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 September 30, 2023

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	**32-0469673**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
5 Crosby Street, 3rd Floor New York, New York	**10013**
(Address of principal executive offices)	**(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
Warrants to Purchase Common Stock	LMND.WS	New York Stock Exchange American

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	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

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 November 2, 2023, the registrant had 69,923,569 shares of common stock, $0.00001 par value per share, outstanding.

Table of Contents

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, our ability to maintain reinsurance contracts, the impact of the evolving conflict in Israel and surrounding region 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 subsidiaries 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, telematics, mobile technology and our digital platforms to collect data 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 prohibit or restrict our ability to collect or use 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 regulators, 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 be exposed to increased litigation, which could have an adverse effect on our business and operations.

- The insurance business, including the market for renters, homeowners, pet and automobile 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.
- Climate risks, including risks associated with disruptions caused by the transition to a low-carbon economy, could adversely affect our business, results of operations and financial condition.
- Increasing scrutiny, actions and changing expectations from investors, clients, regulators and our employees with respect to environmental, social and governance ("ESG") matters may impose additional costs on us, impact our access to capital, or expose us to new or additional risks.
- 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 subsidiaries are 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.
- SoftBank has sole voting and dispositive voting control over approximately 17.1% of our common stock as of September 30, 2023. This concentration of voting control could limit the ability of our stockholders 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, including the evolving conflict in Israel and the surrounding region.
- The impact of the Customer Investment Agreement with General Catalyst is unpredictable, and the arrangement may not function as expected, and its failure to do so could materially and adversely impact our financial condition and results of operations.

- 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, 2022 (the "Annual Report on Form 10-K") and 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. In this Quarterly Report, unless we indicate otherwise or the context requires, "Lemonade," the “Company," "we," "our," "ours" and "us" refer to Lemonade, Inc. and its consolidated subsidiaries, including Lemonade Insurance Company, Lemonade Insurance Agency, LLC, and Metromile, LLC.

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	
	September 30, 2023	December 31, 2022
	(Unaudited)	
Assets		
Investments		
Fixed maturities available-for-sale, at fair value (amortized cost: $645.4 million and $673.5 million as of September 30, 2023 and December 31, 2022, respectively)	$ 633.4	$ 650.3
Short-term investments (cost: $73.4 million and $99.9 million as of September 30, 2023 and December 31, 2022, respectively)	73.4	99.8
Total investments	706.8	750.1
Cash, cash equivalents and restricted cash	238.1	286.5
Premium receivable, net of allowance for credit losses of $2.5 million and $2.7 million as of September 30, 2023 and December 31, 2022, respectively	223.2	179.6
Reinsurance recoverable	144.6	156.8
Prepaid reinsurance premium	197.6	164.5
Deferred acquisition costs	8.1	6.9
Property and equipment, net	17.4	19.6
Intangible assets	25.2	32.5
Goodwill	19.0	19.0
Other assets	67.6	75.2
Total assets	$ 1,647.6	$ 1,690.7
Liabilities and Stockholders' Equity		
Unpaid loss and loss adjustment expense	$ 255.1	$ 256.2
Unearned premium	355.6	288.0
Trade payables	2.7	1.1
Funds held for reinsurance treaties	131.1	136.0
Deferred ceding commission	39.1	39.7
Ceded premium payable	36.3	18.4
Borrowings under financing agreement	7.7	—
Other liabilities and accrued expenses	93.1	84.5
Total liabilities	920.7	823.9
Commitments and Contingencies (Note 16)		
Stockholders' equity		
Common stock, $0.00001 par value, 200,000,000 shares authorized; 69,909,356 and 69,275,030 shares issued and outstanding as of September 30, 2023 and December 31, 2022, respectively	—	—
Additional paid-in capital	1,800.2	1,754.1
Accumulated deficit	(1,054.2)	(859.7)
Accumulated other comprehensive loss	(19.1)	(27.6)
Total stockholders' equity	726.9	866.8
Total liabilities and stockholders' equity	$ 1,647.6	$ 1,690.7

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

LEMONADE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

($ in millions, except share and per share amounts)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Revenue				
Net earned premium	$ 86.6	$ 50.6	$ 231.3	$ 109.2
Ceding commission income	16.7	16.9	51.4	46.4
Net investment income	7.0	2.6	17.6	4.7
Commission and other income	4.2	3.9	14.0	8.0
Total revenue	114.5	74.0	314.3	168.3
Expense				
Loss and loss adjustment expense, net	75.9	53.3	215.4	105.8
Other insurance expense	15.1	12.1	43.7	30.9
Sales and marketing	24.4	35.8	77.4	111.1
Technology development	21.8	21.4	67.7	56.1
General and administrative	36.9	40.5	100.3	91.1
Total expense	174.1	163.1	504.5	395.0
Loss before income taxes	(59.6)	(89.1)	(190.2)	(226.7)
Income tax expense	1.9	2.3	4.3	7.4
Net loss	$ (61.5)	$ (91.4)	$ (194.5)	$ (234.1)
Other comprehensive loss, net of tax				
Unrealized gain (loss) on investments in fixed maturities	2.9	(5.0)	10.1	(23.8)
Foreign currency translation adjustment	(1.0)	(1.5)	(1.6)	(8.1)
Comprehensive loss	$ (59.6)	$ (97.9)	$ (186.0)	$ (266.0)
Per share data:				
Net loss per share attributable to common stockholders—basic and diluted	$ (0.88)	$ (1.37)	$ (2.80)	$ (3.69)
Weighted average common shares outstanding—basic and diluted	69,753,576	66,877,100	69,542,342	63,482,945

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										
	Shares		Amount		Additional Paid-In Capital		Accumulated Deficit		Accumulated Other Comprehensive (Loss) Income		Total Stockholders' Equity
Balance as of December 31, 2022	69,275,030	$	—	$	1,754.1	$	(859.7)	$	(27.6)	$	866.8
Exercise of stock options and distribution of restricted stock units	174,318		—		0.1		—		—		0.1
Stock-based compensation	—		—		15.4		—		—		15.4
Net loss	—		—		—		(65.8)		—		(65.8)
Other comprehensive income	—		—		—		—		5.3		5.3
Balance as of March 31, 2023	69,449,348	$	—	$	1,769.6	$	(925.5)	$	(22.3)	$	821.8
Exercise of stock options and distribution of restricted stock units	218,828		—		0.3		—		—		0.3
Stock-based compensation	—		—		14.8		—		—		14.8
Net loss	—		—		—		(67.2)		—		(67.2)
Other comprehensive loss	—		—		—		—		1.3		1.3
Balance as of June 30, 2023	69,668,176	$	—	$	1,784.7	$	(992.7)	$	(21.0)	$	771.0
Exercise of stock options and distribution of restricted stock units	241,180		—		0.1		—		—		0.1
Stock-based compensation	—		—		15.4		—		—		15.4
Net loss	—		—		—		(61.5)		—		(61.5)
Other comprehensive loss	—		—		—		—		1.9		1.9
Balance as of September 30, 2023	69,909,356	$	—	$	1,800.2	$	(1,054.2)	$	(19.1)	$	726.9
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 and distribution of restricted stock units	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
Issuance of common stock from acquisition of Metromile (Note 5)	6,901,934		—		137.7		—		—		137.7
Exercise of stock options and distribution of restricted stock units	350,835		—		2.3		—		—		2.3
Stock-based compensation	—		—		15.6		—		—		15.6
Net loss	—		—		—		(91.4)		—		(91.4)
Other comprehensive income	—		—		—		—		(6.5)		(6.5)
Balance as of September 30, 2022	69,120,346	$	—	$	1,738.1	$	(796.0)	$	(35.3)	$	906.8

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)

	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
Cash flows from operating activities:		
Net loss	$ (194.5)	$ (234.1)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	15.2	6.8
Stock-based compensation	45.6	43.6
Amortization of discount on bonds	(1.3)	5.9
Provision for bad debt	6.0	6.4
Asset impairment charge	3.7	—
Changes in operating assets and liabilities:		
Premium receivable	(49.6)	(49.8)
Reinsurance recoverable	12.2	(32.2)
Prepaid reinsurance premium	(33.1)	(32.1)
Deferred acquisition costs	(1.2)	(1.4)
Other assets	5.0	(5.1)
Unpaid loss and loss adjustment expense	(1.1)	46.5
Unearned premium	67.6	71.5
Trade payables	1.6	(0.3)
Funds held for reinsurance treaties	(4.9)	28.6
Deferred ceding commissions	(0.6)	6.5
Ceded premium payable	17.9	(5.8)
Other liabilities and accrued expenses	8.5	10.6
Net cash used in operating activities	(103.0)	(134.4)
Cash flows from investing activities:		
Acquisition of business, net of cash acquired	—	98.8
Proceeds from short-term investments sold or matured	115.2	150.0
Proceeds from bonds sold or matured	300.0	90.0
Cost of short-term investments acquired	(71.5)	(118.3)
Cost of bonds acquired	(288.8)	(119.4)
Purchases of property and equipment	(6.8)	(7.5)
Net cash provided by investing activities	48.1	93.6
Cash flows from financing activities:		
Proceeds from borrowings under financing agreement	9.3	—
Payments on borrowings under financing agreement	(1.6)	—
Proceeds from stock exercises	0.5	3.3
Net cash provided by financing activities	8.2	3.3
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(1.7)	(8.1)
Net decrease in cash, cash equivalents and restricted cash	(48.4)	(45.6)
Cash, cash equivalents and restricted cash at beginning of period	286.5	270.6
Cash, cash equivalents and restricted cash at end of period	$ 238.1	$ 225.0
Supplemental disclosure of cash flow information:		
Cash paid for income taxes	$ 0.6	$ 3.4
Cash paid for interest expense on borrowings under financing agreement	$ 0.1	$ —

Non-cash transactions:		
Warrants assumed from acquisition of Metromile	$ —	$ 0.8

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, 2022 as included in the Company's Annual Report on Form 10-K (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 nine months ended September 30, 2023 and year ended December 31, 2022 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. In addition, the evolving conflict in Israel and surrounding region has increased global economic and political uncertainty. There is still uncertainty regarding the extent to which the war and its broader macroeconomic implications will impact our operations in Israel. We will continue to evaluate the extent to which this may impact our business, financial condition, or results of operations.

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, 2022 was derived from audited annual financial statements and 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, 2022 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 consolidated 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 recoverable on unpaid losses, intangible assets, and valuation allowance on deferred tax assets.

4. Summary of Significant Accounting Policies

Cash, cash equivalents and restricted cash

The following represents the Company's cash, cash equivalents and restricted cash as of September 30, 2023 and December 31, 2022:

	September 30, 2023	December 31, 2022
Cash and cash equivalents	$ 231.7	$ 282.5
Restricted cash	6.4	4.0
Total cash, cash equivalents and restricted cash	$ 238.1	$ 286.5

Cash and cash equivalents consist primarily of bank deposits and money market accounts with maturities of three months or less at the date of acquisition and are stated at cost, which approximates fair value. The Company's restricted cash primarily relates to security deposits for certain office leases. The Company also collects insurance policy premiums that it holds in a segregated cash account for transmittal to the underwriting carrier, or settlement of insurance related claims. The carrying value of restricted cash approximates fair value.

New Accounting Pronouncements

There are no new accounting standards not yet implemented that are expected to have a material effect on the Company's consolidated financial statements.

5. Acquisition of Metromile

On July 28, 2022 (the "Acquisition Date"), the Company completed its 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 "Metromile Acquisition"). The Company acquired 100% of Metromile's equity through an all-stock transaction based upon the exchange ratio of 0.05263 shares of Lemonade for each outstanding share of Metromile. As a result of the acquisition, Metromile stockholders received 6,901,934 shares of Lemonade's common stock, with minimal cash paid in lieu of fractional shares. In addition, upon closing of the Metromile Acquisition, the Company assumed all outstanding and unexercised options, and outstanding restricted stock units (collectively referred to as "replacement awards") as of the Acquisition Date, which were converted into corresponding awards using the same exchange ratio of 0.05263 and with substantially identical terms and conditions prior to the close of the Metromile Acquisition.

Fair value of consideration transferred for the Metromile Acquisition is as follows ($ in millions):

Metromile issued and outstanding stock exchanged for Lemonade common stock [1]	$	136.9
Contingent consideration [2]		—
Metromile vested awards exchanged for Lemonade awards [3]		0.8
Total Purchase Consideration	$	137.7

(1) The fair value of 6,901,934 shares issued and exchanged for Lemonade common stock was determined based on the closing price at acquisition date of $19.84, and includes a minimal amount of cash paid in lieu of fractional shares.

(2) Contingent consideration represents Metromile's contingently issuable shares that are convertible into Lemonade common stock in accordance with the exchange ratio as set forth in the merger agreement. In accordance with ASC 805-30-25-5, contingent consideration shall be recognized and measured at fair value as of the Acquisition Date. Given that the contingencies are not probable of being met within the contingency period, no fair value was assessed for these Metromile shares.

(3) Fair value of replacement awards related to services rendered prior to the Metromile Acquisition are included as part of purchase consideration. The unvested portion of fair value attributable to these replacement awards of $4.3 million comprised of $0.1 million for assumed options and $4.2 million for assumed restricted stock units ("RSUs"), and associated with future service will be recognized as expense over the future service period.

The Metromile Acquisition increased the Company's geographic footprint as a tech-enabled insurance provider and is expected to accelerate growth of the Lemonade car product, including other product offerings.

The Metromile Acquisition was accounted for as a business combination using the acquisition method of accounting in accordance with ASC 805, *Business Combinations* ("ASC 805"). The purchase price was allocated to assets acquired and liabilities assumed based on the estimated fair values at the Acquisition Date. The excess of the purchase price over the fair value of the net assets acquired was allocated to goodwill, and will not be deductible for tax purposes. Goodwill from this business combination is primarily attributable to synergies from future expected economic benefits, enhanced revenue growth from expanded capabilities and geographic presence, including cost savings from streamlined operations and enhanced operational efficiencies.

The following table presents the preliminary allocation of purchase consideration recorded on the condensed consolidated balance sheet as of the Acquisition Date ($ in millions):

Assets acquired		
Fixed maturities, available for sale, at fair value	$	1.8
Short-term investments		64.2
Cash, cash equivalents and restricted cash		98.8
Premiums receivable		17.4
Reinsurance recoverable		14.5
Property and equipment		4.6
Value of business acquired ("VOBA")		1.7
Intangible assets - technology		28.0
Intangible assets - insurance licenses		7.5
Other assets		14.7
Total assets acquired	$	253.2
Liabilities assumed		
Unpaid loss and loss adjustment expenses	$	84.4
Unearned premium		15.1
Trade payables		0.8
Ceded premium payable		12.0
Other liabilities and accrued expenses		22.2
Total liabilities assumed	$	134.5
Total identifiable net assets acquired	$	118.7
Total purchase consideration	$	137.7
Goodwill	$	19.0

Estimated fair values of assets acquired and liabilities assumed from Metromile are subject to change as we obtain additional information, and will be updated and finalized within the measurement period that will not extend beyond 12 months from the Acquisition Date.

The amounts, based on preliminary valuations and subject to final adjustment, allocated to intangible assets are as follows ($ in millions):

	Fair Value		Weighted-Average Useful Life
Technology	$	28.0	3 to 5 years
Insurance licenses		7.5	N/A
Total	$	35.5	

The Company finalized the fair value valuation analysis of assets acquired and liabilities assumed and as a result no measurement period adjustments were recorded.

The results of operations for Metromile of $57.9 million of revenue and $24.7 million of net loss for the nine months ended September 30, 2023, and $15.1 million of revenue and $20.7 million of net loss from the date of the acquisition to the period ended September 30, 2022, have been included within the accompanying consolidated statements of operations and comprehensive loss.

The Company incurred transaction and integration costs of approximately $7.4 million for the three months ended September 30, 2022 and $8.4 million for the nine months ended September 30, 2022, and were included in "General and administrative expenses" within the Company's consolidated statements of operations and comprehensive loss.

The following unaudited supplemental pro forma combined financial information presents the Company's results of operations for the three and nine months ended September 30, 2022 as if the Metromile Acquisition had occurred on January 1, 2022. The pro forma financial information is presented for comparative purposes only and is not necessarily indicative of the Company's operating results that may have actually occurred had the Metromile Acquisition been completed on January 1, 2022. In addition, the unaudited pro forma financial information does not give effect to any anticipated cost savings, operating efficiencies or other synergies that may be associated with the Metromile Acquisition, or any estimated costs that have been or will be incurred by the Company to integrate the assets and operations of Metromile.

	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2022
Total Revenue	$ 85.1	$ 221.1
Net Loss	$ (112.2)	$ (316.8)

The unaudited pro forma financial information reflects pro forma adjustments to present the combined pro forma results of operations as if the Metromile Acquisition had occurred on January 1, 2022 to give effect to certain events the Company believes to be directly attributable to the Metromile Acquisition. These pro forma adjustments primarily include:

- a net decrease in amortization expense that would have been recognized due to acquired intangible assets;
- an increase in the nine months ended September 30, 2022 for acquisition-related transaction costs;
- a decrease in operating revenues due to the elimination of deferred revenues and assigned no value at the Acquisition Date;
- a decrease to amortization expense due to the elimination of unamortized deferred acquisition costs;
- an increase to income due to the adjustment of the loss and loss adjustment expense reserves at fair value; and
- an increase in income due to the depreciation of Right-of-Use assets and lease expense upon adoption of ASC 842.

6. Investments

Unrealized gains and losses

The following tables present cost or amortized cost and fair values of investment in fixed maturities as of September 30, 2023 and December 31, 2022 ($ in millions):

	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2023				
Corporate debt securities	$ 460.2	$ —	$ (9.2)	$ 451.0
U.S. Government obligations	184.8	—	(2.8)	182.0
Asset-backed securities	0.4	—	—	0.4
Total	$ 645.4	$ —	$ (12.0)	$ 633.4
December 31, 2022				
Corporate debt securities	$ 549.7	$ 0.1	$ (19.6)	$ 530.2
U.S. Government obligations	121.0	—	(3.7)	117.3
Asset-backed securities	2.8	—	—	2.8
Total	$ 673.5	$ 0.1	$ (23.3)	$ 650.3

Gross unrealized losses for fixed maturities was $12.0 million as of September 30, 2023 and $23.3 million as of December 31, 2022. 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 September 30, 2023 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.

	September 30, 2023	
	Cost or Amortized Cost	Fair Value
Due in one year or less	$ 257.8	$ 252.9
Due after one year through five years	387.6	380.5
Due after five years through ten years	—	—
Due after ten years	—	—
Total	$ 645.4	$ 633.4

Net investment income

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

	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
Interest on cash and cash equivalents	$ 0.8	$ 0.3	$ 3.0	$ 0.4
Fixed maturities	5.0	1.7	11.9	3.7
Short-term investments	1.3	0.7	3.0	0.9
Total	7.1	2.7	17.9	5.0
Investment expense	0.1	0.1	0.3	0.3
Net investment income	$ 7.0	$ 2.6	$ 17.6	$ 4.7

Investment gains and losses

The Company had pre-tax net realized capital losses of $0.7 million for the three and nine months ended September 30, 2023, which were included in "Commission and other income" in the consolidated statements of operations. There were no pre-tax net realized capital gains and losses for the three months ended September 30, 2022, and the Company had pre-tax net realized capital losses of $0.4 million for the nine months ended September 30, 2022.

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 September 30, 2023 and December 31, 2022 ($ 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
September 30, 2023						
Corporate debt securities	$ 204.5	$ (2.2)	$ 216.7	$ (6.9)	$ 421.2	$ (9.1)
U.S. Government obligations	116.8	(1.0)	62.4	(1.9)	179.2	(2.9)
Asset-backed securities	—	—	0.4	—	0.4	—
Total	$ 321.3	$ (3.2)	$ 279.5	$ (8.8)	$ 600.8	$ (12.0)

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
December 31, 2022						
Corporate debt securities	$ 83.6	$ (2.1)	$ 428.1	$ (17.5)	$ 511.7	$ (19.6)
U.S. Government obligations	29.6	(0.2)	85.1	(3.5)	114.7	(3.7)
Asset-backed securities	2.8	—	—	—	2.8	—
Total	$ 116.0	$ (2.3)	$ 513.2	$ (21.0)	$ 629.2	$ (23.3)

As of September 30, 2023, 260 of the securities held were in an unrealized loss position. Investments in fixed maturities with gross unrealized losses for twelve months or more was $8.8 million and $21.0 million as of September 30, 2023 and December 31, 2022, respectively. 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 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 nine months ended September 30, 2023. 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.

Restricted investments

Restricted investments are held in a trust account securing the Company's insurance subsidiary's contractual obligations under the Property Catastrophe Excess of Loss reinsurance contract with a captive (see Note 8) which will not be released until the underlying risks have expired or have been settled. Restricted investments include certain investments in debt securities and short-term investments of $81.0 million as of September 30, 2023.

7. Fair Value Measurements

The following tables present the Company's fair value hierarchy for financial assets and liabilities measured as of September 30, 2023 and December 31, 2022 ($ in millions):

	September 30, 2023			
	Level 1	Level 2	Level 3	Total
Financial Assets:				
Corporate debt securities	$ —	$ 451.0	$ —	$ 451.0
U.S. Government obligations	—	182.0	—	182.0
Asset-backed securities	—	0.4	—	0.4
Fixed maturities	$ —	$ 633.4	$ —	$ 633.4
Short term investments	—	73.4	—	73.4
Total	$ —	$ 706.8	$ —	$ 706.8
Financial Liabilities:				
Warrant Liability (1)	$ —	$ —	$ —	$ —

(1) Fair value of Public and Private warrant liability amounted to less than $0.1 million as of September 30, 2023.

	December 31, 2022			
	Level 1	Level 2	Level 3	Total
Financial Assets:				
Corporate debt securities	$ —	$ 530.2	$ —	$ 530.2
U.S. Government obligations	—	117.3	—	117.3
Asset-backed securities	—	2.8	—	2.8
Fixed maturities	$ —	$ 650.3	$ —	$ 650.3
Short term investments	—	99.8	—	99.8
Total	$ —	$ 750.1	$ —	$ 750.1
Financial Liabilities:				
Warrant Liability	$ —	$ —	$ 0.3	$ 0.3

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 nine months ended September 30, 2023, other than the public and private warrants previously reported as Level 3 except as discussed below. There were no transfers between Level 1, Level 2, or Level 3 during the year ended December 31, 2022.

Warrant liability

As part of the Metromile Acquisition as discussed in Note 5, public and private warrants were assumed and are measured at fair value on a recurring basis at the end of the reporting period, and classified as Level 3 for fair value hierarchy disclosure purposes as of December 31, 2022. These warrants do not meet the criteria for equity treatment and are recorded as a liability and presented under "Other liabilities and accrued expenses" on the consolidated balance sheet at fair value, with changes in fair value recognized and presented under "General and administrative expenses" in the consolidated statements of operations and comprehensive loss. The Company utilized the binomial Monte-Carlo simulation to estimate the fair value of the warrants which were not actively traded as of December 31, 2022.

The public warrants liability is classified as Level 1 for fair value hierarchy disclosure purposes as of March 31, 2023, due to the use of an observable market quote in an active market, following the listing of the public warrants in New York Stock Exchange American. The Company also reclassified the private warrants liability from Level 3 to Level 2 as of March 31, 2023, as the Company utilizes the observable prices of the public warrants in deriving the value of the private placement warrants.

The following table below presents the change in fair value of the warrant liability (Public and Private) ($ in millions):

	September 30, 2023
Balance as of January 1	$ 0.3
Change in fair value	(0.3)
Balance as of September 30 (1)	$ —

(1) Fair value of Public and Private warrant liability amounted to less than $0.1 million as of September 30, 2023.

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 nine months ended September 30, 2023 and 2022 ($ in millions):

	September 30,	
	2023	2022
Unpaid loss and LAE at beginning of period	$ 256.2	$ 97.9
Less: Reinsurance recoverable at beginning of period (1)	124.6	72.7
Net unpaid loss and LAE at beginning of period	131.6	25.2
Add: Incurred loss and LAE, net of reinsurance, related to:		
Current year	219.0	106.9
Prior years	(3.6)	(1.1)
Total incurred	215.4	105.8
Deduct: Paid loss and LAE, net of reinsurance, related to:		
Current year	133.4	65.9
Prior years	71.6	21.9
Total paid	205.0	87.8
Unpaid loss and LAE, net of reinsurance recoverable, at end of period	142.0	111.3
Reinsurance recoverable at end of period (1)	113.1	109.3
Unpaid loss and LAE, gross of reinsurance recoverable, at end of period	$ 255.1	$ 220.6

(1) 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 $3.6 million for the nine months ended September 30, 2023, and favorable development on net loss and LAE reserves of $1.1 million for the nine months ended September 30, 2022. No additional premiums or returned premiums have been accrued as a result of prior year effects.

For the nine months ended September 30, 2023, current accident year incurred loss and LAE included $10.0 million from winter storm Elliott and $3.5 million from the hail storm that impacted customers in Texas. The net incurred loss and LAE from winter storm Elliott and from the hail storm as of September 30, 2023 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.

The Company maintained proportional reinsurance contracts which cover all of the Company's products and geographies, and transferred, or “ceded,” a specified percentage of the premium to reinsurers ("Proportional Reinsurance Contracts"). In exchange, these reinsurers paid a ceding commission for every dollar ceded, in addition to funding all of the corresponding claims at the same specified percentage as applied to premium. The Company also opted to manage the remaining percentage of the business with alternative forms of reinsurance through non-proportional reinsurance contracts ("Non-Proportional Reinsurance Contracts").

The Company decreased the overall share of proportional reinsurance from 75% of the premium to 70% effective July 1, 2021, and 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, and expired on June 30, 2023. Other non-proportional reinsurance contracts were renewed with terms similar to the expired contracts. The proportional reinsurance and other non-proportional reinsurance contracts expired on June 30, 2023.

Metromile entered into a Quota Share reinsurance agreement effective January 1, 2022 and expired on June 30, 2023. Under the terms of the agreement, the Company ceded 30% of premiums and losses to reinsurers.

Effective July 1, 2023 through June 30, 2024, the Company agreed to the terms of a reinsurance program which includes Whole Account Quota Share Reinsurance Contracts by and among the Company, Lemonade Insurance Company ("LIC"), Metromile Insurance Company and Lemonade Insurance N.V. ("Lemonade Insurance"), and each of Hannover Ruck SE, MAPFRE Re, and Swiss Reinsurance America Corporation (collectively referred to as “Reinsurers”) ("Reinsurance Program"). Under the Reinsurance Program, which covers all products and geographies, the Company transfers, or "cedes," a share of premium to the Reinsurers. In exchange, these Reinsurers pay the Company a ceding commission on all premiums ceded to the Reinsurers, in addition to funding the corresponding claims, subject to certain limitations, including but not limited to, the exclusion of hurricane losses, and a limit of $5,000,000 per occurrence for non-hurricane catastrophe losses. The overall share of proportional reinsurance under the Reinsurance Program is approximately 55% of premium. The Per Risk Cap across the contracts is $750,000. Additionally, the contracts are subject to loss ratio caps and variable ceding commission levels, which align the Company's interests with those of its Reinsurers.

In addition, LIC and Lemonade Insurance agreed to the terms of a Property Per Risk Excess of Loss Reinsurance Contract with a panel of reinsurance companies (the "PPR Contract"), and LIC agreed to the terms of an Automatic Facultative Property Per Risk Excess of Loss Reinsurance Contract with Arch Re (the "Automatic Facultative PPR Contract"), each effective from July 1, 2023 until June 30, 2024. Under the PPR Contract, claims in excess of $750,000 are 100% ceded up to a maximum recovery of $2.25 million, subject to certain limitations. Under the Automatic Facultative PPR Contract, claims in excess of $3 million are 100% ceded with a potential recovery of at least $10 million, subject to certain limitations.

The Company also purchased a Excess of Loss ("XOL") Reinsurance Contract through a captive in Bermuda to cover catastrophe risk over the initial $50 million limit for each loss occurrence, and further subject to a limit of $80 million for each loss occurrence and in aggregate, primarily on property and auto business underwritten by LIC. This XOL reinsurance contract became effective July 1, 2023 and will expire on July 1, 2024. The Company is also exposed to some risks from MIC ceded through the Quota Share ("QS") Reinsurance Contract which is retained in a captive subsidiary, Lemonade Re SPC in the Cayman Islands. This QS reinsurance contract became effective July 1, 2023 and shall remain in force for an indefinite period until terminated by either party. Through our captives, we are exposed to the risk of natural catastrophe events and other covered risks under the reinsurance contracts from assumed risks from policies underwritten by both LIC and MIC.

9. Borrowings under Financing Agreement

On June 28, 2023, the Company entered into a Customer Investment Agreement (the "Agreement"), with GC Customer Value Arranger, LLC (a General Catalyst company) ("GC"). Under the Agreement, up to $150 million of financing will be provided for the Company's sales and marketing growth efforts. The Agreement has a commitment period of 18 months. Under the Agreement, subject to certain terms and conditions specified therein, at the start of each growth period, an Investment Amount of up to 80% of the Company's growth spend (the "Investment Amount") will be advanced by GC. During each growth period, the Company will repay each Investment Amount including a 16% rate of return based upon an agreed schedule. Once fully repaid, the Company will retain all future reference income related to each respective Investment Amount.

As of September 30, 2023, the Company had $7.7 million of outstanding borrowings under financing agreement. The Company incurred interest expense of $0.1 million for the three and nine months ended September 30, 2023, and such interest is included in "General and administrative expense" in the consolidated statements of operations and comprehensive income.

10. Other Liabilities and Accrued Expenses

Other liabilities and accrued expenses as of September 30, 2023 and December 31, 2022 consist of the following ($ in millions):

	September 30, 2023	December 31, 2022
Lease liabilities	$ 29.7	$ 35.2
Ceded commission payable	12.6	—
Uncertain tax position	11.2	8.1
Employee compensation	6.9	12.8
Accrued professional fees	5.6	5.5
Accrued advertising costs	5.0	6.8
Advance premium	4.3	2.1
Premium taxes payable	4.0	6.2
Accrued hosting and software	1.4	2.0
Income taxes payable	0.9	0.6
Warrant liability	—	0.3
Other payables	11.5	4.9
Total	$ 93.1	$ 84.5

11. Stockholders' Equity

Common stock

Upon closing of the Company's 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.

The Company completed a Follow-on Offering of common stock (the "Follow-on Offering") in 2021, 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 the Company of $525.7 million after deducting underwriting discounts and commissions and other offering costs. 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 the Company after deducting underwriting discounts.

On July 28, 2022, the Company completed its acquisition of Metromile in which 6,901,934 shares of Lemonade's common stock were issued to Metromile stockholders as discussed in Note 5.

As of September 30, 2023 and December 31, 2022, 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 15). 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 September 30, 2023 and December 31, 2022, 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 September 30, 2023 and December 31, 2022, there were no shares of undesignated preferred stock issued or outstanding.

Warrants

On October 14, 2022, the Company entered into an omnibus agreement (the "Omnibus Agreement") and a warrant agreement (the "Warrant Agreement" and, together with the Omnibus Agreement, the "Agreements") with Chewy Insurance Services, LLC (the "Warrantholder") in connection with the execution of an agency agreement on the same date between the Company, Lemonade Insurance Agency, LLC, Lemonade Insurance Company and the Warrantholder. In connection with the Agreements, the Company is authorized to issue to the Warrantholder 3,352,025 shares of the Company's common stock underlying the warrant with an exercise price of $0.01 per share, which will vest in installments, in increasing amounts over a period of five years. The Warrant Agreement allows the Company to cancel unvested warrant shares which are subject to certain vesting events and thresholds.

12. 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, 2023, the 2020 Plan share pool was increased by 3,463,751 shares, equal to 5% of the aggregate number of outstanding common stock as of December 31, 2022. As of September 30, 2023, there were 4,393,900 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, 2023, there was no increase in the 2020 ESPP share pool. As of September 30, 2023, 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 September 30, 2023, 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.

Assumed Share Option Plans

As part of the Metromile Acquisition, the Company assumed the Metromile 2011 Incentive Stock Plan ("2011 Plan") and Metromile 2021 Incentive Stock Plan ("2021 Plan") (collectively referred to as "Assumed Plans"). The equity awards assumed of 404,207 were granted from the respective Assumed Plans but will be settled in the Company's common stock (see Note 5). The remaining unallocated shares reserved under both 2011 Plan and 2021 Plan were cancelled and no new awards will be granted under these Assumed Plans.

Options granted to employees and non-employees

The fair value of each option granted for the nine months ended September 30, 2023 and 2022 is estimated on the date of grant using the Black-Scholes model based on the following assumptions:

	Nine Months Ended September 30,	
	2023	2022
Weighted average expected term (years)	6.0	6.1
Risk-free interest rate	4.2%	2.7%
Volatility	74%	47%
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, 2022 (1)	9,760,657	$ 39.43	8.17	$ 8.05
Granted	1,016,218	15.67		
Exercised	(92,954)	5.13		
Cancelled/Forfeited	(961,442)	38.87		
Outstanding as of September 30, 2023	9,722,479	$ 37.28	7.47	$ 5.30
Options exercisable as of September 30, 2023	4,386,472	$ 29.79	6.22	$ 5.30
Options unvested as of September 30, 2023	5,336,007	$ 43.44	8.49	$ —

(1) Includes assumed options of 72,410 from the Metromile Acquisition (see Note 5).

Restricted Stock Units

	Number of Shares	Weighted Average Grant Date Fair Value
Outstanding as of December 31, 2022 (1)	1,651,243	$ 27.92
Granted	2,753,356	15.84
Vested	(541,372)	25.28
Cancelled/Forfeited	(523,455)	22.38
Outstanding as of September 30, 2023	3,339,772	$ 19.22

(1) Includes assumed restricted stock units of 331,797 from the Metromile Acquisition (see Note 5).

Stock-based compensation expense

Stock-based compensation expense from stock options and RSUs granted are included and classified in the condensed consolidated statements of operations for the three and nine months ended September 30, 2023 and 2022, including assumed awards from the Metromile Acquisition and warrant shares for the three and nine months ended September 30, 2023 and 2022, as follows ($ in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Loss and loss adjustment expense, net	$ 0.8	$ 0.7	$ 2.2	$ 1.9
Other insurance expense	0.6	0.4	1.6	1.2
Sales and marketing (1)	1.9	1.8	4.6	5.0
Technology development	6.4	6.4	19.4	17.6
General and administrative	5.7	6.3	17.8	17.9
Total stock-based compensation expense	$ 15.4	$ 15.6	$ 45.6	$ 43.6

(1) Includes compensation expense related to warrant shares of $0.9 million and $1.5 million for the three and nine months ended September 30, 2023.

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 September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Stock options	$ 9.1	$ 11.9	$ 29.4	$ 35.9
RSUs	5.4	3.7	14.7	7.7
Warrant shares	0.9	—	1.5	—
Total stock-based compensation expense	$ 15.4	$ 15.6	$ 45.6	$ 43.6

The total unrecognized expense granted to employees and non-employees outstanding at September 30, 2023 was $64.3 million for the stock options and $59.7 million for the RSUs, with a remaining weighted-average vesting period of 1.2 years for the stock options and 1.6 years for the RSUs.

Warrants

In connection with the Warrant Agreement as discussed in Note 11, the Company is authorized to issue 3,352,025 warrant shares with a grant date fair value of $20.37 that will vest in installments on a yearly basis in increasing amounts for a period of five years. The Company recognized $0.9 million and $1.5 million in compensation expense related to these equity-classified warrants for the three and nine months ended September 30, 2023, respectively. Compensation expense is presented under "Sales and marketing expense" in the consolidated statements of operations and comprehensive income. Total unrecognized compensation expense related to these warrants amounted to $66.8 million as of September 30, 2023, and will be recognized over the vesting period, for each of the installments, in increasing amounts over five years. There are no vested warrant shares as of September 30, 2023.

13. Income Taxes

The consolidated effective tax rate was (2.3)% and (3.2)% for the nine months ended September 30, 2023 and 2022, respectively. The change in effective tax rate over the two periods was predominantly reflective of the change in profit before tax of the Company's foreign jurisdictions and uncertain tax positions.

Our unrecognized tax benefits related to tax positions, excluding penalty and interest amounted to $10.9 million as of September 30, 2023, and there was $6.8 million as of September 30, 2022. The increase was primarily driven by the implementation of transfer pricing methodology. Interest and penalties related to unrecognized tax expense (benefits) are recognized in income tax expense, when applicable. There was $0.3 million interest and penalties as of September 30, 2023, and there was none as of September 30, 2022. We believe it is reasonably possible that our unrecognized tax benefits could increase within the next 12 months.

14. Net Loss per Share

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Numerator:				
Net loss attributable to common stockholders ($ in millions)	$ (61.5)	$ (91.4)	$ (194.5)	$ (234.1)
Denominator:				
Weighted average common shares outstanding — basic and diluted	69,753,576	66,877,100	69,542,342	63,482,945
Net loss per share attributable to common stockholders — basic and diluted	$ (0.88)	$ (1.37)	$ (2.80)	$ (3.69)

The Company's potentially dilutive securities, which include stock options, unvested RSUs and warrants for common stock, 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.

	Nine Months Ended September 30,	
	2023	2022
Options to purchase common stock	9,722,479	9,936,571
Unvested restricted stock	3,339,772	1,735,651
Warrants for common stock (1)	412,969	412,969
Total	13,475,220	12,085,191

(1) Each outstanding warrant of Metromile assumed by the Company are converted automatically into warrants denominated in the Company's common stock with the number of warrants and exercise price adjusted based on the exchange ratio of 0.05263.

15. 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 less than $0.1 million for the three and nine months ended September 30, 2023, respectively, and less than $0.1 million and $0.1 million for the three and nine months ended September 30, 2022, respectively.

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 11). In connection with the Follow-on Offering as discussed in Note 11, Lemonade Foundation sold 100,000 shares of the contributed shares of the Company. As of September 30, 2023, there were no outstanding amounts due to or from the Lemonade Foundation.

16. Commitments and Contingencies

Litigation

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.

Metromile

Following the announcement of Metromile's acquisition by the Company, multiple complaints were filed against Metromile and certain former officers and directors alleging that Metromile’s disclosures concerning the transaction were incomplete. Metromile also received demands to inspect its books and records under Delaware General Corporation Law Section 220, and one stockholder commenced litigation to enforce inspection rights. All of the foregoing complaints have been voluntarily dismissed with the plaintiffs reserving their rights to seek a fee in connection with each respective litigation.

The Company has a potential liability claim exposure related to Metromile for which the Company has determined that a liability associated with this matter is probable and can be reasonably estimated, and therefore has recorded a liability for this matter in accordance with Accounting Standards Codification Topic 450, "*Contingencies"*.

The Company will continue to monitor all legal issues and assess whether to accrue liability in accordance with ASC 450 *Contingencies*" based on new information and as further developments arise.

Charges and guarantees

The Company provided guarantees in an aggregate amount of $2.7 million as of September 30, 2023 and $2.7 million as of December 31, 2022 with respect to certain office leases.

Sublease

In September 2023, the Company entered into a sublease agreement for its San Francisco office space which commenced in October 2023 and will end in November 2026. The Company recorded an impairment charge related to the San Francisco office sublease of $3.7 million for both the three and nine months ended September 30, 2023 which reduced the carrying value of the Right-of-Use ("RoU") assets and the related leasehold improvements by $2.6 million and $1.1 million as of September 30, 2023, respectively. The impairment charge is presented under “General and administrative expenses” in the consolidated statement of operations and comprehensive income. The Company estimated the fair value of the RoU asset based on the net present value of the sublease rental income.

17. Geographical Breakdown of Gross Written Premium

The Company has a single reportable segment and offers insurance coverage under the homeowners multi-peril, inland marine, general liability and private passenger auto lines of business. Gross written premium includes direct and assumed premium. In December 2022, we began assuming premium related to car insurance policies written in Texas, in connection with our fronting arrangement with a third party carrier in Texas. Gross written premium by jurisdiction are as follows ($ in millions):

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2023		2022		2023		2022	
Jurisdiction	Amount	% of GWP	Amount	% of GWP	Amount	% of GWP	Amount	% of GWP
California	$ 52.7	24.8 %	$ 45.9	26.4 %	$ 144.2	25.8 %	$ 101.3	24.7 %
Texas	33.7	15.8 %	26.6	15.3 %	91.2	16.3 %	70.9	17.3 %
New York	23.1	10.9 %	19.1	11.0 %	61.4	11.0 %	49.8	12.1 %
New Jersey	10.7	5.0 %	8.9	5.1 %	28.5	5.1 %	20.1	4.9 %
Illinois	10.9	5.1 %	8.8	5.1 %	27.0	4.8 %	19.8	4.8 %
Washington	7.2	3.4 %	5.6	3.2 %	19.4	3.5 %	10.0	2.4 %
Georgia	6.6	3.1 %	6.1	3.5 %	17.0	3.0 %	15.5	3.8 %
Colorado	6.6	3.1 %	4.9	2.8 %	16.4	2.9 %	11.8	2.9 %
Pennsylvania	6.2	2.9 %	4.8	2.8 %	14.9	2.7 %	10.7	2.6 %
Oregon	5.0	2.3 %	4.1	2.4 %	14.3	2.6 %	8.5	2.1 %
All other	50.1	23.6 %	39.2	22.4 %	124.4	22.3 %	92.3	22.4 %
	$ 212.8	100.0 %	$ 174.0	100.0 %	$ 558.7	100.0 %	$ 410.7	100.0 %

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, Annual Report on Form 10-K, and in our other filings with the Securities and Exchange Commission ("SEC"). 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 this Quarterly Report and 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.

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 social impact, we believe we are making insurance more delightful, more affordable, and more precise. To that end, we have built a vertically-integrated company with wholly-owned insurance carriers in the United States, Europe, including the United Kingdom, 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 from 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 evaluating 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. To lessen the volatility inherent in an industry directly impacted by the weather, we utilize several forms of reinsurance, with the goal of dampening the impact on our gross margin. The result is that excess claims are generally offloaded to reinsurers, while excess premiums can be 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.

Acquisition of Metromile

On July 28, 2022 (the "Acquisition Date"), we completed the acquisition of Metromile, Inc. (“Metromile"), a leading digital insurance platform in the United States that offers real-time, personalized car insurance policies by the mile. We acquired 100% of Metromile's equity through an all-stock transaction based upon the exchange ratio of 0.05263 shares of Lemonade for each outstanding share of Metromile (the “Metromile Acquisition”). As a result of the Metromile Acquisition, Metromile stockholders received 6,901,934 shares of Lemonade's common stock, with minimal cash paid in lieu of fractional shares. In addition, we assumed all outstanding and unexercised options, and outstanding restricted stock units as of the Acquisition Date, which were converted into corresponding awards with substantially identical terms and conditions prior to the Acquisition Date, at the same exchange ratio of 0.05263. Our results of operations include those of Metromile from the Acquisition Date through September 30, 2023.

Customer Investment Agreement

On June 28, 2023, we entered into a Customer Investment Agreement (the “Financing Agreement”), with GC Customer Value Arranger, LLC (a General Catalyst company) ("GC"). Under the Financing Agreement, up to $150 million of financing will be provided for our sales and marketing growth efforts. The Financing Agreement has a commitment period of 18 months. Under the Financing Agreement, subject to certain terms and conditions specified therein, at the start of growth period, an Investment Amount of up to 80% of the Company’s growth spend (the "Investment Amount") will be advanced by GC. During each growth period, we will repay each Investment Amount including a 16% rate of return, based upon an agreed schedule. Once fully repaid, we will retain all future reference income related to each respective Investment Amount.

As of September 30, 2023, we had $7.7 million of outstanding borrowings under financing agreement. We incurred interest expense of $0.1 million for the three and nine months ended September 30, 2023, and such interest is included in “General and administrative expense” in the consolidated statements of operations and comprehensive income.

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.

Current Macroeconomic Environment

The global pandemic resulting from the coronavirus, including variants (“COVID-19”) has severely impacted the global economy and caused a significant slowdown in economic activity. While the global economy began to reopen in 2021, there remains to be an uncertainty about the duration and macroeconomic impact of COVID-19. Although the Company did not see a material impact on its results of operations, management continues to monitor and cannot definitively determine the ultimate financial impact of COVID-19, and the related economic conditions.

Our investment portfolio consists of high-quality securities, and 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.

General economic inflation has increased and there is a risk of inflation remaining elevated for an extended period. We anticipate the effects of inflation impacting our investment portfolio, pricing of our products and in estimating reserves for unpaid claims and claim expenses. The actual effects of the current and potential future increase in inflation on our results remains to be unknown and cannot be estimated with precision.

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, including the evolving conflict in Israel and surrounding region. The conflict between Israel and Hamas, primarily within Gaza, has increased global economic and political uncertainty. There is still uncertainty regarding the extent to which the war and its broader macroeconomic implications will impact our operations in Israel. We will continue to evaluate the extent to which this may impact our business, financial condition, or results of operations. These and other uncertainties could result in changes to our current expectations. For additional information, see the risk factor “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 surrounding region.” in this Quarterly Report.

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.

We maintained proportional reinsurance contracts which cover all of the Company's products and geographies, and transferred, or “ceded,” a specified percentage of the premium to reinsurers ("Proportional Reinsurance Contracts"). In exchange, these reinsurers paid a ceding commission for every dollar ceded, in addition to funding all of the corresponding claims at the same specified percentage as applied to premium. We opted to manage the remaining percentage of the business with alternative forms of reinsurance through non-proportional reinsurance contracts ("Non-Proportional Reinsurance Contracts").

We decreased the overall share of proportional reinsurance from 75% of the premium to 70% effective July 1, 2021, and 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, and expired on June 30, 2023. Other non-proportional reinsurance contracts were renewed with terms similar to the expiring contracts. The proportional reinsurance and other non-proportional reinsurance contracts expired on June 30, 2023.

Metromile entered into a Quota Share reinsurance agreement effective January 1, 2022 which expired on June 30, 2023. Under the terms of the agreement, the Company ceded 30% of premiums and losses to reinsurers.

Effective July 1, 2023 through June 30, 2024, we agreed to the terms of our reinsurance program which includes Whole Account Quota Share Reinsurance Contracts by and among the Company, Lemonade Insurance Company ("LIC"), Metromile Insurance Company and Lemonade Insurance N.V. ("Lemonade Insurance"), and each of Hannover Ruck SE, MAPFRE Re, and Swiss Reinsurance America Corporation (collectively referred to as “Reinsurers”) ("Reinsurance Program"). Under the Reinsurance Program, which covers all products and geographies, the Company transfers, or "cedes," a share of premium to the Reinsurers. In exchange, these Reinsurers pay us a ceding commission on all premiums ceded to the Reinsurers, in addition to funding the corresponding claims, subject to certain limitations, including but not limited to, the exclusion of hurricane losses, and a limit of $5,000,000 per occurrence for non-hurricane catastrophe losses. The overall share of proportional reinsurance under the Reinsurance Program is approximately 55% of premium. The Per Risk Cap across the contracts is $750,000. Additionally, the contracts are subject to loss ratio caps and variable ceding commission levels, which align our interests with those of its Reinsurers.

In addition, LIC and Lemonade Insurance agreed to the terms of a Property Per Risk Excess of Loss Reinsurance Contract with a panel of reinsurance companies (the "PPR Contract"), and LIC agreed to the terms of an Automatic Facultative Property Per Risk Excess of Loss Reinsurance Contract with Arch Re (the "Automatic Facultative PPR Contract"), each effective from July 1, 2023 until June 30, 2024. Under the PPR Contract, claims in excess of $750,000 are 100% ceded up to a maximum recovery of $2.25 million, subject to certain limitations. Under the Automatic Facultative PPR Contract, claims in excess of $3 million are 100% ceded with a potential recovery of at least $10 million, subject to certain limitations.

The Company also purchased an Excess of Loss ("XOL") Reinsurance Contract through a captive in Bermuda to cover catastrophe risk over the initial $50 million limit for each loss occurrence, and further subject to a limit of $80 million for each loss occurrence and in aggregate, primarily on property and auto business underwritten by LIC. This XOL reinsurance contract became effective July 1, 2023 and will expire on July 1, 2024. The Company is also exposed to some risks from MIC ceded through the Quota Share ("QS") Reinsurance Contract which is retained in a captive subsidiary, Lemonade Re SPC in the Cayman Islands. This QS reinsurance contract became effective July 1, 2023 and shall remain in force for an indefinite period until terminated by either party. Through our captives, we are exposed to the risk of natural catastrophe events and other covered risks under the reinsurance agreements from assumed risks from policies underwritten by both LIC and MIC.

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. Gross written premium includes direct and assumed premium. In December 2022, we began assuming premium related to car insurance policies written in Texas, in connection with our fronting arrangement with a third party carrier in Texas. Following the Metromile Acquisition, we also include gross written premium from the sale of pay-per-mile auto insurance policies within the United States. 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 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. Gross earned premium includes direct and assumed premium. Our insurance policies generally have a term of one year and premium is earned pro rata over the term of the policy. In addition, following the Metromile Acquisition, we also include earned premiums from the pay-per-mile auto insurance policies which is written for six-month terms. Premium for the policy provides a base rate per month for the entire policy term upon binding of the policy plus a per-mile rate multiplied by the miles driven each day (based on data from the telematics device, subject to a daily maximum).

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. Net earned premiums from the pay-per-mile auto insurance policies is earned over the term of the policy which is written for six-month terms.

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 and other 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 which is when the performance obligation is completed. Other income primarily consists of fees collected from policyholders relating to installment premiums. These fees are recognized at the time each policy installment is billed. Other income also includes net realized gains or losses from the sale of investments.

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 and benefits, including employee and non employee stock-based compensation, 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, 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, bad debt expense and allocated occupancy costs and related overhead based on headcount. Depreciation and amortization expense and interest expense on borrowings under financing agreement, and non-recurring items, if any, are also recorded as a component of general and administrative.

We expect to continue 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.

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 directly comparable financial measures prepared in accordance with U.S. generally accepted accounting principles ("GAAP").

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
	($ in millions, except Premium per customer)		($ in millions, except Premium per customer)	
Customers (end of period)	1,984,154	1,775,824	1,984,154	1,775,824
In force premium (end of period)	$ 719.0	$ 609.2	$ 719.0	$ 609.2
Premium per customer (end of period)	$ 362	$ 343	$ 362	$ 343
Annual dollar retention (end of period) [(1)]	85 %	84 %	85 %	84 %
Total revenue	$ 114.5	$ 74.0	$ 314.3	$ 168.3
Gross earned premium	$ 173.2	$ 136.4	$ 491.3	$ 339.2
Gross profit	$ 21.9	$ 8.1	$ 50.5	$ 29.6
Adjusted gross profit	$ 24.9	$ 13.2	$ 62.1	$ 47.0
Net loss	$ (61.5)	$ (91.4)	$ (194.5)	$ (234.1)
Adjusted EBITDA	$ (40.2)	$ (65.7)	$ (143.7)	$ (173.4)
Gross profit margin	19 %	11 %	16 %	18 %
Adjusted gross profit margin	22 %	18 %	20 %	28 %
Ratio of Adjusted Gross Profit to Gross Earned Premium	14 %	10 %	13 %	14 %
Gross loss ratio	83 %	94 %	88 %	90 %
Net loss ratio	88 %	105 %	93 %	97 %

(1) Includes Metromile beginning in the third quarter of 2023.

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 1% 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. Gross earned premium includes direct and assumed premium. In December 2022, we began assuming premium related to car insurance policies written in Texas, in connection with our fronting arrangement with a third party carrier in Texas, and this did not impact the key performance indicators prior to the fourth quarter of 2022.

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 and interest income and expense, and net realized gains and losses on sale of investments, plus
- Employee-related expense, 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 income tax expense, depreciation and amortization, stock-based compensation, interest income and expense, net investment income, net realized gains and losses on sale of investments, change in fair value of warrants liability, amortization of fair value adjustment on insurance contract intangible liability relating to the Metromile Acquisition, interest expense on borrowings under financing agreement and other non-cash adjustments 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 September 30, 2023 and 2022

	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	Change	% Change
	($ in millions)			
Revenue				
Net earned premium	$ 86.6	$ 50.6	$ 36.0	71 %
Ceding commission income	16.7	16.9	(0.2)	(1 %)
Net investment income	7.0	2.6	4.4	169 %
Commission and other income	4.2	3.9	0.3	8 %
Total revenue	114.5	74.0	40.5	55 %
Expense				
Loss and loss adjustment expense, net	75.9	53.3	22.6	42 %
Other insurance expense	15.1	12.1	3.0	25 %
Sales and marketing	24.4	35.8	(11.4)	(32 %)
Technology development	21.8	21.4	0.4	2 %
General and administrative	36.9	40.5	(3.6)	(9 %)
Total expense	174.1	163.1	11.0	7 %
Loss before income taxes	(59.6)	(89.1)	29.5	(33 %)
Income tax expense	1.9	2.3	(0.4)	(17 %)
Net loss	$ (61.5)	$ (91.4)	$ 29.9	(33 %)

Net Earned Premium

Net earned premium increased $36.0 million, or 71%, to $86.6 million for the three months ended September 30, 2023 compared to the three months ended September 30, 2022, primarily due to the earning of increased gross written premium and decreased cession of ceded written premium under our Proportional Reinsurance Contracts as discussed above under "Reinsurance".

	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	Change	% Change
	($ in millions)			
Gross written premium	$ 212.8	$ 174.0	$ 38.8	22 %
Ceded written premium	(118.0)	(98.5)	(19.5)	20 %
Net written premium	$ 94.8	$ 75.5	$ 19.3	26 %

Gross written premium increased $38.8 million, or 22%, to $212.8 million for the three months ended September 30, 2023 compared to the three months ended September 30, 2022. The increase was primarily due to a 12% 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. In addition, we also saw a 6% increase in premium per customer year over year 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. Assumed premium related to car insurance policies written in Texas from our fronting arrangement with a third party carrier in Texas which began in December 2022 also contributed to the increase in gross written premium during the period.

Ceded written premium increased $19.5 million, or 20%, to $118.0 million for the three months ended September 30, 2023 compared to the three months ended September 30, 2022, primarily due to growth in business across all products and the impact of our reinsurance agreements. Under our current Reinsurance Program which became effective July 1, 2023, our overall share under the proportional reinsurance is approximately 55% of premium. The Per Risk Cap across the contracts is $750,000 and contracts are subject to loss ratio caps and variable commission levels. In 2022, the Company decreased its overall share of proportional reinsurance from 70% of premiums to 55%, effective July 1, 2022. The Company also purchased a reinsurance program to protect against natural 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. See "Reinsurance" above for further information.

Net written premium increased $19.3 million, or 26%, to $94.8 million for the three months ended September 30, 2023 compared to the three months ended September 30, 2022. The increase was primarily due to the $38.8 million, or 22%, increase in gross written premium offset by the increase in ceded written premium of $19.5 million, or 20%, for the three months ended September 30, 2023, as compared to the three months ended September 30, 2022.

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 50% for the three months ended September 30, 2023, as compared to approximately 63% for the three months ended September 30, 2022 primarily due to the change in reinsurance terms under the proportional reinsurance contracts as discussed above.

	Three Months Ended September 30,			
	2023	2022	Change	% Change
	($ in millions)			
Gross earned premium	$ 173.2	$ 136.4	$ 36.8	27 %
Ceded earned premium	(86.6)	(85.8)	(0.8)	1 %
Net earned premium	$ 86.6	$ 50.6	$ 36.0	71 %

Ceding Commission Income

Ceding commission income decreased $0.2 million, or 1%, to $16.7 million for the three months ended September 30, 2023 compared to the three months ended September 30, 2022, due to the increase in ceded earned premium related to the proportional reinsurance contracts with third-party reinsurers during the period, offset by the impact of the decrease in ceding commission rate due to the Reinsurance Program which became effective on July 1, 2023.

Net Investment Income

Net investment income increased $4.4 million, or 169% to $7.0 million for the three months ended September 30, 2023 compared to the three months ended September 30, 2022. The increase was primarily driven by the diversification of the Company's investment portfolio with higher returns, offset by investment expenses of $0.1 million. We mainly invest in cash, money market funds, U.S. Treasury bills, corporate debt securities, asset-backed securities, notes and other obligations issued or guaranteed by the U.S. Government.

Commission and Other Income

Commission and other income increased $0.3 million, or 8%, to $4.2 million for the three months ended September 30, 2023 compared to the three months ended September 30, 2022, primarily due to growth in premiums placed with third-party insurance companies during the period.

Loss and Loss Adjustment Expense, Net

Loss and LAE, net increased $22.6 million, or 42%, to $75.9 million for the three months ended September 30, 2023 compared to the three months ended September 30, 2022. The increase was primarily in line with growth in premium, increase in net retained losses due to the change in reinsurance terms under the proportional reinsurance contract, and increased claims costs.

Other Insurance Expense

Other insurance expense increased $3.0 million, or 25%, to $15.1 million for the three months ended September 30, 2023 compared to the three months ended September 30, 2022 consistent with growth in earned premium. Professional fees and other services increased $1.0 million, or 29%, as compared to the three months ended September 30, 2022 primarily in support of growth and expansion initiatives. Credit card processing fees increased $0.8 million, or 29%, as compared to the three months ended September 30, 2022 as a result of the increase in customers and associated premium. Employee-related expense, including stock-based compensation increased by $0.7 million, or 18%, as compared to the three months ended September 30, 2022. Amortization of deferred acquisition costs, net of ceding commissions increased $0.6 million, or 33% as compared to the three months ended September 30, 2022.

Sales and Marketing

Sales and marketing expense decreased $11.4 million, or 32%, to $24.4 million for the three months ended September 30, 2023 compared to the three months ended September 30, 2022 due to cost efficiencies during the current period. Expense related to advertising and other customer acquisition channels decreased $10.7 million, or 46%, as compared to the three months ended September 30, 2022. Employee-related expense, including stock-based compensation decreased by $1.2 million, or 12% as compared to the three months ended September 30, 2022. Partner payments increased by $0.9 million, or 180% as compared to the three months ended September 30, 2022 due to increased customers and premiums during the period.

Technology Development

Technology development expense increased $0.4 million, or 2%, to $21.8 million for the three months ended September 30, 2023 compared to the three months ended September 30, 2022. Hosting and development costs also increased by $0.5 million, or 26%, as compared to the three months ended September 30, 2022 consistent with growth of business. Fees paid to contractors increased by $0.5 million, or 100%, related to the integration of Metromile as compared to the three months ended September 30, 2022. Allocated occupancy and related costs decreased $0.4 million as compared to the three months ended September 30, 2022. Employee-related expense, including stock-based compensation, and net of capitalized costs for the development of internal-use software, decreased $0.1 million, or 1%, as compared to the three months ended September 30, 2022. Software expense also decreased by $0.1 million, or 9%, as compared to the three months ended September 30, 2022.

General and Administrative

General and administrative expense decreased $3.6 million, or 9%, to $36.9 million for the three months ended September 30, 2023 compared to the three months ended September 30, 2022. Depreciation and amortization expense increased $1.2 million, or 32% as compared to three months ended September 30, 2022. Employee-related expense, including stock-based compensation, increased $0.3 million, or 2%, as compared to three months ended September 30, 2022, as we increased finance, legal, business operations and administrative personnel. Corporate insurance expense decreased $0.9 million, or 53% as compared to three months ended September 30, 2022. Legal, accounting and other professional fees decreased $0.6 million, or 19%, compared to three months ended September 30, 2022. An asset impairment on right-of-use asset related to the San Francisco office in the amount of $3.7 million and an accrual for a potential liability claim of $3.0 million related to Metromile were recorded during the third quarter of 2023. Non-recurring transaction and integration costs of $7.4 million were incurred for the three months ended September 30, 2022 related to the Metromile Acquisition.

Income Tax Expense

Income tax expense decreased $0.4 million, or 17%, to $1.9 million for the three months ended September 30, 2023 compared to the three months ended September 30, 2022 due to change in transfer pricing methodology and uncertain tax position.

Net Loss

Net loss decreased $29.9 million, or 33%, to $61.5 million for the three months ended September 30, 2023 compared to the three months ended September 30, 2022 due to the factors described above.

Comparison of the Nine Months Ended September 30, 2023 and 2022

	Nine Months Ended September 30,			
	2023	2022	Change	% Change
	($ in millions)			
Revenue				
Net earned premium	$ 231.3	$ 109.2	$ 122.1	112 %
Ceding commission income	51.4	46.4	5.0	11 %
Net investment income	17.6	4.7	12.9	274 %
Commission and other income	14.0	8.0	6.0	75 %
Total revenue	314.3	168.3	146.0	87 %
Expense				
Loss and loss adjustment expense, net	215.4	105.8	109.6	104 %
Other insurance expense	43.7	30.9	12.8	41 %
Sales and marketing	77.4	111.1	(33.7)	(30 %)
Technology development	67.7	56.1	11.6	21 %
General and administrative	100.3	91.1	9.2	10 %
Total expense	504.5	395.0	109.5	28 %
Loss before income taxes	(190.2)	(226.7)	36.5	(16 %)
Income tax expense	4.3	7.4	(3.1)	(42 %)
Net loss	$ (194.5)	$ (234.1)	$ 39.6	(17 %)

Net Earned Premium

Net earned premium increased $122.1 million, or 112%, to $231.3 million for the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022 primarily due to the earning of increased gross written premium and decrease in cession of ceded written premium under our Proportional Reinsurance Contracts as discussed above under "Reinsurance."

	Nine Months Ended September 30,			
	2023	2022	Change	% Change
	($ in millions)			
Gross written premium	$ 558.7	$ 410.7	$ 148.0	36 %
Ceded written premium	(293.4)	(262.0)	(31.4)	12 %
Net written premium	$ 265.3	$ 148.7	$ 116.6	78 %

Gross written premium increased $148.0 million, or 36%, to $558.7 million for the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022. The increase was primarily due to a 12% 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 6% 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. Assumed premium related to car insurance policies written in Texas from our fronting arrangement with a third party carrier in Texas which began in December 2022 also contributed to the increase in gross written premium during the period.

Ceded written premium increased $31.4 million, or 12%, to $293.4 million for the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022 primarily due to growth in business across all products and the impact of our reinsurance agreements. Under the terms of our Reinsurance Program which became effective July 1, 2023, our overall share under the proportional reinsurance is approximately 55% of premium. The Per Risk Cap across the contracts is $750,000 and contracts are subject to loss ratio caps and variable commission levels. In 2022, the Company decreased the overall share of proportional reinsurance from 70% of premiums to 55% effective July 1, 2022. The Company also purchased a reinsurance program to protect against natural catastrophe risk in the U.S that exceed $80 million in losses effective July 1, 2022. Other non-proportional reinsurance were renewed with terms similar to the expired contracts. See "Reinsurance" above for further information.

Net written premium increased $116.6 million, or 78%, to $265.3 million for the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022. The increase was primarily due to the $148.0 million, or 36%, increase in gross written premium offset by the increase in ceded written premium of $31.4 million, or 12% for the nine months ended September 30, 2023 as compared to the nine months ended September 30, 2022.

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 53% for the nine months ended September 30, 2023, as compared to 68% for the nine months ended September 30, 2022 primarily due to the change in total participation under the proportional reinsurance contracts.

	Nine Months Ended September 30,			
	2023	2022	Change	% Change
	($ in millions)			
Gross earned premium	$ 491.3	$ 339.2	$ 152.1	45 %
Ceded earned premium	(260.0)	(230.0)	(30.0)	13 %
Net earned premium	$ 231.3	$ 109.2	$ 122.1	112 %

Ceding Commission Income

Ceding commission income increased $5.0 million, or 11%, to $51.4 million for the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022, 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 $12.9 million, or 274%, to $17.6 million for the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022. The increase was primarily driven by the diversification of the Company's investment portfolio with higher returns offset by investment expenses of $0.3 million. We mainly invest in cash, money market funds, U.S. Treasury bills, corporate debt securities, asset-backed securities, notes and other obligations issued or guaranteed by the U.S. Government.

Commission and Other Income

Commission and other income increased $6.0 million, or 75%, to $14.0 million for the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022, due to growth on premium placed with third-party insurance companies during the period.

Loss and Loss Adjustment Expense, Net

Loss and LAE, net increased $109.6 million, or 104%, to $215.4 million for the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022. The increase was primarily in line with growth in premium, increase in net retained losses due to change in total participation under the proportional reinsurance contract, and increased claims costs due to impact of inflation. For the nine months ended September 30, 2023, net incurred losses included $10.0 million from winter storm Elliott and $3.5 million from the hail storm that impacted customers in Texas.

Other Insurance Expense

Other insurance expense increased $12.8 million, or 41%, to $43.7 million for the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022. Professional fees and other also increased $5.3 million, or 64%, as compared to the nine months ended September 30, 2022, primarily in support of growth and expansion initiatives. Amortization of deferred acquisition costs, net of ceding commissions increased $3.7 million, or 106%, as compared to the nine months ended September 30, 2022. Credit card fees also increased $2.7 million, or 39%, as compared to the nine months ended September 30, 2022, as a result of the increase in customers and associated premium.

Sales and Marketing

Sales and marketing expense decreased $33.7 million, or 30%, to $77.4 million for the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022. Expense related to brand and performance advertising, the largest component of our sales and marketing expenses, decreased by $33.4 million, or 44%, as compared to the nine months ended September 30, 2022, as a result of reduced spending on search advertising and other customer acquisition channels in response to new product offerings. Partner payments increased $1.9 million, or 146%, compared to the nine months ended September 30, 2022 .

Technology Development

Technology development expense increased $11.6 million, or 21%, to $67.7 million for the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022. Employee-related expense, including stock-based compensation, net of capitalized costs for the development of internal-use software, increased $5.1 million, or 11%, as compared to the nine months ended September 30, 2022, 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. Hosting and development costs also increased by $3.2 million, or 84%, as compared to the nine months ended September 30, 2022 consistent with growth of business. Fees paid to contractors increased by $2.3 million, or 383%, related to the integration of Metromile as compared to the nine months ended September 30, 2022. Software expense also increased by $1.1 million, or 55%, as compared to the nine months ended September 30, 2022.

General and Administrative

General and administrative expense increased $9.2 million, or 10%, to $100.3 million for the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022. Depreciation and amortization expense increased $8.3 million, or 120%, as compared to nine months ended September 30, 2022. Employee-related expense, including stock-based compensation, increased by $5.2 million, or 14%, as compared to the nine months ended September 30, 2022, as we increased finance, legal, business operations and administrative personnel. An asset impairment on the right-of-use asset related to the San Francisco office in the amount of $3.7 million and an accrual for a potential liability claim of $3.0 million related to Metromile were recorded during the third quarter of 2023. Allocated occupancy and related costs increased by $2.3 million, or 77%, as compared to the nine months ended September 30, 2022, primarily related to the integration of Metromile. Legal, accounting and other professional fees decreased $4.3 million, or 37%, compared to the nine months ended September 30, 2022. Insurance expense decreased $2.4 million, or 35% compared to the nine months ended September 30, 2022. Non-recurring transaction and integration costs of $8.4 million were incurred for the nine months ended September 30, 2022 related to the Metromile Acquisition.

Income Tax Expense

Income tax expense decreased $3.1 million, or 42%, to $4.3 million for the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022 due to change in transfer pricing methodology and uncertain tax position.

Net Loss

Net loss decreased $39.6 million, or 17%, to $194.5 million for the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022 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 and interest income, and net realized gains and losses on sale of investments, plus fixed costs 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, and other adjustments that we would consider to be unique in nature. 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 and gross profit margin to adjusted gross profit and the related adjusted gross profit margin, respectively for the periods presented:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
	($ in millions)			
Total revenue	$ 114.5	$ 74.0	$ 314.3	$ 168.3
Adjustments:				
Loss and loss adjustment expense, net	$ (75.9)	$ (53.3)	$ (215.4)	$ (105.8)
Other insurance expense	(15.1)	(12.1)	(43.7)	(30.9)
Depreciation and amortization	(1.6)	(0.5)	(4.7)	(2.0)
Gross profit	$ 21.9	$ 8.1	$ 50.5	$ 29.6
Gross profit margin (% of total revenue)	19 %	11 %	16 %	18 %
Adjustments:				
Net investment income	$ (7.0)	$ (2.6)	$ (17.6)	$ (5.0)
Interest income and other income	(0.7)	(0.3)	(2.2)	—
Employee-related expense	4.6	3.9	13.1	12.1
Professional fees and other	4.5	3.6	13.6	8.3
Depreciation and amortization	1.6	0.5	4.7	2.0
Adjusted gross profit	$ 24.9	$ 13.2	$ 62.1	$ 47.0
Adjusted gross profit margin (% of total revenue)	22 %	18 %	20 %	28 %

Ratio of Adjusted Gross Profit to Gross Earned Premium

We define the Ratio of Adjusted Gross Profit to Gross Earned Premium as the 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 September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
	($ in millions)			
Numerator: Adjusted gross profit	$ 24.9	$ 13.2	$ 62.1	$ 47.0
Denominator: Gross earned premium	$ 173.2	$ 136.4	$ 491.3	$ 339.2
Ratio of Adjusted Gross Profit to Gross Earned Premium	14 %	10 %	13 %	14 %

Adjusted EBITDA

We define adjusted EBITDA, a non-GAAP financial measure, as net loss excluding income tax expense, depreciation and amortization, stock-based compensation, interest income and expense, net investment income, net realized gains and losses on sale of investments, change in fair value of warrants liability, amortization of fair value adjustment on insurance contract intangible liability relating to the Metromile Acquisition, interest expense on borrowings under financing agreement, and other non-cash adjustments and other non-cash adjustments 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 September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
	($ in millions)			
Net loss	$ (61.5)	$ (91.4)	$ (194.5)	$ (234.1)
Adjustments:				
Income tax expense	1.9	2.3	4.3	7.4
Depreciation and amortization	5.0	3.8	15.2	6.8
Stock-based compensation (1)	15.4	14.8	45.6	42.8
Transaction and integration costs from Metromile acquisition	—	7.4	—	8.4
Interest income and others	(0.5)	(0.3)	(2.0)	(0.3)
Net investment income	(7.0)	(2.6)	(17.6)	(4.7)
Change in fair value of warrants liability	—	0.3	(0.3)	0.3
Amortization of fair value adjustment on insurance contract intangible liability relating to the Metromile acquisition	(0.2)	—	(1.1)	—
Other adjustments (2)	6.7	—	6.7	—
Adjusted EBITDA	$ (40.2)	$ (65.7)	$ (143.7)	$ (173.4)

(1) Includes compensation expense related to warrant shares of $0.9 million and $1.5 million for the three and nine months ended September 30, 2023.
(2) Includes impairment charge of $3.7 million related to the San Francisco office sublease and $3.0 million accrual for a potential liability claim, both related to Metromile.

Liquidity and Capital Resources

As of September 30, 2023, we had $231.7 million in cash and cash equivalents, and $706.8 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. 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 September 30, 2023 will be sufficient to meet our working capital, liquidity and capital expenditures needs over at least the next 12 months. However, this is subject, to a certain extent, on general economic, financial, competitive, regulatory and other factors that are beyond our control.

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 September 30, 2023, cash and investments held by these companies was $379.1 million of which $108.6 million is held as regulatory surplus.

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 September 30, 2023, the total adjusted capital of our U.S. insurance subsidiaries was in excess of its respective prescribed risk-based capital requirements.

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

	Nine Months Ended September 30,	
	2023	2022
	($ in millions)	
Net cash used in operating activities	$ (103.0)	$ (134.4)
Net cash provided by investing activities	$ 48.1	$ 93.6
Net cash provided by financing activities	$ 8.2	$ 3.3

Operating Activities

Cash used in operating activities was $103.0 million for the nine months ended September 30, 2023, a decrease of $31.4 million from $134.4 million for the nine months ended September 30, 2022. This reflected the $39.6 million decrease in our net loss, primarily offset by changes in our operating assets and liabilities. The decrease in cash used in operating activities from the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022 was primarily due to claim payments, settlements with our reinsurance partners, and decreased spend related to growth and expansion, offset by collection of premiums and recoveries from reinsurance partners.

Cash used in operating activities was $134.4 million for the nine months ended September 30, 2022. This reflected our net loss of $234.1 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 and ceded premium payable partially offset by increases in prepaid reinsurance, premiums receivables and amounts expected to be recovered from our reinsurance partners, and increased spend related to growth and expansion.

Investing Activities

Cash provided by investing activities was $48.1 million for the nine months ended September 30, 2023, primarily due to proceeds from sales and maturities of U.S. government obligations, corporate debt securities, asset-backed securities, short term investments offset by purchases of U.S. government obligations, corporate debt securities, asset-backed securities, short term investments. We also purchased property and equipment during the period.

Cash used in investing activities was $93.6 million for the nine months ended September 30, 2022, primarily due to proceeds from sales and maturities of U.S. government obligations, corporate debt securities, short term investments offset by purchases of U.S. government obligations, corporate debt securities, short term investments, and cash from the Metromile Acquisition. We also purchased property and equipment during the period.

Financing Activities

Cash provided by financing activities was $8.2 million for the nine months ended September 30, 2023, primarily due to borrowings under the financing agreement and proceeds from stock option exercises.

Cash provided by financing activities was $3.3 million for the nine months ended September 30, 2022, primarily due to proceeds from stock option exercises.

We do not have any current plans for material capital expenditures other than current operating requirements. There have been no material changes as of September 30, 2023 to our contractual obligations from those described in our Annual Report on Form 10-K, except for borrowings under financing agreement as noted above. To the extent our future operating cash flows are insufficient to cover our net losses from catastrophic events, we had $944.9 million in cash and cash equivalents, and investments available at September 30, 2023. We may also seek to raise additional capital through third-party borrowings, sales of our equity, issuance of debt securities or entrance into new reinsurance arrangements. There can be no assurance that we will be able to raise additional capital on favorable terms or at all.

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, intangible assets, goodwill impairment analysis, 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 nine months ended September 30, 2023, 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 new accounting pronouncements.

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 in 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. Our fixed maturities portfolio is exposed to interest rate risk. Changes in interest rates have a direct impact on the market valuation of these securities. As market interest rates increase, market value of fixed maturities decrease, and vice versa. Certain of the our securities are held in an unrealized loss position, and we do not intend to sell and believe we will not be required to sell any of these securities held in an unrealized loss position before its anticipated recovery. A common measure of the interest sensitivity of fixed maturities 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 September 30, 2023, 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 September 30, 2023, none of our fixed maturity portfolio was unrated or rated below investment grade. To reduce credit exposure to reinsurance recoverable balances, the Company obtains letters of credit from certain reinsurers that are not authorized as reinsurers under U.S. state insurance regulations. In addition, under the terms of its reinsurance contracts, the Company may retain funds due to reinsurers as security for those recoverable balances. The Company also has reinsurance recoverable balances from reinsurers with all but one having an A.M. Best rating of A (Excellent) or better.

Inflation Risk

Inflationary factors such as increases in overhead costs may adversely affect our operating results. In addition, inflation could lead to higher interest rates which may impact the market value of our investment portfolio. The current short duration of the Company's fixed maturity portfolio minimizes the negative effects of higher interest rates.

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 September 30, 2023, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter ended September 30, 2023 that have 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. 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. See Note 16 to the accompanying consolidated financial statements for more information

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, other than set forth below:

SoftBank has voting and dispositive control of approximately 17.1% of our common stock. This concentration of voting power in SoftBank could limit your ability to influence the outcome of important transactions, including a change in control, and SoftBank's interests may differ from our interests or those of our other stockholders.

As of November 2, 2023, entities affiliated with SoftBank Group Corp. beneficially own, in the aggregate, approximately 17.1% of our outstanding common stock, corresponding to approximately 17.1% of the total voting rights in our Company. Effective as of March 31, 2023, SoftBank has sole investment and voting power over the Lemonade shares that it owns. This concentration of voting power may increase SoftBank's influence over matters requiring stockholder approval, including the election of directors, the approval of certain business combinations or dispositions, amendments to our amended and restated certificate of incorporation or to our amended and restated bylaws, and other extraordinary transactions. SoftBank may have interests that differ from ours or yours and may vote on matters in a way with which you disagree and which may be adverse to your interests. This concentrated control may have the effect of delaying, preventing or deterring a change in control of the Company, could deprive our stockholders of an opportunity to receive a premium for their capital stock as part of a sale of the Company, could deprive our stockholders of an opportunity to receive a premium for their capital stock as part of a sale of the Company, and might ultimately affect the market price of our common stock. Additionally, sales of substantial amounts of our common stock in the public markets by SoftBank, or the perception that sales might occur, could reduce the price that our common stock might otherwise attain and may make it more difficult for you to sell your common stock at a time and price that you deem appropriate.

The impact of the Customer Investment Agreement with General Catalyst is unpredictable, and the arrangement may not function as expected, and its failure to do so could materially and adversely impact our financial condition and results of operations.

On June 28, 2023, the Company entered into a Customer Investment Agreement (the "Agreement"), with GC Customer Value Arranger, LLC (a General Catalyst company) ("GC"). Under the Agreement, up to $150 million of financing will be provided for the Company's sales and marketing growth efforts. The Agreement has a commitment period of 18 months. Under the Agreement, subject to certain terms and conditions specified therein, at the start of each growth period, an Investment Amount of up to 80% of the Company's growth spend (the "Investment Amount") will be advanced by GC. During each growth period, the Company will repay each Investment Amount including a 16% rate of return, based upon an agreed schedule. Once fully repaid, the Company will retain all future reference income related to each respective Investment Amount. The Agreement is intended to deliver cash flow benefits to support our sales and marketing growth efforts. There can be no guarantee that this financing structure will function as intended, and its failure to do so could materially and adversely impact our financial condition and results of operations.

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.

Reinsurance is a contract by which an insurer, which may be referred to as the ceding insurer, agrees with a second insurer, called a reinsurer, that the reinsurer will cover a portion of the losses incurred by the ceding insurer in the event a claim is made under a policy issued by the ceding insurer, in exchange for a premium. Our insurance subsidiaries, LIC and MIC, obtains reinsurance to help manage its 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. 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, limiting recovery. Reinsurers may become financially unsound by the time that they are called upon to pay amounts due, which may not occur for many years, in which case we may have no legal ability to recover what is due to us under our agreement with such reinsurer. Any disputes with reinsurers regarding coverage under reinsurance contracts could be time consuming, costly, and uncertain of success.

We currently have proportional reinsurance contracts covering a significant portion of our business. Under the Proportional Reinsurance Contracts, which span all of our products and geographies, we transfer, or "cede," a fixed share of our premiums to our reinsurers. In exchange, these reinsurers pay us a "ceding commission" on all premiums ceded to the Reinsurers, in addition to funding the corresponding claims, subject to certain limitations. We have opted to manage the remaining portion of our business with alternative forms of reinsurance. We have achieved this through the Non-Proportional Reinsurance Contracts. Our business is exposed to the risk of severe weather conditions and other catastrophes which are inherently unpredictable. To reduce risk, on July 1, 2023, we entered into a one year property catastrophe excess of loss treaty. We also purchase reinsurance to protect us from the peril of earthquake. If we are unable to renegotiate, at the same or more favorable terms, the Proportional Reinsurance Contracts or the Non-Proportional Reinsurance Contracts when each expires, such changes could have an adverse impact on our business model.

We may change the structure of our reinsurance arrangement in the future, which may impact our overall risk profile and financial and capital condition. We may be unable to negotiate a new reinsurance contract to provide continuous coverage or negotiate reinsurance on the same terms and rates as are currently available, as such availability depends in part on factors outside of our control. A new contract may not provide sufficient reinsurance protection. Market forces and external factors, such as significant losses from hurricanes or terrorist attacks or an increase in capital requirements, impact the availability and cost of the reinsurance we purchase. If we were unable to maintain our current level of reinsurance, extend our reinsurance contracts or purchase new reinsurance protection in amounts that we consider sufficient at acceptable prices, we would have to either accept an increase in our exposure, reduce our insurance writings or develop or seek other alternatives.

The unavailability of acceptable reinsurance cover would have an adverse impact on our business model, which depends on reinsurance companies to absorb any unfavorable variance from the level of losses anticipated at underwriting. If we are unable to obtain adequate reinsurance at reasonable rates, we would have to increase our risk exposure or reduce the level of our underwriting commitments, each of which could have a material adverse effect upon our business volume and profitability. Alternatively, we could elect to pay higher than reasonable rates for reinsurance coverage, which could have a material adverse effect upon our profitability until policy premium rates could be raised, in most cases subject to approval by state regulators, to offset this additional cost. Moreover, if adequate reinsurance cannot be obtained or maintained at reasonable rates, we may be unable to make contributions to the nonprofit organizations selected by our customers as part of our Giveback, which could erode customer trust, damage our brand, and have a material adverse effect on our financial condition and results of operations.

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 surrounding region.

We maintain offices in Israel and some of our officers, employees and directors are located in Israel, including our Co-Founders and some of our product development staff, help desk and online sales support operations. As of September 30, 2023, we had approximately 300 full-time employees in Israel. Although we do not currently sell our insurance products in Israel, political, economic and military conditions in Israel and the surrounding region may directly affect our Israeli operations. In recent years, including most recently in October 2023, Israel has been involved in sporadic armed conflicts with Hamas, an Islamist terrorist group that controls the Gaza Strip, with Hezbollah, an Islamist terrorist group that controls large portions of Southern Lebanon, and with Iranian-backed military forces in Syria. Some of these hostilities, including the most recent attacks by Hamas, were accompanied by missile strikes from the Gaza Strip against civilian targets in various parts of Israel, including areas in which our officers, employees and directors are located, and negatively affected conditions in Israel. The tension between Israel and Iran and/or these groups continues to escalate and may turn even more violent in the future, which could materially adversely affect conditions in Israel in general and our operations in particular.

Furthermore, many Israeli citizens are obligated to perform several days, and in some cases more, of annual military reserve duty each year until they reach the age of 40 (or older, for reservists who are military officers or who have certain occupations) and, in the event of a military conflict, may be called to active duty. In response to the recent terrorist activity, there have been call-ups of military reservists and it is possible that there will be increases in military reserve duty call-ups in the future. Some of our officers and employees based in Israel have been called upon to perform military reserve duty and/or active duty, and others may be called in the future. Our operations have been and may continue to be partially disrupted by these employee absences, which could materially adversely affect our business and results of operations. We have contingency plans and structures in place to mitigate these risks, and we continue to monitor our ongoing activities and will make any needed adjustments to ensure the continuity of our business, while supporting the safety and well-being of our employees.

Parties with whom we do business may sometimes decline to travel to Israel during periods of heightened unrest or tension, forcing us to make alternative arrangements when necessary to meet our business partners in person. Further, shifting economic and political conditions in the United States and in other countries may result in changes in how the United States and other countries conduct business and other relations with Israel, which may have an adverse impact on our Israeli operations and a material adverse impact on our business. In addition, several countries, principally in the Middle East, restrict doing business with Israel, and additional countries may impose restrictions on doing business with Israel and Israeli companies whether as a result of hostilities in the region or otherwise. Moreover, there have been increased efforts by organizations and movements to cause companies and consumers to boycott Israeli goods based on Israeli government policies. Any hostilities, armed conflicts or political instability involving Israel could adversely affect our results of operations. With regards to the recent hostilities, there is still uncertainty regarding the extent to which it will impact our operations in Israel, which we continue to evaluate.

Our commercial insurance may not cover losses that could occur as a result of events associated with the security situation in the Middle East. Any losses or damages incurred by us could have a material adverse effect on our business. Continued hostilities between Israel and its neighbors and any future armed conflict, terrorist activity or political instability in the region could adversely affect our operations in Israel and adversely affect the market price of our common stock. An escalation of tensions or violence might result in a significant downturn in the economic or financial condition of Israel, which could have a material adverse effect on our operations in Israel and our business.

In addition, the Israeli government has recently and may in the future pursue extensive changes to Israel's judicial system. In response to such changes, many individuals, organizations and institutions, both within and outside of Israel, have in the past and may in the future voice concerns that the proposed changes may negatively impact the business environment in Israel, due to potential reluctance of foreign investors to invest or transact business in Israel, increased currency fluctuations, downgrades in credit rating, increased interest rates, increased volatility in securities markets, and other changes in macroeconomic conditions. To the extent that any of these negative developments occur, they may have an adverse effect on our business, our results of operations, or our ability to raise additional funds, if deemed necessary by our management and board of directors.

Item 2. Unregistered Sales of Equity Securities, Use of Proceeds, and Issuer Purchases of Equity Securities.

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

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

(a) We are reporting the following information in lieu of reporting on a Current Report on Form 8-K under Item 5.02 - Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers.

On November 1, 2023, the Company entered into a Transition Letter Agreement (the “Transition Letter Agreement”) with John Peters, the Company’s Chief Insurance Officer, under which, in connection with a reduction of Mr. Peters' duties to thirty hours per week of service to the Company, Mr. Peter’s annual base salary will be reduced from $410,000 to $212,500, effective November 15, 2023.

Under the Transition Letter Agreement, if Mr. Peters’ employment is terminated by the Company without cause either (i) on or before May 15, 2024 or (ii) between May 16, 2024 and November 15, 2024, the annual base salary utilized to calculate Mr. Peters’ severance benefits set forth in the amended and restated employment agreement, dated July 7, 2020 by and between Mr. Peters and the Company will be deemed to be $425,000 and $320,000, respectively.

The foregoing description of the Transition Letter Agreement does not purport to be complete and is subject to and qualified in its entirety by reference to the Transition Letter Agreement, a copy of which is attached hereto as Exhibit 10.1 to this Quarterly Report and is incorporated herein by reference.

(b) None

(c) During the three months ended September 30, 2023, no director or officer of the Company adopted or terminated a “Rule 10b5-1 trading arrangement” or “non-Rule 10b5-1 trading arrangement,” as each term is defined in Item 408(a) of Regulation S-K.

Item 6. Exhibits.

Exhibit Number	Description	Incorporated by Reference			
		Form	File No.	Exhibit	Filing Date
2.1	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.	S-4	333-261629	2.3	12/14/2021
3.1	Amended and Restated Certificate of Incorporation of Lemonade, Inc.	8-K	001-39367	3.1	7/10/2020
3.2	Amended and Restated By-laws of Lemonade, Inc.	8-K	001-39367	3.2	7/10/2020
4.1	Specimen Common Stock Certificate of Lemonade, Inc.	S-1/A	333-239007	4.1	6/23/2020
4.2	Form of Warrant Certificate of Metromile, Inc.	S-1	333-253055	4.2	2/12/2021
4.3	Warrant Agreement, dated September 2, 2020, between INSU Acquisition Corp. II and Continental Stock Transfer & Trust Company, as warrant agent	8-K	001-39484	4.1	9/9/2020
10.1*	Transition Letter Agreement by and between John Peters and Lemonade, Inc. dated November 1, 2023				
31.1*	Certification of Co-Chief Executive Officer pursuant to Exchange Act Rule 13a-14(a).				
31.2*	Certification of Co-Chief Executive Officer pursuant to Exchange Act Rule 13a-14(a).				
31.3*	Certification of Chief Financial Officer pursuant to Exchange Act Rule 13a-14(a).				
32.1**	Certification of Co-Chief Executive Officer pursuant to 18 U.S.C. Section 1350.				
32.2**	Certification of Co-Chief Executive Officer pursuant to 18 U.S.C. Section 1350.				
32.3**	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350.				
101.INS*	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because the XBRL tags are embedded within the Inline XBRL 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:	November 3, 2023	By:	/s/ Daniel Schreiber
			Daniel Schreiber
			Co-Chief Executive Officer
Date:	November 3, 2023	By:	/s/ Shai Wininger
			Shai Wininger
			Co-Chief Executive Officer
Date:	November 3, 2023	By:	/s/ Tim Bixby
			Tim Bixby
			Chief Financial Officer

Exhibit 10.1

November 1, 2023

John Peters

via email

Dear John:

This letter memorializes the understanding between you and Lemonade, Inc. (the "Company") regarding a reduction in your duties and the corresponding reduction to your annual base salary. You have agreed that, in connection with a reduction of your duties to thirty hours per week of service to the Company, your annual base salary will be reduced to $212,500, in each case, effective November 15, 2023.

Please note that your signature to this letter will evidence your consent to this reduction in your duties and corresponding base salary reduction and your waiver of any right you may have to resign for "good reason" under your amended and restated employment agreement, dated July 7, 2020 by and between you and the Company (the "Employment Agreement"), or any other agreement containing "good reason" or a similar concept between you and the Company or an affiliate thereof as a result of such duties and/or base salary reduction. You further acknowledge and agree that, as a result of such signature to this letter, neither the reduction of your duties nor the base salary reduction will constitute a breach or violation by the Company of any provision of the Employment Agreement with the Company.

Notwithstanding the foregoing, if the company terminates your employment without Cause (as defined in the Employment Agreement) on or before May 15, 2024, the annual base salary utilized to calculate your severance benefits set forth in the Employment Agreement will be deemed to be $425,000, and, if the Company terminates your employment without Cause between May 16, 2024 and November 15, 2024, the annual base salary utilized to calculate your severance benefits set forth in the Employment Agreement will be deemed to be $320,000.

Please indicate your agreement with the terms of this letter by signing and dating this letter in the space below. Thank you for your contributions to the Company. We look forward to continuing our journey together with your leadership.

Sincerely,
Lemonade, Inc.

By: /s/ Daniel Schreiber

Daniel Schreiber

Co-CEO

I have read and understand this letter and acknowledge, accept and agree to its terms.
/s/ John Peters

John Peters

Exhibit 31.1

CERTIFICATION

I, Daniel Schreiber, 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: November 3, 2023

By: /s/ Daniel Schreiber

Daniel Schreiber
Co-Chief Executive Officer
(co-principal executive officer)

Exhibit 31.2

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: November 3, 2023

By: /s/ Shai Wininger

Shai Wininger

Co-Chief Executive Officer

(co-principal executive officer)

Exhibit 31.3

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: November 3, 2023

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

Exhibit 32.1

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Lemonade, Inc. (the "Company") for the period ended September 30, 2023, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Daniel Schreiber, Co-Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

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.

Date: November 3, 2023

By: /s/ Daniel Schreiber

Daniel Schreiber
Co-Chief Executive Officer
(*co-principal executive officer*)

Exhibit 32.2

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Lemonade, Inc. (the “Company”) for the period ended September 30, 2023, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Shai Wininger, Co-Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

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.

Date: November 3, 2023

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

Exhibit 32.3

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Lemonade, Inc. (the “Company”) for the period ended September 30, 2023, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Tim Bixby, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

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.

Date: November 3, 2023

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