drawn by the Company is in excess of the actual amount required for paragraphs E(1) or E(3) above, or in the case of paragraph E(4) above, the actual amount determined to be due, the Company shall promptly return to the Reinsurer the excess amount so drawn. All of the foregoing shall be applied without diminution because of insolvency on the part of the Company or the Reinsurer.
- G. The issuing bank shall have no responsibility whatsoever in connection with the propriety of withdrawals made by the Company or the disposition of funds withdrawn, except to ensure that withdrawals are made only upon the order of properly authorized representatives of the Company.
- H. At annual intervals, or more frequently at the discretion of the Company, but never more frequently than quarterly, the Company shall prepare a specific statement of the Reinsurer's

Obligations for the sole purpose of amending the LOC or other method of funding, in the following manner:

1. If the statement shows that the Reinsurer's Obligations exceed the balance of the LOC as of the statement date, the Reinsurer shall, within 30 days after receipt of the statement, secure delivery to the Company of an amendment to the LOC increasing the amount of credit by the amount of such difference. Should another method of funding be used, the Reinsurer shall, within the time period outlined above, increase such funding by the amount of such difference.
2. If, however, the statement shows that the Reinsurer's Obligations are less than the balance of the LOC (or that 102% of the Reinsurer's Obligations are less than the trust account balance if funding is provided by a Trust Agreement), as of the statement date, the Company shall, within 30 days after receipt of written request from the Reinsurer, release such excess credit by agreeing to secure an amendment to the LOC reducing the amount of credit available by the amount of such excess credit. Should another method of funding be used, the Company shall, within the time period outlined above, decrease such funding by the amount of such excess.

## **ARTICLE 20**

### **TAXES**

- A. In consideration of the terms under which this Contract is issued, the Company undertakes not to claim any deduction of the premium hereon when making Canadian tax returns or when making tax returns, other than Income or Profits Tax returns, to any state or territory of the United States of America or to the District of Columbia.
- B.
  1. Each Subscribing Reinsurer has agreed to allow, for the purpose of paying the Federal Excise Tax, the applicable percentage of the premium payable hereon (as imposed under the Internal Revenue Code) to the extent such premium is subject to Federal Excise Tax.
  2. In the event of any return of premium becoming due hereunder, the Subscribing Reinsurer shall deduct the applicable percentage of the premium from the amount of the return, and the Company or its agent should take steps to recover the Tax from the U.S. Government.

## **ARTICLE 21**

### **ACCESS TO RECORDS**

- A. The Reinsurer or its duly authorized representatives shall have the right to visit the offices of the Company to inspect, examine, audit, and verify any of the policy, accounting or claim files ("Records") relating to business reinsured under this Contract during regular

business hours after giving five working days' prior notice. This right shall be exercisable during the term of this Contract or after the expiration of this Contract. Notwithstanding the above, the Reinsurer shall not have any right of access to the Records of the Company if it is not current in all undisputed payments due the Company.

- B. Notwithstanding the above, the Company reserves the right to withhold from the Reinsurer any Privileged Documents. However, the Company shall permit and not object to the Reinsurer's access to Privileged Documents in connection with the underlying claim reinsured hereunder following final settlement or final adjudication of the case or cases involving such claim, with prejudice against all claimants and all parties to such adjudications; the Company may defer release of such Privileged Documents if there are subrogation, contribution, or other third party actions with respect to that claim or case, and the Company's defense might be jeopardized by release of such Privileged Documents. In the event that the Company seeks to defer release of such Privileged Documents, it shall, in consultation with the Reinsurer, take other steps as reasonably necessary to provide the Reinsurer with the information it reasonably requires to indemnify the Company without causing a loss of such privileges or protections. The Reinsurer shall not have access to Privileged Documents relating to any dispute between the Company and the Reinsurer.
- C. For purposes of this Article:
1. "Privileged Documents" means any documents that are Attorney-Client Privilege Documents and/or Work Product Privilege Documents.
  2. "Attorney-Client Privilege Documents" means communications of a confidential nature between (a) the Company, or anyone retained by or at the direction of the Company, or its in-house or outside legal counsel, or anyone in the control of such legal counsel, and (b) any in-house or outside legal counsel, if such communications relate to legal advice being sought by the Company and/or contain legal advice being provided to the Company.
  3. "Work Product Privilege Documents" means communications, written materials and tangible things prepared by or for in-house or outside counsel, or prepared by or for the Company, in anticipation of or in connection with litigation, arbitration, or other dispute resolution proceedings.

## **ARTICLE 22**

### **CONFIDENTIALITY**

- A. The Reinsurer hereby acknowledges that the documents, information and data provided to it by the Company, whether directly or through an authorized agent, in connection with the placement and execution of this Contract ("Confidential Information") are proprietary and confidential to the Company. Confidential Information shall not include documents, information or data that the Reinsurer can show:

1. are publicly known or have become publicly known through no unauthorized act of the Reinsurer;
  2. have been rightfully received from a third person without obligation of confidentiality; or
  3. were known by the Reinsurer prior to the placement of this Contract without an obligation of confidentiality.
- B. Absent the written consent of the Company, the Reinsurer shall not disclose any Confidential Information to any third parties, including any affiliated companies, except:
1. when required by retrocessionaires as respects business ceded to this Contract;
  2. when required by regulators performing an audit of the Reinsurer's records and/or financial condition; or
  3. when required by external auditors performing an audit of the Reinsurer's records in the normal course of business.
- Further, the Reinsurer agrees not to use any Confidential Information for any purpose not related to the performance of its obligations or enforcement of its rights under this Contract.
- C. Notwithstanding the above, in the event that the Reinsurer is required by court order, other legal process or any regulatory authority to release or disclose any or all of the Confidential Information, the Reinsurer agrees to provide the Company with written notice of same at least 10 days prior to such release or disclosure and to use its best efforts to assist the Company in maintaining the confidentiality provided for in this Article.
- D. The provisions of this Article shall extend to the officers, directors and employees of the Reinsurer and its affiliates, and shall be binding upon their successors and assigns.
- E. Notwithstanding the above, this Confidentiality Article and the Access to Records Article of this Contract shall comply with the confidentiality and non-disclosure agreement previously signed by the Company and the Reinsurer (the "NDA"). The provisions of the NDA shall prevail in the event of conflict between the provisions of this Contract and the provisions of the NDA.

## **ARTICLE 23**

### **INDEMNIFICATION AND ERRORS AND OMISSIONS**

- A. The Reinsurer is reinsuring, subject to the terms and conditions of this Contract, the obligations of the Company under any Policy. The Company shall be the sole judge as to:
1. what shall constitute a claim or loss covered under any Policy;

2. the Company's liability thereunder;
  3. the amount or amounts that it shall be proper for the Company to pay thereunder.
- B. The Reinsurer shall be bound by the judgment of the Company as to the obligation(s) and liability(ies) of the Company under any Policy and under any regulatory requirement relating thereto.
- C. Any inadvertent error, omission or delay in complying with the terms and conditions of this Contract shall not be held to relieve either party hereto from any liability that would attach to it hereunder if such error, omission or delay had not been made, provided such error, omission or delay is rectified within 90 days from the date it was required to be reported pursuant to the Reports Article.

## **ARTICLE 24**

### **INSOLVENCY**

- A. If more than one reinsured company is referenced within the definition of "Company" in the Preamble to this Contract, this Article shall apply severally to each such company. Further, this Article and the laws of the domiciliary state shall apply in the event of the insolvency of any company covered hereunder. In the event of a conflict between any provision of this Article and the laws of the domiciliary state of any company covered hereunder, that domiciliary state's laws shall prevail.
- B. In the event of the insolvency of the Company, this reinsurance (or the portion of any risk or obligation assumed by the Reinsurer, if required by applicable law) shall be payable directly to the Company, or to its liquidator, receiver, conservator or statutory successor, either: (1) on the basis of the liability of the Company, or (2) on the basis of claims filed and allowed in the liquidation proceeding, whichever may be required by applicable statute, without diminution because of the insolvency of the Company or because the liquidator, receiver, conservator or statutory successor of the Company has failed to pay all or a portion of any claim. It is agreed, however, that the liquidator, receiver, conservator or statutory successor of the Company shall give written notice to the Reinsurer of the pendency of a claim against the Company indicating the Policy or bond reinsured, which claim would involve a possible liability on the part of the Reinsurer within a reasonable time after such claim is filed in the conservation or liquidation proceeding or in the receivership, and that during the pendency of such claim, the Reinsurer may investigate such claim and interpose, at its own expense, in the proceeding where such claim is to be adjudicated any defense or defenses that it may deem available to the Company or its liquidator, receiver, conservator or statutory successor. The expense thus incurred by the Reinsurer shall be chargeable, subject to the approval of the court, against the Company as part of the expense of conservation or liquidation to the extent of a pro rata share of the benefit that may accrue to the Company solely as a result of the defense undertaken by the Reinsurer.

- C. Where two or more reinsurers are involved in the same claim and a majority in interest elect to interpose defense to such claim, the expense shall be apportioned in accordance with the terms of this reinsurance Contract as though such expense had been incurred by the Company.
- D. As to all reinsurance made, ceded, renewed or otherwise becoming effective under this Contract, the reinsurance shall be payable as set forth above by the Reinsurer to the Company or to its liquidator, receiver, conservator or statutory successor, (except as provided by Section 4118(a)(1)(A) of the New York Insurance Law, provided the conditions of 1114(c) of such law have been met, if New York law applies) or except  
(1) where the Contract specifically provides another payee in the event of the insolvency of the Company, or (2) where the Reinsurer, with the consent of the direct insured or insureds, has assumed such Policy obligations of the Company as direct obligations of the Reinsurer to the payees under such Policies and in substitution for the obligations of the Company to such payees. Then, and in that event only, the Company, with the prior approval of the certificate of assumption on New York risks by the Superintendent of Financial Services of the State of New York, or with the prior approval of such other regulatory authority as may be applicable, is entirely released from its obligation and the Reinsurer shall pay any loss directly to payees under such Policy.

## **ARTICLE 25**

### **ARBITRATION**

- A. Any dispute arising out of the interpretation, performance or breach of this Contract, including the formation or validity thereof, shall be submitted for decision to a panel of three arbitrators. Notice requesting arbitration shall be in writing and sent certified or registered mail, return receipt requested.
- B. One arbitrator shall be chosen by each party and the two arbitrators shall then choose an impartial third arbitrator who shall preside at the hearing. If either party fails to appoint its arbitrator within 30 days after being requested to do so by the other party, the latter, after 10 days' prior notice by certified or registered mail of its intention to do so, may appoint the second arbitrator.
- C. If the two arbitrators do not agree on a third arbitrator within 60 days of their appointment, the third arbitrator shall be chosen in accordance with the procedures for selecting the third arbitrator in force on the date the arbitration is demanded, established by the AIDA Reinsurance and Insurance Arbitration Society – U.S. (ARIAS). The members of the arbitration panel will be impartial, disinterested, and not currently representing any party participating in the arbitration, and will be current or former senior officers of insurance or reinsurance concerns, experienced in the line(s) of business that are the subject of this Contract. If a member of the panel dies, becomes disabled or is otherwise unwilling or unable to serve, a substitute shall be selected in the same manner as the departing member was chosen and the arbitration shall continue.

- D. Within 30 days after all arbitrators have been appointed, the panel shall meet and determine timely periods for briefs, discovery procedures and schedules of hearings.
- E. The panel shall be relieved of all judicial formality and shall not be bound by the strict rules of procedure and evidence. Notwithstanding anything to the contrary in this Contract, the arbitrators may at their discretion, consider underwriting and placement information provided by the Company to the Reinsurer, as well as any correspondence exchanged by the parties that is related to this Contract. The arbitration shall take place in New York, or at such other place as the parties shall agree. The decision of any two arbitrators shall be in writing and shall be final and binding. The panel is empowered to grant interim relief as it may deem appropriate.
- F. The panel shall interpret this Contract as an honorable engagement rather than as merely a legal obligation and shall make its decision considering the custom and practice of the applicable insurance and reinsurance business as promptly as possible after the hearings. Judgment upon an award may be entered in any court having jurisdiction thereof.
- G. Each party shall bear the expense of its own arbitrator and shall jointly and equally bear with the other party the cost of the third arbitrator. The remaining costs of the arbitration shall be allocated by the panel. The panel may, at its discretion, award such further costs and expenses as it considers appropriate, including but not limited to attorneys' fees, to the extent permitted by law.

## **ARTICLE 26**

### **SERVICE OF SUIT**

- A. This Article applies only to those Subscribing Reinsurers not domiciled in the United States of America, and/or not authorized in any state, territory and/or district of the United States of America where authorization is required by insurance regulatory authorities.
- B. This Article shall not be read to conflict with or override the obligations of the parties to arbitrate their disputes as provided for in the Arbitration Article. This Article is intended as an aid to compelling arbitration or enforcing such arbitration or arbitral award, not as an alternative to the Arbitration Article for resolving disputes arising out of this Contract.
- C. In the event of the failure of the Reinsurer to perform its obligations hereunder, the Reinsurer, at the request of the Company, shall submit to the jurisdiction of a court of competent jurisdiction within the United States. Nothing in this Article constitutes or should be understood to constitute a waiver of the Reinsurer's rights to commence an action in any court of competent jurisdiction in the United States, to remove an action to a United States District Court, or to seek a transfer of a case to another court as permitted by the laws of the United States or of any state in the United States. The Reinsurer, once the appropriate court is selected, whether such court is the one originally chosen by the Company and accepted by the Reinsurer or is determined by removal, transfer, or



otherwise, as provided for above, shall comply with all requirements necessary to give said court jurisdiction and, in any suit instituted against the Reinsurer upon this Contract, shall abide by the final decision of such court or of any appellate court in the event of an appeal.

- D. Service of process in such suit may be made upon Messrs. Mendes and Mount, 750 Seventh Avenue, New York, New York 10019-6829, or another party specifically designated in the applicable Interests and Liabilities Agreement attached hereto. The above-named are authorized and directed to accept service of process on behalf of the Reinsurer in any such suit.
- E. Further, pursuant to any statute of any state, territory or district of the United States that makes provision therefor, the Reinsurer hereby designates the Superintendent, Commissioner or Director of Insurance, or other officer specified for that purpose in the statute, or his successor or successors in office, as its true and lawful attorney upon whom may be served any lawful process in any action, suit or proceeding instituted by or on behalf of the Company or any beneficiary hereunder arising out of this Contract, and hereby designates the above-named as the person to whom the said officer is authorized to mail such process or a true copy thereof.

#### **ARTICLE 27**

#### **SEVERABILITY**

If any provision of this Contract shall be rendered illegal or unenforceable by the laws, regulations or public policy of any state, such provision shall be considered void in such state, but this shall not affect the validity or enforceability of any other provision of this Contract or the enforceability of such provision in any other jurisdiction.

#### **ARTICLE 28**

#### **GOVERNING LAW**

This Contract shall be governed as to performance, administration and interpretation by the laws of the State of New York, exclusive of conflict of law rules. However, with respect to credit for reinsurance, the rules of all applicable states shall apply.

#### **ARTICLE 29**

#### **ENTIRE AGREEMENT**

This Contract, together with the NDA, sets forth all of the duties and obligations between the Company and the Reinsurer and supersedes any and all prior or contemporaneous written agreements with respect to matters referred to in this Contract. This Contract may not be modified or changed except by an amendment to this Contract in writing signed by both parties.

However, this Article shall not be construed as limiting the admissibility of evidence regarding the formation, interpretation, purpose or intent of this Contract.

#### **ARTICLE 30**

##### **NON-WAIVER**

The failure of the Company or the Reinsurer to insist on compliance with this Contract or to exercise any right or remedy hereunder shall not constitute a waiver of any rights contained in this Contract nor prevent either party from thereafter demanding full and complete compliance nor prevent either party from exercising such remedy in the future.

#### **ARTICLE 31**

##### **AGENCY AGREEMENT**

For purposes of sending and receiving notices and payments required by this Contract, Lemonade Insurance Company shall be deemed the agent of all other reinsured companies referenced in this Contract. In no event, however, shall any reinsured company be deemed the agent of another with respect to the terms of the Insolvency Article.

#### **ARTICLE 32**

##### **INTERMEDIARY**

Guy Carpenter & Company, LLC, is hereby recognized as the Intermediary negotiating this Contract for all business hereunder. All communications (including notices, statements, premiums, return premiums, commissions, taxes, losses, Loss Adjustment Expenses, salvages, and loss settlements) relating thereto shall be transmitted to the Company or the Reinsurer through the Intermediary. Payments by the Company to the Intermediary shall be deemed payment to the Reinsurer. Payments by the Reinsurer to the Intermediary shall be deemed payment to the Company only to the extent that such payments are actually received by the Company.

#### **ARTICLE 33**

##### **MODE OF EXECUTION**

A. This Contract may be executed by:

1. an original written ink signature of paper documents;
2. an exchange of facsimile copies showing the original written ink signature of paper documents;

3. electronic signature technology employing computer software and a digital signature or digitizer pen pad to capture a person's handwritten signature in such a manner that the signature is unique to the person signing, is under the sole control of the person signing, is capable of verification to authenticate the signature and is linked to the document signed in such a manner that if the data is changed, such signature is invalidated.
- B. The use of any one or a combination of these methods of execution shall constitute a legally binding and valid signing of this Contract. This Contract may be executed in one or more counterparts, each of which, when duly executed, shall be deemed an original.

**IN WITNESS WHEREOF**, the Company has caused this Contract to be executed by its duly authorized representative(s), who also confirms the Company's review of and agreement to be bound by the terms and conditions of the Interests and Liabilities Agreements attached to and forming part of this Contract, this 2nd day of August, in the year of 2022.

**LEMONADE INSURANCE COMPANY**

including any and/or all companies that are or may hereafter become affiliated therewith

By: /s/ Daniel Schreiber Title: President/CEO

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**AUTOMATIC FACULTATIVE PROPERTY PER RISK EXCESS OF LOSS REINSURANCE CONTRACT**

#### **NUCLEAR INCIDENT EXCLUSION CLAUSE - PHYSICAL DAMAGE - REINSURANCE - U.S.A.**

1. This Reinsurance does not cover any loss or liability accruing to the Reassured, directly or indirectly, and whether as Insurer or Reinsurer, from any Pool of Insurers or Reinsurers formed for the purpose of covering Atomic or Nuclear Energy risks.
2. Without in any way restricting the operation of paragraph (1) of this clause, this Reinsurance does not cover any loss or liability accruing to the Reassured, directly or indirectly and whether as Insurer or Reinsurer, from any insurance against Physical Damage (including business interruption or consequential loss arising out of such Physical Damage) to:
  - I. Nuclear reactor power plants including all auxiliary property on the site, or
  - II. Any other nuclear reactor installation, including laboratories handling radioactive materials in connection with reactor installations, and “critical facilities” as such, or
  - III. Installations for fabricating complete fuel elements or for processing substantial quantities of “special nuclear material”, and for reprocessing, salvaging, chemically separating, storing or disposing of “spent” nuclear fuel or waste materials, or
  - IV. Installations other than those listed in paragraph (2) III above using substantial quantities of radioactive isotopes or other products of nuclear fission.
3. Without in any way restricting the operations of paragraphs (1) and (2) hereof, this Reinsurance does not cover any loss or liability by radioactive contamination accruing to the Reassured, directly or indirectly, and whether as Insurer or Reinsurer, from any insurance on property which is on the same site as a nuclear reactor power plant or other nuclear installation and which normally would be insured therewith except that this paragraph (3) shall not operate
  - (a) where Reassured does not have knowledge of such nuclear reactor power plant or nuclear installation, or
  - (b) where said insurance contains a provision excluding coverage for damage to property caused by or resulting from radioactive contamination, however caused. However on and after 1st January 1960 this sub-paragraph (b) shall only apply provided the said radioactive contamination exclusion provision has been approved by the Governmental Authority having jurisdiction thereof.
4. Without in any way restricting the operations of paragraphs (1), (2) and (3) hereof, this Reinsurance does not cover any loss or liability by radioactive contamination accruing to the Reassured, directly or indirectly, and whether as Insurer or Reinsurer, when such radioactive contamination is a named hazard specifically insured against.

5. It is understood and agreed that this clause shall not extend to risks using radioactive isotopes in any form where the nuclear exposure is not considered by the Reassured to be the primary hazard.
6. The term “special nuclear material” shall have the meaning given it in the Atomic Energy Act of 1954 or by any law amendatory thereof.
7. Reassured to be sole judge of what constitutes:
  - (a) substantial quantities, and
  - (b) the extent of installation, plant or site.

*Note:* Without in any way restricting the operation of paragraph (1) hereof, it is understood and agreed that

- (a) all policies issued by the Reassured on or before 31st December 1957 shall be free from the application of the other provisions of this Clause until expiry date or 31st December 1960 whichever first occurs whereupon all the provisions of this Clause shall apply.
- (b) with respect to any risk located in Canada policies issued by the Reassured on or before 31st December 1958 shall be free from the application of the other provisions of this Clause until expiry date or 31st December 1960 whichever first occurs whereupon all the provisions of this Clause shall apply.

12/12/57  
NMA 1119

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NOTES: Wherever used herein the terms:

“Reassured” shall be understood to mean “Company”, “Reinsured”, “Reassured” or whatever other term is used in the attached reinsurance document to designate the reinsured company or companies.

“Agreement” shall be understood to mean “Agreement”, “Contract”, “Policy” or whatever other term is used to designate the attached reinsurance document.

“Reinsurers” shall be understood to mean “Reinsurers”, “Underwriters” or whatever other term is used in the attached reinsurance document to designate the reinsurer or reinsurers.

#### NUCLEAR INCIDENT EXCLUSION CLAUSE - LIABILITY - REINSURANCE - U.S.A.

- (1) This reinsurance does not cover any loss or liability accruing to the Reassured as a member of, or subscriber to, any association of insurers or reinsurers formed for the purpose of covering nuclear energy risks or as a direct or indirect reinsurer of any such member, subscriber or association.
- (2) Without in any way restricting the operation of paragraph (1) of this Clause it is understood and agreed that for all purposes of this reinsurance all the original policies of the Reassured (new, renewal and replacement) of the classes specified in Clause II of this paragraph (2) from the time specified in Clause III in this paragraph (2) shall be deemed to include the following provision (specified as the Limited Exclusion Provision):

##### **Limited Exclusion Provision.\***

- I. It is agreed that the policy does not apply under any liability coverage, to

*injury, sickness, disease, death or destruction*

bodily injury or property damage

with respect to which an insured under the policy is also an insured under a nuclear energy liability policy issued by Nuclear Energy Liability Insurance Association, Mutual Atomic Energy Liability Underwriters or Nuclear Insurance Association of Canada, or would be an insured under any such policy but for its termination upon exhaustion of its limit of liability.

- II. Family Automobile Policies (liability only), Special Automobile Policies (private passenger automobiles, liability only), Farmers Comprehensive Personal Liability Policies (liability only), Comprehensive Personal Liability Policies (liability only) or policies of a similar nature; and the liability portion of combination forms related to the four classes of policies stated above, such as the Comprehensive Dwelling Policy and the applicable types of Homeowners Policies.

- III. The inception dates and thereafter of all original policies as described in II above, whether new, renewal or replacement, being policies which either

(a) become effective on or after 1st May, 1960, or

(b) become effective before that date and contain the Limited Exclusion Provision set out above;

provided this paragraph (2) shall not be applicable to Family Automobile Policies, Special Automobile Policies, or policies or combination policies of a similar nature, issued by the Reassured on New York risks, until 90 days following approval of the Limited Exclusion Provision by the Governmental Authority having jurisdiction thereof.

- (3) Except for those classes of policies specified in Clause II of paragraph (2) and without in any way restricting the operation of paragraph (1) of this Clause, it is understood and agreed that for all purposes of this reinsurance the original liability policies of the Reassured (new, renewal and replacement) affording the following coverages:

Owners, Landlords and Tenants Liability, Contractual Liability, Elevator Liability, Owners or Contractors (including railroad) Protective Liability, Manufacturers and Contractors Liability, Product Liability, Professional and Malpractice Liability, Storekeepers Liability, Garage Liability, Automobile Liability (including Massachusetts Motor Vehicle or Garage Liability)

shall be deemed to include, with respect to such coverages, from the time specified in Clause V of this paragraph (3), the following provision (specified as the Broad Exclusion Provision):

**Broad Exclusion Provision.\***

It is agreed that the policy does not apply:

I. Under any Liability Coverage, to

*injury, sickness, disease, death or destruction*

bodily injury or property damage

- (a) with respect to which an insured under the policy is also an insured under a nuclear energy liability policy issued by Nuclear Energy Liability Insurance Association, Mutual Atomic Energy Liability Underwriters or Nuclear Insurance Association of Canada, or would be an insured under any such policy but for its termination upon exhaustion of its limit of liability; or
- (b) resulting from the hazardous properties of nuclear material and with respect to which (1) any person or organization is required to maintain financial protection pursuant to the Atomic Energy Act of 1954, or any law amendatory thereof, or  
(2) the insured is, or had this policy not been issued would be, entitled to indemnity from the United States of America, or any agency thereof, under any agreement entered into by the United States of America, or any agency thereof, with any person or organization.

II. Under any Medical Payments Coverage, or under any Supplementary Payments Provision relating to

*immediate medical or surgical relief*

first aid,



to expenses incurred with respect to

*bodily injury, sickness, disease or death*

bodily injury

resulting from the hazardous properties of nuclear material and arising out of the operation of a nuclear facility by any person or organization.

III. Under any Liability Coverage, to

*injury, sickness, disease, death or destruction*

bodily injury or property damage

resulting from the hazardous properties of nuclear material, if

- (a) the nuclear material (1) is at any nuclear facility owned by, or operated by or on behalf of, an insured or (2) has been discharged or dispersed therefrom;
- (b) the nuclear material is contained in spent fuel or waste at any time possessed, handled, used, processed, stored, transported or disposed of by or on behalf of an insured; or
- (c) the

*injury, sickness, disease, death or destruction*

bodily injury or property damage

arises out of the furnishing by an insured of services, materials, parts or equipment in connection with the planning, construction, maintenance, operation or use of any nuclear facility, but if such facility is located within the United States of America, its territories or possessions or Canada, this exclusion

(c) applies only to

*injury to or destruction of property at such nuclear facility.*

property damage to such nuclear facility and any property thereat.

IV. As used in this endorsement:

“**hazardous properties**” include radioactive, toxic or explosive properties; “**nuclear material**” means source material, special nuclear material or byproduct material; “**source material**”, “**special nuclear material**”, and “**byproduct material**” have the

meanings given them in the Atomic Energy Act of 1954 or in any law amendatory thereof; “**spent fuel**” means any fuel element or fuel component, solid or liquid, which has been used or exposed to radiation in a nuclear reactor; “**waste**” means any waste material (1) containing byproduct material other than the tailings or wastes produced by the extraction or concentration of uranium or thorium from any ore processed primarily for its source material content and (2) resulting from the operation by any person or organization of any nuclear facility included under the first two paragraphs of the definition of nuclear facility; “**nuclear facility**” means

- (a) any nuclear reactor,
- (b) any equipment or device designed or used for (1) separating the isotopes of uranium or plutonium, (2) processing or utilizing spent fuel, or (3) handling, processing or packaging waste,
- (c) any equipment or device used for the processing, fabricating or alloying of special nuclear material if at any time the total amount of such material in the custody of the insured at the premises where such equipment or device is located consists of or contains more than 25 grams of plutonium or uranium 233 or any combination thereof, or more than 250 grams of uranium 235,
- (d) any structure, basin, excavation, premises or place prepared or used for the storage or disposal of waste,

and includes the site on which any of the foregoing is located, all operations conducted on such site and all premises used for such operations; “**nuclear reactor**” means any apparatus designed or used to sustain nuclear fission in a self-supporting chain reaction or to contain a critical mass of fissionable material;

*With respect to injury to or destruction of property, the word “injury” or “destruction” includes all forms of radioactive contamination of property. “property damage” includes all forms of radioactive contamination of property.*

- V. The inception dates and thereafter of all original policies affording coverages specified in this paragraph (3), whether new, renewal or replacement, being policies which become effective on or after 1st May, 1960, provided this paragraph (3) shall not be applicable to

- (i) Garage and Automobile Policies issued by the Reassured on New York risks, or
- (ii) statutory liability insurance required under Chapter 90, General Laws of Massachusetts,

until 90 days following approval of the Broad Exclusion Provision by the Governmental Authority having jurisdiction thereof.

- (4) Without in any way restricting the operation of paragraph (1) of this Clause, it is understood and agreed that paragraphs (2) and (3) above are not applicable to original liability policies of the Reassured in Canada and that with respect to such policies this Clause shall be deemed to include the Nuclear Energy Liability Exclusion Provisions adopted by the Canadian Underwriters' Association or the Independent Insurance Conference of Canada.

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**\*NOTE. The words printed in italics in the Limited Exclusion Provision and in the Broad Exclusion Provision shall apply only in relation to original liability policies which include a Limited Exclusion Provision or a Broad Exclusion Provision containing those words.**

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NOTES: Wherever used herein the terms:

“Reassured” shall be understood to mean “Company”, “Reinsured”, “Reassured” or whatever other term is used in the attached reinsurance document to designate the reinsured company or companies.

“Agreement” shall be understood to mean “Agreement”, “Contract”, “Policy” or whatever other term is used to designate the attached reinsurance document.

“Reinsurers” shall be understood to mean “Reinsurers”, “Underwriters” or whatever other term is used in the attached reinsurance document to designate the reinsurer or reinsurers.

21/9/67  
NMA 1590 (amended)

### **TRUST AGREEMENT REQUIREMENTS CLAUSE**

- A. Except as provided in paragraph B of this Clause, if the Reinsurer satisfies its funding obligations under the Unauthorized Reinsurance Article by providing a Trust Agreement, the Reinsurer shall ensure that the Trust Agreement:
1. Requires the Reinsurer to establish a trust account for the benefit of the Company, and specifies what the Trust Agreement is to cover;
  2. Stipulates that assets deposited in the trust account shall be valued according to their current fair market value and shall consist only of cash (United States legal tender), certificates of deposit (issued by a United States bank and payable in United States legal tender), and investments of the types permitted by the regulatory authorities having jurisdiction over the Company's reserves, or any combination of the three, provided that the investments are issued by an institution that is not the parent, subsidiary or affiliate of either the Reinsurer or the Company;
  3. Requires the Reinsurer, prior to depositing assets with the trustee, to execute assignments or endorsements in blank, or to transfer legal title to the trustee of all shares, obligations or any other assets requiring assignments, in order that the Company, or the trustee upon the direction of the Company, may whenever necessary negotiate these assets without consent or signature from the Reinsurer or any other entity;
  4. Requires that all settlements of account between the Company and the Reinsurer be made in cash or its equivalent; and
  5. Provides that assets in the trust account shall be withdrawn only as permitted in this Contract, without diminution because of the insolvency of the Company or the Reinsurer.
- B. If a ceding insurer is domiciled in California and the Reinsurer satisfies its funding obligations under the Unauthorized Reinsurance Article by providing a Trust Agreement, the Reinsurer shall ensure that the Trust Agreement:
1. Provides that assets deposited in the trust account shall be valued according to their current fair market value and shall consist only of cash in United States dollars, certificates of deposit issued by a United States financial institution as defined in California Insurance Code Section 922.7(a) and payable in United States dollars, and investments permitted by the California Insurance Code, or any combination of the above.
  2. Provides that investments in or issued by an entity controlling, controlled by or under common control with either the grantor or the beneficiary of the trust shall not exceed 5% of total investments.

3. Requires the Reinsurer, prior to depositing assets with the trustee, to execute assignments or endorsements in blank, or to transfer legal title to the trustee of all shares, obligations or any other assets requiring assignments, in order that the ceding insurer, or the trustee upon the direction of the ceding insurer, may, whenever necessary, negotiate these assets without consent or signature from the Reinsurer or any other entity.
  4. Provides that assets in the trust account shall be withdrawn only as permitted in this Contract, without diminution because of the insolvency of the ceding insurer or the Reinsurer.
- C. If there are multiple ceding insurers that collectively comprise the Company, “regulatory authorities” as referenced in subparagraph A(2) above, shall mean the individual ceding insurer’s domestic regulator.

## POOLS, ASSOCIATIONS & SYNDICATES EXCLUSION CLAUSE

### Section A:

This Contract excludes:

- a. All business derived directly or indirectly from any Pool, Association or Syndicate which maintains its own reinsurance facilities.
- b. Any Pool or Scheme (whether voluntary or mandatory) formed after March 1, 1968 for the purpose of insuring property, whether on a country-wide basis or in respect of designated areas. This exclusion shall not apply to so-called Automobile Insurance Plans or other Pools formed to provide coverage for Automobile Physical Damage.

### Section B:

1. This Contract excludes business written by the Company for the same perils, which is known at the time to be insured by, or in excess of underlying amounts placed in, any Pool, Association or Syndicate, whether by way of insurance or reinsurance, formed for the purpose of writing any of the following:

Oil, Gas or Petro-Chemical Plants Oil or Gas Drilling Rigs and/or  
Aviation Risks

2. The exclusion under paragraph 1 of this Section B does not apply:

- a. Where the Total Insured Value over all interests of the risk in question is less than \$250,000,000.
- b. To interests traditionally underwritten as Inland Marine and/or Stock and/or Contents written on a Blanket basis.
- c. To Contingent Business Interruption, except when the Company is aware that the key location is known at the time to be insured in any Pool, Association or Syndicate named above, other than as provided for under subparagraph (a).

NOTES: Wherever used herein the terms:

“Company” shall be understood to mean “Company”, “Reinsured”, “Reassured” or whatever other term is used in the attached reinsurance document to designate the reinsured company or companies.

“Agreement” shall be understood to mean “Agreement”, “Contract”, “Policy” or whatever other term is used to designate the attached reinsurance document.

“Reinsurers” shall be understood to mean “Reinsurers”, “Underwriters” or whatever other term is used in the attached reinsurance document to designate the reinsurer or reinsurers.

## EXHIBIT A - ISO TYPES 1-6: CONSTRUCTION CODE DESCRIPTIONS

### ISO Types 1-6: Construction Code Descriptions

#### ISO 1 – Frame (combustible walls and/or roof)

Class 1B

Buildings where the exterior walls are wood or other combustible materials, including construction where the combustible materials are combined with other materials such as brick veneer, stone veneer, wood iron-clad and stucco on wood.

Wood frame walls, floors, and roof deck

Brick Veneer, wood/hardplank siding, stucco cladding

Wood frame roof with wood decking and typical roof covers below:

- \*Shingles
- \*Clay/concrete tiles
- \*BUR (built up roof with gravel or modified bitumen)
- \*Single-ply membrane
- \*Less Likely metal sheathing covering
- \*May be gable, hip, flat or combination of geometries

Roof anchorage

- \*Toe nailed
- \*Clips
- \*Single Wraps
- \*Double Wraps

**Examples:** Primarily Habitational, max 3-4 stories

#### ISO 2 – Joisted Masonry (JM) (noncombustible masonry walls with wood frame roof)

Class 2B

Buildings where the exterior walls are wood or other combustible materials, including construction where the combustible materials are combined with other materials such as brick veneer, stone veneer, wood iron-clad and stucco on wood.

Concrete block, masonry, or reinforced masonry load bearing exterior walls

- \*If reported as CB walls only, verify if wood frame (ISO 2) or steel/noncombustible frame roof (ISO 4)
- \*verify if wood frame walls (Frame ISO 1) or wood framing in roof only (JM ISO 2)

Stucco, brick veneer, painted CB, or EIFS exterior cladding

Floors in multi-story buildings are wood framed/wood deck or can be concrete on wood or steel deck.

Wood frame roof with wood decking and typical roof covers below:

- \*Shingles
- \*Clay/concrete tiles
- \*BUR (built up roof with gravel or modified bitumen)
- \*Single-ply membrane
- \*Less Likely metal sheathing covering
- \*May be gable, hip, flat or combination of geometries

Roof anchorage

- \*Toe nailed
- \*Clips
- \*Single Wraps
- \*Double Wraps

**Examples:** Primarily Habitational, small office/retail, max 3-4 stories

If "tunnel form" construction meaning there is a concrete deck above the top floor ceiling with wood frame roof over the top concrete deck, this will react to wind forces much the same way as typical JM construction. It is slightly better from a fire rating standpoint and from a wind standpoint in terms of potential damage if the wood frame is damaged. Please provide comments in the construction details of SOV for this type of construction.

**A subset of JM Construction is Heavy Timber Joisted Masonry JM Class II, also known as ISO 7 (Class 7AB).** This is Joisted Masonry constructed buildings where the following additional conditions exist: Where the entire roof has a minimum thickness of 2 inches with Roof Supported by timber and having a minimum dimension of 6 inches, or where the entire roof assembly is documented to have a UL wind uplift classification of 90 or equivalent.



## ISO Types 1-6: Construction Code Descriptions

### ISO 3 - Non Combustible (NC)

Class 3B / NC-I (non-combustible)

Buildings where the exterior walls and the floors and roof are constructed of and supported by metal, asbestos, gypsum or other non-combustible materials.

Minimal combustible materials in the building construction

Typical steel frame walls with masonry in-fill, brick veneer, metal sheathing, EIFS. Steel framing is load bearing portion of the building frame. AMBS (all metal building system) pre-engineered construction is common. Light steel frame ISO 3 smaller geometry with no interior building support columns. Heavier ISO 3 larger geometries with internal support columns and heavier roof framing. If multi-story, floors are commonly concrete on steel frame on steel deck.

#### Roof deck and roof cover systems:

##### \*Steel deck

- BUR (built up roof with gravel or modified bitumen)
- Single-ply membrane
- Lesser extent foam/spray applied roof which is typically applied over an existing roof cover – this is not considered a roof cover replacement.
- Usually flat/low sloped

##### \*Metal

- Lap seam metal panel (exposed fasteners)
- Standing seam metal panel (concealed fasteners)
- May or may not be coated/sealed
- May be gable, hip, flat or combination of geometries

#### Roof anchorage:

\*Light steel frame ISO 3 may still incorporate clips, single wraps, or double wraps

\*Because of heavier construction with no wood framing in roof, roof to wall anchorage is typically an engineered bolted and/or structural roof connection. Toe nailing, Clips, single wraps, double wraps do not apply.

**Examples:** warehouses, manufacturing facilities

**A subset of NC Construction is Superior Non-Combustible Construction NC-II, also known as ISO 8 (Class 8AB).** This shall apply to Non-combustible constructed buildings where the following additional conditions exist: Where the entire roof is constructed of 2 inches of masonry on steel supports; or, where the entire roof is constructed of 22 gauge metal (or heavier) on steel supports; or, where the entire roof assembly is documented to have a wind uplift classification of 90 or equivalent.

### ISO 4 - Masonry Non Combustible (MNC)

Class 4AB / MNC-I

Buildings where the exterior walls are constructed of masonry materials as described in code 2 above, with the floors and roof of metal or other non-combustible materials.

Concrete block, reinforced masonry, tilt-up concrete load bearing walls – may be combined with some heavy steel framing. Floors commonly concrete on steel deck for multi-story buildings. Roof construction is typically heavy steel frames.

#### Roof deck and roof cover systems:

\*Steel deck with insulation boards (commonly called insulated steel deck roofing system)

- BUR (built up roof with gravel or modified bitumen)
- Single ply membrane
- Lesser extent foam/spray applied roof which is typically applied over an existing roof cover – this is not considered a roof cover replacement.
- Flat/low sloped

\*Lightweight insulating concrete or gypsum board on steel deck

- BUR (built up roof with gravel or modified bitumen)
- Single ply membrane
- Lesser extent foam/spray applied roof which is typically applied over an existing roof cover – this is not considered a roof cover replacement.

## ISO Types 1-6: Construction Code Descriptions

- Flat/slow slope
- Sometimes possibly heavier concrete on steel deck or precast concrete panels for roof frame may still be considered ISO 4 if exposed steel is not fire proofed to obtain fire ratings needed to be ISO 5.

- \*Steel frame with metal sheathing roof cover
  - Lap seam metal panel (exposed fasteners)
  - Standing seam metal panel (concealed fasteners)
  - May or may not be coated/sealed
  - May be gable, hip, flat or combination of geometries

### Roof anchorage

- \*Because of heavier construction with no wood framing in roof, roof to wall anchorage is typically an engineered bolted and/or structural roof connection. Toe nailing, Clips, single wraps, double wraps do not apply.

Walls have minimum 1 hour fire rating

**Examples:** shopping centers, strip centers, office buildings, warehouses, schools

**A subset of MNC Construction is Superior Masonry Non-Combustible Construction MNC-II, also known as ISO 9 (Class 9A).** This shall apply to Masonry Non-combustible constructed buildings where the following additional conditions exist: Where the entire roof is constructed of 2 inches of masonry on steel supports; or, where the entire roof is constructed of 22 gauge metal (or heavier) on steel supports; or, where the entire roof assembly is documented to have wind uplift classification of 90 or equivalent.

## ISO 5 - Modified or Semi Fire Resistive (MFR or SFR)

Class 5A

Overall construction of fire resistive materials with fire rating less than 2 hours but greater than 1 hour. Exterior walls, floors and roof deck typically of masonry materials not less than 4 in thick but less thick than required for the 2 hour minimum rating for fire resistive construction.

Protected steel and/or concrete or heavy masonry walls and floors.

Semi wind resistive

### Roof deck and roof cover systems

- \*Heavy steel frame with concrete poured on steel deck
  - BUR (built up roof with gravel or modified bitumen)
  - Single ply membrane
  - Lesser extent foam/spray applied roof which is typically applied over an existing roof cover – this is not considered a roof cover replacement.
  - Flat/low sloped
  - Exposed steel must be fireproofed to achieve required fire rating
- \*Precast concrete (PC) panels
  - BUR (built up roof with gravel or modified bitumen)
  - Single ply membrane
  - Lesser extent foam/spray applied roof which is typically applied over an existing roof cover – this is not considered a roof cover replacement.
  - Flat/low sloped
- \*Steel deck with insulation boards, gypsum, lightweight insulating concrete
  - BUR (built up roof with gravel or modified bitumen)
  - Single ply membrane
  - Lesser extent foam/spray applied roof which is typically applied over an existing roof cover – this is not considered a roof cover replacement.
  - Flat/low sloped
  - Exposed steel must be fire proofed to achieve required fire rating.

### Roof anchorage

- \*Because of heavier construction with no wood framing in roof, roof to wall anchorage is typically an engineered bolted and/or structural roof connection. Toe nailing, Clips, single wraps, double wraps do not apply.

**Examples:** high and mid-rise office buildings and condos

## ISO Types 1-6: Construction Code Descriptions

### ISO 6 - Fire Resistive (FR)

Class 6A

Fire rating not less than 2 hours for walls, floors, and roofs. This typically requires walls of masonry materials minimum of 4 in thick, hollow masonry minimum 8 in thick, floors and roofs minimum of 4 in thick reinforced concrete, and any structural steel load bearing components with minimum of 2 hour fire rating.

Reinforced Concrete Construction building frame and floors and/or very well protected steel and concrete Floors are minimum 4" cast in place concrete, precast concrete or concrete on protected steel

Wind resistive

Precast construction - brought in from elsewhere / Cast in Place is poured on site

#### Roof deck and roof cover systems

\*Cast in place reinforced concrete or precast concrete

-BUR (built up roof with gravel or modified bitumen)

-Single ply membrane

-Lesser extent foam/spray applied roof which is typically applied over an existing roof cover – this is not considered a roof cover replacement

-Flat/low sloped

-In some cases, structural concrete poured on steel deck, but exposed steel must be fireproofed to achieve required minimum 2 hour fire rating

-If exposed concrete, such as on parking deck, leave roof cover as Unknown on SOV. This is typically an exposed or sealed concrete roof deck and the ISO 5 or 6 construction and occupancy will account for the roof deck/cover type. Can provide construction comment on SOV.

#### Roof anchorage

\*Because of heavier construction with no wood framing in roof, roof to wall anchorage is typically an engineered bolted and/or structural roof connection. Toe nailing, Clips, single wraps, double wraps do not apply.

**Examples:** high-rise office buildings and condos, parking garages

I, Daniel Schreiber, certify that:

- Date: August 9, 2022

By: /s/ Daniel Schreiber  
Daniel Schreiber  
Co-Chief Executive Officer  
(*co-principal executive officer*)

# CERTIFICATION

I, Shai Wininger, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Lemonade, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2022

By: /s/ Shai Wininger  
 Shai Wininger  
 Co-Chief Executive Officer  
*(co-principal executive officer)*

## CERTIFICATION

I, Tim Bixby, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Lemonade, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2022

By: /s/ Tim Bixby  
Tim Bixby  
Chief Financial Officer  
(*principal financial officer*)

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ Daniel Schreiber  
Daniel Schreiber  
Co-Chief Executive Officer  
(*co-principal executive officer*)

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ Shai Wininger  
Shai Wininger  
Co-Chief Executive Officer  
(*co-principal executive officer*)



1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ Tim Bixby  
Tim Bixby  
Chief Financial Officer  
(principal financial officer)