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

FORM 10-K

☑ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 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)

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	The New York Stock Exchange
Warrants to Purchase Common Stock	LMND-WS	New York Stock Exchange American

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ☑ Yes ☐ No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. ☐ Yes ☑ No

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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☑

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b). ☐

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

The aggregate market value of the common stock held by non-affiliates of the registrant, based on the closing sales price of $16.85 on June 30, 2023, was approximately $820,769,600.

Registrant had 70,224,408 shares of common stock outstanding as of February 27, 2024.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive Proxy Statement relating to its 2024 Annual Meeting of Stockholders, to be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year to which this report relates, are incorporated by reference into Part III of this Annual Report on Form 10-K where indicated.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K (the “Annual 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 Annual Report are forward-looking statements, 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, our ability to achieve profitability, 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. 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 Annual 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 Annual 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 the factors described under the sections in this Annual Report titled “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

You should read this Annual Report and the documents that we reference in this Annual 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 Annual Report, unless we indicate otherwise or the context otherwise 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, Inc.

SUMMARY RISK FACTORS

Our business is subject to numerous risks and uncertainties, including those described in Part I Item 1A. “Risk Factors” in this Annual Report. You should carefully consider these risks and uncertainties, together with all of the other information contained in this Annual Report, when investing in our common stock or warrants. The principal risks and uncertainties affecting our business include the following:

- 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.
- Reinsurance may be unavailable at current levels and prices, which may limit our ability to write new business and impact our capital needs. 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.
- 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.
- 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.
- Intense competition in the segments of the insurance industry in which we operate could negatively affect our ability to attain or increase profitability.
- 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, or expand into new markets, our prospects for future growth may be adversely affected.
- 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.
- 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.
- The insurance business, including the market for renters, homeowners, pet, life and car 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 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 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
- 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.
- 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, our employees and other stakeholders 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.
- Our agreement with General Catalyst may not function as expected, and its failure to do so could adversely impact our financial condition and results of operations.
- 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 affect our ability to achieve 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.
- 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.

PART I

Item 1. Business

Overview

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 and Europe, and the full technology stack to power them.

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

Our Business Model

At the foundation of our business model is a direct, digital, customer-centric experience that enables rapid growth and strong retention. Our customer-centricity runs deep, and our underlying business model is designed to align interests between us and our customers. This technology-first customer acquisition and retention strategy, combined with our unconflicted business model, results in a highly attractive financial model.

We leverage technology in everything we do. AI Maya and our APIs sell 98% of Lemonade's policies. Approximately 95% of homeowners insurance policies in the United States are sold via agents, making a platform that finds, onboards, and digitally serves consumers end-to-end very much an outlier. Our digital substrate enables us to integrate marketing and onboarding with underwriting and claims processing, collecting and deploying data throughout, to constantly drive efficient customer acquisition, enhance the experience, and mitigate risk. This approach results in significant, rapid scaling coupled with high customer satisfaction.

To align our interests with those of our customers, encourage good behavior and build a long-term relationship based on mutual trust, we endeavor to decouple our financial incentives from variability in claims. Unlike many of our competitors, we work to minimize incentives to deny legitimate claims as we aim to give back, rather than pocket, leftover monies. Our reinsurance contracts serve to lessen volatility in our operating results, as a material portion of claims are borne by our reinsurance partners. See "Risk Factors — Risks Relating to Our Business”. In the future, reinsurance may be unavailable at current levels and prices, which may limit our ability to write new business and impact our capital needs. 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.

After our customers purchase a policy, we ask them to designate a charitable cause for us to support. As a result, we believe customers are less inclined to embellish claims as they could be hurting a nonprofit they care about, rather than an insurance company they do not.

Strong retention rates and a subscription-based model create highly-recurring and naturally-growing revenue streams, and provide visibility into our topline results. Our reinsurance construct, in turn, mitigates the bottom-line volatility inherent in traditional insurance companies, where profits quite literally depend on the weather. With our reinsurance agreements offloading residual claims, and our Giveback policy offloading residual premiums, we have two powerful ballasts that reduce volatility, while creating an aligned, trustful, and values-rich relationship with our customers.

This combination of a customer-focused onboarding experience, a customer-aligned business model, and a revenue stream that grows along with our customers' insurance needs, has created a sustainable financial model that we are proud of. Over time, we believe our platform will continue to efficiently acquire new customers and give us the ability to service their growing needs at a lower cost, and with higher satisfaction levels, than the industry at large.

Our Technology

Data Advantage

Our proprietary and entirely integrated technology stack is a key enabler of our strategy and business model. Interactions with our customers across our platform generate a trove of data, which in turn improves interactions with our customers across our platform.

AI Maya

AI Maya, our playful onboarding and customer experience bot, uses natural language to guide customers through an easy and fun process of joining Lemonade. Maya handles everything from collecting information and personalizing coverage to creating quotes and facilitating payments securely. By asking customers a limited number of high-impact questions, and adapting based on their responses, AI Maya is able to dramatically reduce onboarding times while still collecting and utilizing the data that is central to our continuous improvement.

AI Jim

AI Jim is our claims bot, and, as of December 31, 2023, 98% of the time, it is AI Jim that will take the first notice of loss from a Lemonade customer making a claim, paying the claimant or declining the claim without human intervention (and with zero claims overhead, known as loss adjustment expense, or “LAE”). AI Jim triages and assigns claims he is not authorized to settle, or ones where he identifies concerns, to human claims experts, analyzing each expert's specialty, qualifications, workload, and schedule to determine to whom to assign the claim. Even where human escalation is needed, AI Jim will have done much of the heavy lifting so our team can settle claims and support customers in their hour of need as quickly and smoothly as possible.

The claims process represents the most acute pain point in the insurance experience, and it is where animosity toward the industry is most commonly cultivated. Re-imagining claims for the benefit of the customer, by aligning interests and incentives and by endeavoring to remove friction, hassle, cost, and delays, is therefore a key driver of our leadership in customer satisfaction.

CX.AI

CX.AI is our bot platform built to understand and instantly resolve customer requests without human intervention. About a third of Lemonade’s customer inquiries are currently handled this way. Customers often require assistance pre- or post-purchase, ranging from coverage questions to making changes to their policy, such as adding a spouse, updating coverage amounts, changing payment methods, or adding newly purchased items. CX.AI uses Natural Language Processing to analyze and understand customers' requests, helping them perform a growing set of tasks.

The efficiency boost CX.AI delivers is exemplified by its impact on 'moving' tickets. Until December 2018, a large number of support tickets handled by our human CX (Customer Experience) team were requests related to customers moving to new apartments or homes. CX.AI understands what customers are saying, asks for the information it needs, and takes it from there: canceling the existing policy when the time is right, evaluating the risk of the new address, transferring all customized coverages to the new policy, pricing it, processing the payment, and sending the new policy to the customer by email. The process takes a few seconds.

Our customer-facing technologies, AI Maya, AI Jim, and CX.AI deliver a superior experience at a fraction of the cost, all the while collecting and utilizing far more data than their human counterparts. A similar construct powers the rest of the Company.

Our 'behind the scenes technology' is structured within three proprietary applications: Forensic Graph, Blender, and Cooper.

Forensic Graph

Forensic Graph utilizes the combined power of behavioral economics, big data, and AI to predict, deter, detect, and block fraud throughout the customer engagement. The FBI estimates that insurance fraud in the United States (excluding health insurance fraud) costs more than $40 billion per year in increased premiums. It is a complicated problem to solve for traditional insurers, mostly due to data paucity. Forensic Graph tracks untold signals and analyzes relationships between things which may appear trivial or invisible to humans, but in which our machine learning uncovers complex multivariate links that have helped us avoid millions of dollars' worth of potential losses.

Blender

Blender is a robust insurance management platform that we built with customer centricity and exponential efficiency in mind. This is a built-from-scratch, cutting edge backend system, designed as a single, cohesive, and streamlined management tool for our customer experience, underwriting, claims, growth, marketing, finance, and risk teams. When a claims experience specialist logs in to Blender, for example, they instantly see all claims assigned to them by AI Jim. Blender then provides them with instructions for next steps, and when possible, includes coverage determinations, and alerts of suspicious activity. Critically, they will also see an extraordinary amount of information about the users' behavior patterns and their claim, background information, risk indicators, insurance history, and much more. If a vendor is needed, for example, to assess the damage, all appropriate suppliers will pop up in Blender, and can be dispatched to the field, and paid, at the push of a button. Blender brings similar integrated, customer-centric, and focused workflows to the other Lemonade teams as well.

Cooper

Cooper is our internal bot (we like to think of him as our own Jarvis) who runs important parts of our Company. Cooper handles complex as well as repetitive tasks, from helping our customer experience team handle lengthy, manual processes such as processing paper checks, to automatically running tens of thousands of tests on each release of our software. Cooper continuously analyzes spectrometry imaging beamed from NASA's satellites, identifying wildfires in real time and blocking ads and sales in the affected areas; Cooper collates and formats materials for our regulatory filings; and he even handles most of our engineering task allocation, code deployment, Q&A, and more. Cooper makes our team dramatically more efficient and keeps evolving and learning with time.

Forensic Graph, Blender, and Cooper, together with AI Maya, AI Jim, and CX.AI, run atop our Customer Cortex. The Customer Cortex, like a central nervous system, is the place where all data about our customers is transmitted, continuously analyzed, and then used by all six applications.

Growth Opportunities

Acquire more customers

About 90% of our current home and renters customers said that they were not switching to Lemonade from another carrier. We are well positioned to grow our customer base by continuing to attract first time buyers, an underserved population replenishing every year.

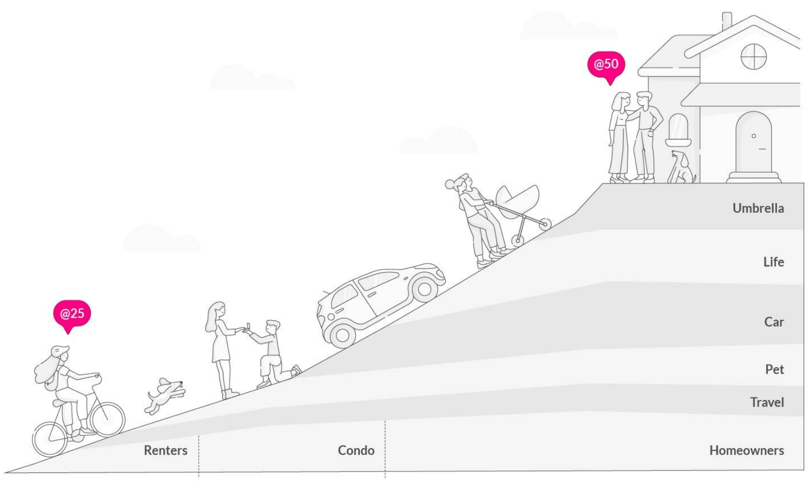
Our delightful experience and competitive pricing also attract customers who switch from their existing carriers. Our bot automatically files the necessary paperwork to cancel a customer's old policy, removing what is typically a barrier to switching. As we continue to strengthen brand recognition and execute our marketing strategy, we will look to increase the number of customers migrating to the Lemonade platform.

Grow within our existing customer base

As our customers move up the economic ladder and through lifecycle events, their insurance needs evolve to higher value products: renters continuously acquire more property and frequently upgrade to successively larger homes. Growing households often need car, pet, and life insurance, and additional coverage. These progressions regularly trigger orders of magnitude jumps in insurance premiums, and within states that offer all of Lemonade's "suite of products" - Renters, Home, Car, Pet, and Life - we see a growing proportion of customers with multiple Lemonade policies. For example in Illinois, the first state to have the full suite of Lemonade products available, the rate of "bundling", customers adding at least a second policy, is growing quarter after quarter, increasing both premium and retention. We aim to provide an unmatched user experience in order to retain customers throughout their lifespan, expanding their lifetime value without incurring any incremental costs of acquisition.

Expand to new products

Our strategy of growing with our customers also lends itself to expanding into new lines of insurance, as lifecycle events trigger the need for additional insurance products.



Our regulatory framework, technology stack, and brand are all extensible to new lines of insurance, and we anticipate that these will contribute to our growth in the future. In the last three years, we have added life, pet and car insurance to our growing portfolio of offerings, and expect to add additional coverage types over time.

Expand to new geographies

As of December 31, 2023, we are licensed to sell renters, homeowners, pet and/or car insurance policies in 50 states of the United States and Washington, D.C. We operate in 38 of those states and Washington, D.C., which collectively represents approximately 92% of the U.S. population. Our strong brand and unique business model drive rapid growth and allow us to quickly gain share in new markets. We also hold a pan-European license, enabling us to passport into and sell in 30 countries across Europe. Under this license we commenced operations in Germany in 2019, and in the Netherlands and France in 2020. In October 2022, we began selling contents insurance in the United Kingdom ("UK") in a cross border basis under the UK's Temporary Permission Regime. We also registered two UK branches: (i) Lemonade Insurance N.V., UK Branch ("UK Branch") and its affiliate (ii) Lemonade Agency B.V.. In May and June 2023 respectively, we received a third country branch authorization in the UK for both of these registered branches allowing us to operate on a permanent basis in the UK market.

The Lemonade platform is inherently multilingual and agile by design, so that we can efficiently expand into new markets and new product offerings both within the United States and internationally.

Our Product Offerings

Renters and Homeowners Insurance

We currently offer our products to renters and homeowners in the United States, and contents and liability insurance in Germany, the Netherlands, France, and the United Kingdom. The insurance we offer in the United States covers stolen or damaged property, and also covers personal liability, which protects our customers if they are responsible for an accident or damage to another person or their property. In a number of states, we also offer landlord insurance policies to condo and co-op owners who rent out their property less than five times a year.

The full Lemonade experience is available through our iOS and Android app, as well as through our website. Before a customer purchases one of our policies, we allow the customer to review a summary of their coverage and a sample policy. We also enable the customer to reconfigure their coverage and other policy settings, such as the deductible and start date. After payment via a credit or debit card, we instantly issue the customer their policy documents and send it to them via email. From start to finish, the entire process is completed digitally.

In the U.S., our products automatically cover all residents of a household who are related to the customer by marriage, blood, or adoption. In addition to the base coverage we offer for personal property, electronics, furniture, and clothing, our customers can purchase extra coverage to protect against accidental loss, damage, and theft, worldwide, of their jewelry, fine art, and other personal property.

Pet Insurance

We currently offer pet insurance that covers diagnostics, procedures, medication, accidents or illness. Even our basic pet insurance offering covers blood tests, urinalysis, X-rays, MRIs, lab work, and CT scans. We also offer two optional add-ons to the basic plan, a wellness package and an extended accident and illness package. These provide additional coverage for preventative care costs, including annual exams and vaccines, and recovery treatments, including physical therapy and hydrotherapy.

We believe our expansion into pet insurance will allow us to further achieve our long-term strategy of growing with our young customer base by offering new insurance experiences to customers as they progress in their lifecycles. About 72% of our pet insurance policies were sold to new customers, and about 6% of those have already added a renters or homeowners policy to their pet policy as of December 31, 2023. Customers that bundle our insurance offerings typically save money. The remaining 28% or so of pet insurance policies were sold to existing customers, whose median premium per customer grew roughly 3.7x with little to no incremental customer acquisition costs.

Car

We launched car insurance in December 2021 in Illinois, and now offer it in a handful of states. Lemonade Car insurance covers car accidents, weather damage, theft and vandalism, damage from fire, trees, or animals, glass and windshield repair, liability for bodily injury and property damage, medical expenses, roadside assistance, and reimburses drivers for expenses relating to temporary transportation when a car is being repaired, subject to certain exceptions. For each added Lemonade Car customer, we plant trees based on drivers' mileage to help offset carbon emissions. Our product was built for environment-friendly cars and we also offer a fair price based on how you drive.

In July 2022, we announced the completion of the acquisition of Metromile, a pay-per-mile car insurance provider. As part of the acquisition, we received a full-stack insurance entity with 49 state licenses plus Washington, D.C., and precision data from 500 million car trips.

Life

Lemonade also provides life insurance through a partnership arrangement with a third-party carrier. With Lemonade's term life insurance offering, individuals can apply online for up to $1.5 million or more in coverage, for a term of 10 to 40 years. Applicants use Lemonade's interface to receive an initial quote estimate and then are transferred to our partner to complete their final application.

Giveback Feature

Giveback is a distinctive feature, whereby each year we aim to donate leftover money to causes our customers care about. After our customers purchase a policy, we ask them to select, from a pre-vetted list, a charitable cause to support with the residual premiums from their policy. Behind the scenes, customers who select the same charitable cause are classified as members of the same "cohort." Once each year we review the loss ratio of each cohort, and provided that we pass the financial ratio tests required by our regulators, we aim to donate the funds remaining, if any, to the charitable cause selected by that cohort. Cohorts with a loss ratio above 40% usually will not receive a Giveback.

The Giveback is paid only if payment is authorized by our board of directors in its sole discretion and consistent with its duty of care. See "Risk Factors — 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 2023 Giveback for the 12 month period ended June 30, 2023 amounted to $2,008,847. We calculate our annual Giveback on each anniversary of our primary reinsurance contract. The Giveback is not a contractual obligation to any customer or to any cause, and customers may not take a tax deduction related to the donations.

We have informed, and intend to continue to inform, our customers of the amount donated to their selected nonprofit during each Giveback on an annual basis, details of which follow:

Giveback Year	Number of Nonprofit Organizations	Amount	
2023	58	$	2,008,847
2022	59	$	1,873,588
2021	65	$	2,303,381
2020	34	$	1,128,109
2019	26	$	631,540

Selected nonprofit organizations chosen by customers in 2023 included: Charity Water, New Story, Malala Fund, and many others. Although a new and untested concept, we believe that donating a portion of the money left over after paying claims to nonprofits will discourage fraud and promote greater trust between us and our customers. The Giveback program, and our underlying ethos, has also helped build an honest relationship with our consumers. They trust us, and they also become part of a community; our policyholders are helping others while covering their own valuables, insuring their home, or making sure their pet can afford vital medical care.

Our Vertically-Integrated Platform

Sales and Marketing

Our goal is to increase brand awareness and the number of customers migrating to our platform by utilizing a number of marketing channels to aid our direct-to-consumer sales model. Our primary channel of advertisement is the internet, where we promote our ads and services through various media and social media platforms, including Facebook, TikTok, YouTube, and Instagram. We also use the data generated in customer support interactions to constantly refine and improve our marketing campaigns. We conduct drip campaigns via email to follow up with those who have inquired about us or started the on-boarding process. Additionally, we enter into agreements with parties who have access to potential customers, including insurance agencies, apartment building owners, and property management companies.

Underwriting

Our digital platform enables us to ask fewer questions of our customers but derive many times more data points from each customer interaction than our competitors. Applying machine learning to these data allows us to identify predictive patterns, and these inform our underwriting. Our underwriting process involves collecting this information, classifying and evaluating each individual risk exposure, assessing the impact of the risk on our existing portfolio, and pricing the risk accordingly. When we launched, and had no data of our own, pricing and underwriting were done using easily obtainable industry information. Due to the limitations of these data, customers appeared relatively undifferentiated.

Claims Process

Powered and driven by our technology, our claims process is conducted via our digital platform, which includes our iOS and Android mobile apps. Claims can be substantiated with receipts, notes of where and when the item was purchased, and in certain cases, police reports. We also ask the customer to record a video explaining their claim to enhance the claim review process. After the customer completes a claim report on our mobile app, the customer is asked to enter bank account information. If the claim is approved, a payment is issued and deposited directly into the customer's account. Claims are commonly paid or declined through our claims bot, AI Jim, within seconds.

While a meaningful portion of simple theft claims are paid almost instantly, in many cases the incident is also reviewed by a human before the claim is approved, and certain property damage claims or liability claims may take longer to settle. In an event that requires immediate assistance or temporary housing as a result of fire, ongoing water damage, or any other structural damage that leaves the customer's home exposed, we contact the customer to assess the situation and provide emergency services, such as water or fire damage cleanup, temporary housing, or a designated specialist.

Reinsurance

Insurance often produces businesses with highly recurring revenue streams, and hence predictable top lines, but with significant bottom-line volatility, as profits can literally fluctuate with the weather. Earthquakes, hailstorms, wildfires and hurricanes strike with caprice, and can push an otherwise profitable business deep into the red with little or no warning.

The first-order consequence of this uncertainty is that insurers often see unwelcome swings in their results. The second-order consequence is that regulators require insurers to keep significant reserves to absorb these swings, making them capital intensive. We set out to architect our business to be at once capital-light and possessed of a predictable and growing gross margin. Through judicious use of "reinsurance," we believe we have largely achieved these goals.

Reinsurance is a financial instrument under which one insurer, the "reinsurer," agrees to cover a portion of the claims of another insurer, the "primary insurer," in return for a portion of their premiums. While this description characterizes all reinsurance, implementations come in different flavors, each with its own costs and benefits. We have entered into a range of reinsurance agreements, differing in both duration and terms, which combine, we believe, to deliver maximum capital efficiency, while optimizing our gross margin for both stability and size.

Proportional Reinsurance: Maximize Capital Efficiency

The low cost of capital for reinsurance companies creates an opportunity to share premiums and maintain our gross margin while dramatically reducing our capital requirements through a structure called "proportional reinsurance" (also known as "quota share reinsurance"). We currently have proportional reinsurance covering a significant proportion of our business (the "Proportional Reinsurance Contracts"). 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 variable "ceding commission", in addition to funding all of the corresponding claims.

Under U.S. and E.U. regulatory laws, insurance companies are required to set aside "surplus capital" in accordance with various formulae. These requirements tend to be more onerous for younger companies experiencing rapid growth, such that without reinsurance we would need to reserve as much as 50 cents for every dollar of premiums sold. Our proportional reinsurance structure shifts most of that surplus capital requirement to the reinsurer, reducing these capital requirements significantly.

Non-Proportional Reinsurance: Optimize Gross Margin

As described above, our Proportional Reinsurance Contracts provide that we cede a significant portion of our premiums to our reinsurers, pushing our capital efficiency to near maximized levels. We have opted to manage the remaining portion of our business with alternative forms of reinsurance, with a view to maximizing profitability.

These two remaining goals live in tension with one another: leaving zero "wiggle room" around our fixed fee would guarantee its stability, but would preclude our benefiting from our improving loss ratio. Conversely, any room for improved profitability would also introduce additional volatility into our business.

To balance our desire for both growing and stable gross margin, we set out to structure our remaining reinsurance such that variability in our gross margin will be largely contained, though not eliminated entirely. We believe we have achieved this through a combination of reinsurance structures known as "per risk reinsurance" and "facultative reinsurance" (the "Non-Proportional Reinsurance Contracts"). Together, these contracts reduce the maximum amount we would need to pay for any one claim.

Our business is exposed to the risk of severe weather conditions and other catastrophes which are inherently unpredictable. To reduce this risk, we also purchase one year property catastrophe excess protection.

In 2023, we formed a new risk-bearing entity, Lemonade Re SPC, in the Cayman Islands, where we hold some of our retained risk. We also established a captive cell facility at a Bermuda transformer vehicle that is authorized to write and purchase insurance / reinsurance where we retain most of our windstorm exposure.

We believe our reinsurance structure achieves these important goals: making us capital-light, buffering our gross margin from the vicissitudes of claims, and leaving room for our gross margin to grow.

Duration

Our goal of maximizing predictability of our results, while growing gross margin over time, led us to vary not only the terms of our reinsurance agreements, but their term, too.

The Proportional Reinsurance Contracts are issued by a consortium of three reinsurers, including Hannover Ruck SE, MAPFRE Re (Spain), and Swiss Re America (US), each holding an ‘A’ or better rating from A.M. Best, and each holding a share of the agreement’s commitments. In addition, we established a Cayman Islands-based captive reinsurer to which Metromile Insurance Company (“MIC”) cedes approximately 25% of its premiums and losses.

Our Non-Proportional Reinsurance Contracts are issued by a collection of reinsurers, each holding an ‘A’ or better rating from A.M. Best, have a one-year term that expires on June 30, 2024. We also have a reinsurance contract between Lemonade Insurance Company (“LIC”) and a Bermuda-based segregated cell insurer to cover catastrophe risks over the initial $50,000,000 limit for each loss occurrence, and further subject to a limit of $80,000,000 for each loss occurrence and in aggregate.

We estimate that approximately half of our book is reinsured through June 30, 2024, and renewed and renegotiated on an annual basis. We believe that the terms of our reinsurance arrangements provide an appropriate balance between maximizing predictability, and enabling us to capture more margin over time.

Investments

Our portfolio of investable assets is primarily held in cash, money market funds, and fixed income securities which includes U.S. government and government agencies obligations, corporate debt securities and asset-backed securities with relatively short durations. We manage the portfolio in accordance with the investment policies and guidelines approved by the board of directors.

We have designed our investment policy and objectives to provide a balance between current yield, conservation of capital, and liquidity requirements of our operations setting guidelines that provide for a well-diversified investment portfolio that is compliant with insurance regulations applicable to the states in which we operate. Furthermore, our investment policy considers our focus on ESG and prohibits investments in areas such as oil and gas, coal, tobacco, controversial weapons, and non-compliance with the United Nations Global Compact. The policy, which may change from time to time, is approved by the board of directors and is reviewed on a regular basis in order to ensure that the policy evolves in response to changes in the financial markets. See "Note 4 — Summary of Significant Accounting Policies" in the Notes to Consolidated Financial Statements included in this Annual Report.

Competition

The homeowners, pet, car and, to a lesser extent, the renters insurance industries in which we operate are highly competitive. While we believe we are well positioned to execute our business model and reinvent insurance, we face significant competition from traditional insurance companies such as Allstate, Farmers, Liberty Mutual, State Farm, GEICO, Progressive and Travelers. Although we are tapping into markets that our competitors have struggled to reach, the incumbent insurance companies are larger than us and have significant competitive advantages over us, including increased name recognition, higher financial ratings, greater resources, additional access to capital and more types of insurance coverage to offer, such as car, health and life insurance, than we currently do. In particular, unlike us, many of these competitors offer consumers the ability to purchase homeowners and multiple other types of insurance products and "bundle" them together, in certain circumstances, include an umbrella liability policy for additional coverage at competitive prices. Moreover, as we expand into new lines of business and offer additional products beyond renters and homeowners insurance, pet and car insurance, we face intense competition from traditional insurance companies that are already established in such markets. Competitors in the pet insurance space include companies such as Nationwide, Embrace, and Trupanion. Competitors in the car insurance space include companies such as Progressive, GEICO and Allstate.

We also compete with new market entrants. Competition is based on many factors, including the reputation and experience of the insurer, coverages offered, pricing and other terms and conditions, customer service, relationships with brokers and agents (including ease of doing business, service provided, and commission rates paid), size, and financial strength ratings, among other considerations. We believe we compete favorably across many of these factors, and have developed a digital platform and business model based on artificial intelligence and behavioral economics that we believe will be difficult for incumbent insurance providers to emulate.

Intellectual Property

The protection of our technology and intellectual property is an important aspect of our business. We intend to rely upon a combination of trademarks, trade secrets, copyrights, confidentiality procedures, contractual commitments, and other legal rights to establish and protect our intellectual property. We generally enter into confidentiality agreements and invention of work product assignment agreements with our employees and consultants to control access to, and clarify ownership of, our proprietary information.

As of December 31, 2023, we have 5 issued patents in the United States. The issued patents generally relate to determining the route and parking location of a vehicle, recording trip data associated with a vehicle, and estimating the usage of a vehicle based on refueling events. The issued patents are expected to expire between September 1, 2035 and January 11, 2036. We do not own any foreign patents and do not have any foreign patent applications pending. As of December 31, 2023, we hold 131 foreign registered trademarks and 10 registered trademarks in the United States, including the Lemonade and Metromile marks, have 8 foreign trademark applications pending and no U.S. trademark applications pending, and hold 3 copyrights in the United States, covering certain videos, texts, photographs, and artwork displayed on our mobile app and website. We continually review our development efforts to assess the existence and patentability of new intellectual property.

Intellectual property laws, procedures, and restrictions provide only limited protection and any of our intellectual property rights may be challenged, invalidated, circumvented, infringed, or misappropriated. Further, the laws of certain countries do not protect proprietary rights to the same extent as the laws of the United States, and, therefore, in certain jurisdictions, we may be unable to protect our proprietary technology.

Certified B Corp Status

While not required by Delaware law or the terms of our certificate of incorporation, we have been designated as a Certified B Corp. The term "Certified B Corp" does not refer to a particular form of legal entity, but instead refers to companies that are certified by B Lab, an independent nonprofit organization, as meeting rigorous standards of social and environmental performance, accountability, and transparency.

The first step in becoming a Certified B Corp is completing a comprehensive and objective assessment of a business's positive impact on society and the environment. The assessment varies depending on the company's size (number of employees), and sector. The standards in the assessment are created and revised by an independent governing body that determines eligibility to be a Certified B Corp.

By completing a set of over 200 questions that reflect impact indicators, best practices, and outcomes, a company receives a composite score on a 200-point scale representative of its overall impact on its employees, customers, communities, and the environment. Representative indicators in the assessment range from payment above a living wage, employee benefits, charitable giving/community service, and use of renewable energy.

Recognition as a Certified B Corp currently requires that a company achieve a reviewed assessment score of at least 80. The review process includes a phone review and a random selection of indicators for purposes of verifying documentation. The assessment also includes a corporate structure review and a disclosure questionnaire, including certain practices, fines, and sanctions related to the company or its partners.

Our certification also required us to adopt the public benefit corporation structure, a step we have already completed. Once certified, every Certified B Corp must make its assessment score transparent on the independent non-profit organization's website. Acceptance as a Certified B Corp and continued certification is at the sole discretion of the independent nonprofit organization.

Human Capital Resources

Employees

As of December 31, 2023, we had 1,258 employees, 845 of whom were based in the United States and the rest of whom were based outside of the United States, primarily in Israel and the Netherlands. In the Netherlands, certain employees are subject to a collective agreement between the Dutch Association of Insurers and various trade unions. The collective agreement covers wages and terms and conditions of employment. Participation in the collective agreement is mandatory for members of the Dutch Association of Insurers, a leading association of private insurance companies operating in the Netherlands. Beyond this, to our knowledge, none of our employees are represented by a labor union. We consider our relationships with our employees to be good and have not experienced any interruptions of operations due to labor disagreements.

As of December 31, 2023, and based on public information from five competing insurance companies in the United States, we estimate that the number of customers per employee for those companies ranges from approximately 150 to approximately 450 customers per employee. We base this estimate on publicly available information, which we have adjusted for comparability. The calculation of "employees" includes insurance agents and brokers because they are a significant cost component for other insurance companies. In comparison to these competitors, our number of customers per employee was approximately 1,600 as of December 31, 2023.

Culture and Values

Our status as a Certified B Corp and our commitment to charitable giving, in particular our Giveback program distinguishes us from our competitors, with the goal of building a trusting relationship between us, our employees, and our customers. We value the power of creativity and encourage and support the sharing of ideas to enhance our business model. Like the industry in which we operate, we understand the importance and value of a community pooling its resources together for the public good. We value inclusivity, respecting differences, and seamless teamwork in every facet of our business.

In 2020, we issued 500,000 shares of common stock as the initial endowment of the Lemonade Foundation, a 501(c)(4) social welfare organization established under Arizona law. By contributing approximately 1% of our common stock to the Lemonade Foundation, we hope to promote charitable giving and other community-centric activities with a nexus to our community.

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In addition, the Foundation launched a first of its kind blockchain based insurance product for the world’s most vulnerable farmers. The product was built with a goal of protecting subsistence farmers against the effects of climate change. Thousands of families in Kenya have already been protected by this product, and the Foundation expects to continue scaling this product in the coming months. The product was launched as part of the Lemonade Foundation Crypto Climate Coalition - in cooperation with a number of strategic partners: Hannover Re, Pula, Chainlink, Avalanche, Etherisc and DAOstack.

Diversity

We understand that strength lies in the diversity of our employees and drives the innovation behind our product. We encourage employees to bring their lived experiences, and personal strengths, to develop new ideas, improve customer experience and shape our brand. We engage with employees for ideas of nonprofits to partner with, or resources to learn more about a social issue, and their candid (and anonymous, should they choose) feedback about our workplace culture and environment. In the wake of the social justice movements, our employees founded in 2020 an internal anti-racism education group, and continue to share resources, promote racial equity, and develop anti-bias training.

Health, Safety and Wellness

As a B Corp, it is part of our legal mission to advance the health, well-being and equity of employees. To that end, employees have access to health and wellness programs, and healthcare plans.

Geographic Scope of Business

In the United States, as of December 31, 2023, LIC and MIC are licensed to sell our insurance products in the following states:

Licensed Selling None

State	Renters	Home	Pet	Car	Life
AK	None	None	Licensed	Licensed	Selling
AL	Licensed	Licensed	Selling	Licensed	Selling
AR	Selling	Licensed	Selling	Licensed	Selling
AZ	Selling	Selling	Selling	Selling	Selling
CA	Selling	Selling	Selling	Selling	Selling
CO	Selling	Selling	Selling	Licensed	Selling
CT	Selling	Selling	Selling	None	Selling
DC	Selling	Selling	Selling	Licensed	Selling
DE	Licensed	Licensed	Licensed	Licensed	Selling
FL	Selling	Licensed	Selling	Licensed	Selling
GA	Selling	Selling	Selling	Licensed	Selling
HI	Licensed	Licensed	Licensed	None	Selling
IA	Selling	Selling	Selling	Licensed	Selling
ID	None	None	None	Licensed	Selling
IL	Selling	Selling	Selling	Selling	Selling
IN	Selling	Selling	Selling	Licensed	Selling
KS	None	None	None	Licensed	Selling
KY	Licensed	Licensed	Licensed	Licensed	Selling
LA	Licensed	Licensed	Licensed	Licensed	Selling
MA	Selling	Selling	Selling	Licensed	Selling
MD	Selling	Selling	Selling	Licensed	Selling
ME	Licensed	Licensed	Licensed	Licensed	Selling
MI	Selling	Selling	Selling	None	Selling
MN	None	None	None	Licensed	Selling
MO	Selling	Selling	Selling	Licensed	Selling
MS	Licensed	Licensed	Selling	Licensed	Selling
MT	Licensed	Licensed	Selling	Licensed	Selling
NC	None	None	Selling	Licensed	Selling
ND	Licensed	Licensed	Selling	Licensed	Selling
NE	None	None	Selling	Licensed	Selling
NH	Licensed	Licensed	Selling	Licensed	Selling
NJ	Selling	Selling	Selling	Selling	Selling
NM	Selling	Licensed	Selling	Licensed	Selling
NV	Selling	Selling	Selling	Licensed	Selling
NY	Selling	Selling	Selling	Licensed	None
OH	Selling	Selling	Selling	Selling	Selling
OK	Selling	Selling	Selling	Licensed	Selling
OR	Selling	Selling	Selling	Selling	Selling
PA	Selling	Selling	Selling	Selling	Selling
RI	Selling	Selling	Selling	Licensed	Selling
SC	Licensed	Licensed	Selling	Licensed	Selling
SD	Licensed	Licensed	Licensed	Licensed	Selling
TN	Selling	Selling	Selling	Selling	Selling
TX	Selling	Selling	Selling	Selling	Selling
UT	Licensed	Licensed	Selling	Licensed	Selling
VA	Selling	Selling	Selling	Selling	Selling
VT	Licensed	Licensed	Licensed	Licensed	Selling
WA	Selling	Selling	Selling	Selling	Selling
WI	Selling	Selling	Selling	None	Selling
WV	Licensed	Licensed	None	Licensed	Selling
WY	Licensed	Licensed	Licensed	Licensed	Selling

We also currently hold a pan-European license, which enables us to sell in 30 countries across Europe. Under this license, we commenced operations in Germany in 2019, and in the Netherlands and France in 2020. In October 2022, we began selling contents insurance in the UK on a cross-border basis under the UK's Temporary Permission Regime. During 2023 Lemonade's UK branch establishments received a third country branch authorization from the Prudential Regulation Authority and Financial Conduct Authority in the UK allowing us to operate in the UK permanently.

Seasonality

For information regarding the seasonality of our business, please refer to Part II, Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of this Annual Report.

Regulation of our Business

Insurance Regulation

Our U.S. insurance subsidiaries are regulated by insurance regulatory authorities in the states in which we operate. State insurance laws and regulations generally are designed to protect the interests of customers, consumers, and claimants rather than stockholders or other investors. State regulation generally have broad administrative power with respect to all aspects of the insurance business. The regulatory requirements and restrictions include, among others, the following:

- approval of policy forms and premium rates;
- approval for intercompany service agreements;
- advertising, marketing, and trade practices; and
- restrictions on the ability of our regulated insurance subsidiaries to pay dividends to us or enter into certain related party transactions

Regulation of insurance companies constantly changes as governmental agencies and legislatures react to real or perceived issues. Recently, state insurance regulators have been scrutinizing the industry’s practices with respect to the collection and uses of consumer data.

Required Licensing

Our regulated U.S. insurance subsidiaries are domiciled and admitted in the states of New York and Delaware. Under a provision of the California Insurance Code, MIC is deemed “commercially domiciled” in California, meaning that the California Department of Insurance is entitled to regulate certain aspects of MIC’s business as if it were actually domiciled in California.

LIC, MIC, Lemonade Insurance Agency, LLC, Lemonade Life Insurance Agency, LLC, Lemonade E&S Insurance Agency, LLC and Metromile Insurance Services LLC must apply for and maintain licenses to provide and sell insurance in those jurisdictions in which they transact insurance businesses.

Our insurance company and insurance producer subsidiaries are required to adhere to myriad laws and regulatory requirements. The insurance regulators in the states in which our subsidiaries do the business of insurance are empowered to conduct on-site visits and examine the financial affairs and market conduct practices of those entities. Insurance regulators have broad administrative powers to impose monetary penalties and/or restrict or revoke licenses to transact business for violations of applicable laws and regulations.

Restrictions on Paying Dividends

We are a holding company that transacts a majority of our business through operating subsidiaries. Consequently, our ability to pay dividends to stockholders and meet our debt payment obligations is largely dependent on dividends and other distributions from our subsidiaries. Applicable insurance laws restrict the ability of our regulated insurance subsidiaries to declare stockholder dividends. Applicable insurance regulators require insurance companies to maintain specified levels of statutory capital and surplus.

Insurance regulators have broad powers to prevent reduction of statutory surplus to inadequate levels, and there is no assurance that dividends of the maximum amounts calculated under any applicable formula would be permitted to be made by our insurance subsidiaries. State insurance regulatory authorities that have jurisdiction over the payment of dividends by our regulated insurance subsidiaries may in the future adopt statutory provisions more restrictive than those currently in effect.

Investment Regulation

LIC is subject to New York's insurance laws and MIC is subject to Delaware and California's laws regarding the composition of their investments. Those laws generally require diversification of their investment portfolios and limits on the amount of their investments in certain categories. Failure to comply with these laws and regulations would cause non-conforming investments to be treated as non-admitted assets for purposes of measuring statutory surplus and, in some instances, would require those companies to sell those investments.

Licensing of Our Employees and Adjusters

In most states in which we operate, insurance claims adjusters are required to be licensed and some must fulfill annual continuing education requirements. In most instances, our employees who are negotiating coverage terms are underwriters and are not required to be licensed agents. As of December 31, 2023, 382 employees were required to maintain and did maintain requisite licenses for these activities in most states in which we operate.

Enterprise Risk, Cybersecurity, and Other Recent Developments

The National Association of Insurance Commissioners ("NAIC") has engaged in a concerted effort to strengthen the ability of U.S. state insurance regulators to monitor U.S. insurance holding company groups. Among other things, the NAIC's model, when adopted, requires the ultimate controlling person of an insurance company to submit an annual enterprise risk management report that describes the risk that an activity, circumstance, event, or series of events involving one or more affiliates of an insurer will, if not remedied promptly, be likely to have a material adverse effect upon the financial condition or liquidity of the insurer or its insurance holding company system as a whole. Recently, the NAIC has developed model laws requiring annual reports concerning the nature of corporate governance within an insurance holding company.

In 2012, the NAIC adopted the Risk Management and Own Risk and Solvency Assessment ("ORSA") Model Act (the "ORSA Model Act") to require domestic insurers to maintain a risk management framework and establishes a legal requirement for domestic insurers to conduct an ORSA in accordance with the NAIC's ORSA Guidance Manual. The ORSA Model Act provides that domestic insurers, or their insurance group, must regularly conduct an ORSA consistent with a process comparable to the ORSA Guidance Manual process. The ORSA Model Act also provides that, no more than once a year, an insurer's domiciliary regulator may request that an insurer submit an ORSA summary report, or any combination of reports that together contain the information described in the ORSA Guidance Manual, with respect to the insurer and the insurance group of which it is a member. When the ORSA Model Act is adopted by a particular state, it imposes more extensive filing requirements on parents and affiliates of domestic insurers. Delaware has adopted its version of the ORSA Model Act and New York has implemented portions of the ORSA Model Act.

In the course of our business, we collect and maintain confidential and personal information. As a result, we are subject to U.S. federal and state privacy and data security laws and regulations that, among other things, require that we institute and maintain certain policies and procedures to safeguard this information from improper use or disclosure. For example, in 2017, the New York Department of Financial Services ("NYDFS") adopted a broad cybersecurity regulation that requires financial services institutions to, among other things, implement and maintain a cybersecurity program and a cybersecurity policy that will be monitored and tested periodically, develop controls and technology standards for data protection, meet minimum standards in response to any cybersecurity breach and annually certify their compliance with the regulation. On November 1, 2023, the NYDFS issued a significant amendment to the cybersecurity requirements, mandating covered entities to adopt specific standards and controls to secure sensitive data. The recent amendment significantly expands obligations on entities regulated by NYDFS to report cybersecurity incidents and enhance their consumer data protection and cybersecurity infrastructure. Regulated entities are generally required to comply with the new requirements imposed by the Amendment in phases throughout 2024 and 2025.

In 2017 the NAIC adopted the Insurance Data Security Model Law, which established standards for data security and for the investigation and notification of insurance commissioners of cybersecurity events involving unauthorized access to, or the misuse of, certain nonpublic information. A number of states have enacted the Insurance Data Security Model Law or similar laws, and we expect more states to follow.

Additionally, a growing set of privacy regulations have created intense scrutiny regarding Interest-based advertising, or the use of data to draw inferences about a consumer's interests and deliver relevant advertising to that consumer, by legislative, regulatory, and self-regulatory bodies, privacy advocates, academics, and commercial interests in the United States and abroad that focus on consumer data protection and privacy. In particular, much of this scrutiny has focused on the use of cookies and other tracking technologies that collect or aggregate information about consumers' online browsing and mobile app usage activity. It is essential that we monitor legal requirements and other developments in this area, domestically and globally, maintain a robust privacy and security compliance program, and engage in responsible privacy practices, including providing consumers with notice of the types of data we collect, how we collect it, with whom we share it, how we use that data to provide our solutions, and the applicable choices we offer consumers.

California has enacted legislation restricting the use of automated systems to communicate with people online. California enacted a statute making it unlawful for any person to use a bot to communicate with another person in California online with the intent to mislead the other person about its artificial identity for the purpose of knowingly deceiving the person about the content of the communication in order to incentivize a purchase or sale of goods or services in a commercial transaction. The statute provides that a person using a bot will not be liable under the statute if the person discloses that it is a bot. See "Risk Factors — Risks Relating to Our Business — 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."

GDPR

The General Data Protection Regulation (E.U.) 2016/679 (the "E.U. GDPR") applies to our activities to the extent that those activities take place in the context of our establishments in the European Union and the United Kingdom General Data Protection Regulation and Data Protection Act 2018 (collectively, the "UK GDPR") applies to our activities to the extent that those activities take place in the context of our establishments in the UK (EU GDPR and UK GDPR together referred to as the "GDPR"). In addition, the GDPR may apply to our activities that involve the processing of personal data of individuals in the European Union or UK to whom we offer our products or services. The GDPR could also apply to our business if we were to monitor the activities of individuals in the European Union or UK. As we expand into Europe or UK, the compliance obligations under the GDPR (as set out above) will become more significant. See "Risk Factors — Risks Relating to Our Business — We may face particular privacy, data security, and data protection risks as we continue to expand into Europe or UK. in connection with the GDPR and other data protection regulations."

Federal and State Legislative and Regulatory Changes

A number of federal laws affect and apply to the insurance industry, including various privacy laws, the Fair Credit Reporting Act ("FCRA"), and the economic and trade sanctions implemented by the Office of Foreign Assets Control ("OFAC") of the U.S. Department of the Treasury. OFAC maintains and enforces economic sanctions against certain foreign countries and groups and prohibits U.S. persons from engaging in certain transactions with certain persons or entities. OFAC has imposed civil penalties on persons, including insurance and reinsurance companies, arising from violations of its economic sanctions program.

Credit for Reinsurance

State insurance laws permit U.S. insurance companies, as ceding insurers, to take financial statement credit for reinsurance that is ceded, so long as the assuming reinsurer satisfies the state's credit for reinsurance laws. There are several different ways in which the credit for reinsurance laws may be satisfied by an assuming reinsurer, including being licensed in the state, being accredited in the state, or maintaining certain types of qualifying collateral. We ensure that LIC and MIC are able to take full financial statement credit for their reinsurance.

Insolvency Funds and Associations, Mandatory Pools, and Insurance Facilities

Most states require admitted property and casualty insurance companies to become members of insolvency funds or associations which generally protect customers against the insolvency of the admitted insurance companies. Members of the fund or association must contribute to the payment of certain claims made against insolvent insurance companies through annual assessments. The annual assessments required in any one year will vary from state to state, and are subject to various maximum assessments per line of insurance.

Risk-Based Capital

Risk-based capital laws are designed to assess the minimum amount of capital that an insurance company needs to support its overall business operations and to ensure that it has an acceptably low expectation of becoming financially impaired. State insurance regulators use risk-based capital to set capital requirements, considering the size and degree of risk taken by the insurer and taking into account various risk factors including asset risk, credit risk, underwriting risk, and interest rate risk. As the ratio of an insurer's total adjusted capital and surplus decreases relative to its risk-based capital, the risk-based capital laws provide for increasing levels of regulatory intervention culminating with mandatory control of the operations of the insurer by the domiciliary insurance department at the so-called mandatory control level. Our regulators in New York, Delaware and California require annual reporting to confirm that LIC and MIC hold in excess of the minimum amount of risk-based capital necessary for their operations. Insurers falling below a calculated threshold may be subject to varying degrees of regulatory action. Failure to maintain risk-based capital at the required levels could adversely affect the ability of LIC and MIC to maintain the regulatory approvals necessary to conduct their businesses. As of December 31, 2023, LIC maintained a risk-based capital level of 416% and MIC maintained a risk-based capital level of 476%.

IRIS Ratios

The NAIC Insurance Regulatory Information System ("IRIS") is a collection of analytical tools designed to provide state insurance regulators with an integrated approach to screening and analyzing the financial condition of insurance companies operating in their respective states. IRIS consists of two phases: statistical and analytical. In the statistical phase, the NAIC database generates key financial ratio results based on financial information obtained from insurers' annual statutory statements. The statistical phase highlights those insurers that merit the highest priority in the allocation of the state insurance regulators' resources. The ratios are not, in themselves, indicative of adverse financial conditions. The analytical phase is a review of the annual statements, financial ratios, and other automated solvency tools. An insurance company may fall out of the usual range for one or more ratios for any number of reasons and a ratio falling outside the prescribed "usual range" is not considered a failing result. Rather, unusual values are viewed as part of the regulatory early monitoring system. The primary goal of the analytical phase is to identify companies that appear to require immediate regulatory attention.

Statutory Accounting Principles

Statutory accounting principles ("SAP") is a basis of accounting developed by U.S. insurance regulators to monitor and regulate the solvency of insurance companies. In developing SAP, insurance regulators were primarily concerned with evaluating an insurer's ability to pay all its current and future obligations to customers. As a result, statutory accounting focuses on conservatively valuing the assets and liabilities of insurers, generally in accordance with standards specified by the insurer's domiciliary jurisdiction. Uniform statutory accounting practices are established by the NAIC and generally adopted by regulators in the various U.S. jurisdictions. These accounting principles and related regulations determine, among other things, the amounts our regulated insurance subsidiaries may pay to us as dividends and differ somewhat from U.S. Generally Accepted Accounting Principles ("GAAP"), which are designed to measure a business on a going-concern basis. GAAP gives consideration to matching of revenue and expenses and, as a result, certain expenses are capitalized when incurred and then amortized over the life of the associated policies. The valuation of assets and liabilities under GAAP is based in part on best estimate assumptions made by the insurer. Stockholders' equity represents both amounts currently available and amounts expected to emerge over the life of the business. As a result, the values for assets, liabilities, and equity reflected in financial statements prepared in accordance with GAAP may be different from those reflected in financial statements prepared under SAP.

Rate Regulation

Nearly all states have insurance laws requiring personal property and casualty insurers to file rating plans, policy or coverage forms, and other information with the state's regulatory authority. In many cases, such rating plans, policy forms, or both must be approved prior to use.

The speed with which an insurer can change rates in response to competition or increasing costs depends, in part, on whether the rating laws are (i) prior approval, (ii) file-and-use, or (iii) use-and-file laws. In states having prior approval laws, the regulator must approve a rate before the insurer may use it. In states having file-and-use laws, the insurer does not have to wait for the regulator's approval to use a rate, but the rate must be filed with the regulatory authority prior to being used. A use-and-file law requires an insurer to file rates within a certain period of time after the insurer begins using them. Eighteen states, including California and New York, have prior approval laws. Under all three types of rating laws, the regulator has the authority to disapprove a rate filing.

An insurer's ability to adjust its rates in response to competition or to changing costs is dependent on an insurer's ability to demonstrate to the regulator that its rates or proposed rating plan meets the requirements of the rating laws. In those states that significantly restrict an insurer's discretion in selecting the business that it wants to underwrite, an insurer can manage its risk of loss by charging a rate that reflects the cost and expense of providing the insurance. In those states that significantly restrict an insurer's ability to charge a rate that reflects the cost and expense of providing the insurance, the insurer can manage its risk of loss by being more selective in the type of business it underwrites. When a state significantly restricts both underwriting and pricing, it becomes more difficult for an insurer to maintain its profitability.

From time to time, the personal lines insurance industry comes under pressure from state regulators, legislators, and special-interest groups to reduce, freeze, or set rates at levels that do not correspond with our analysis of underlying costs and expenses. We expect this kind of pressure to persist. State regulators may interpret existing law or rely on future legislation or regulations to impose new restrictions that adversely affect profitability or growth. We cannot predict the impact on our business of possible future legislative and regulatory measures regarding insurance rates.

European Regulation

Our European insurance entities consist of Lemonade Insurance N.V., Lemonade Agency B.V. and Lemonade B.V. Lemonade Insurance N.V. is a licensed non-life insurer established in the Netherlands and is subject to key financial rules and regulations including the Second European Solvency Directive 2009/138/EC (as amended, the "Solvency II Directive"); Commission Delegated Regulation (EU) 2015/35 (as amended, the "Delegated Regulation", together with the Solvency II Directive referred to as the "Solvency II Regulations"); the implementing technical standards and regulatory technical standards issued by the European Insurance and Occupational Pensions Authority ("EIOPA"); the European Insurance Distribution Directive (Directive (EU) 2016/97, "IDD"); the Dutch Financial Supervision Act (*Wet op het financieel toezicht*, "DFSA") and the lower rules and regulations promulgated thereunder; the International Financial Reporting Standards as adopted by the European Union ("IFRS EU"); and national regulations, as well as local conduct of business requirements, in each of the jurisdictions in which it operates. Currently, the European Commission is preparing for a review of the Solvency II Directive. Lemonade Agency B.V. is subject to the IDD, the DFSA and national regulations, as well as local business conduct requirements, in each of the jurisdictions in which it operates. Lemonade B.V. is an insurance holding company within the meaning of article 212 of the Solvency II Directive, as implemented in article 1:1 DFSA.

The Solvency II Regulations

The Solvency II Directive, as implemented in the DFSA and other national regulations, such as the German Insurance Supervisory Act (*Versicherungsaufsichtsgesetz*), prescribes uniform rules for insurers and their activities and services. More specifically, the Solvency II Directive provides rules and regulations relating to, *inter alia*, Lemonade Insurance N.V.'s authorization requirements (including the European "passport" regime), its minimum own funds and solvency and its governance. Governance requirements include the need to ensure sound business operations, implement mandatory key functions (being Actuarial, Compliance, Internal Audit and Risk) and requirements relating to Lemonade Insurance N.V.'s Management Board members, Supervisory Board Members and other key personnel. The Delegated Regulation is promulgated under the Solvency II Directive and provides detailed requirements relating to some of the Solvency II Directive's broader requirements.

IDD and other conduct of business rules

The IDD provides a harmonized regime for insurance distribution activities. It regulates the way insurance products are designed and sold both by insurance intermediaries (*e.g.* Lemonade Agency B.V.) and directly by insurance undertakings (*e.g.* Lemonade Insurance N.V.). The rules and regulations set out in the IDD have been implemented in the DFSA. The provisions set out in the IDD mainly relate to standards of product disclosure, promotional materials and product governance and oversight. Local regulations and conduct of business rules implemented in each of the European member states in which both Lemonade Agency B.V. and Lemonade Insurance N.V. do business supplement the requirements set out in the IDD.

Financial and other Regulators

Lemonade Insurance N.V. is subject to primary supervision by the Dutch Central Bank (*De Nederlandsche Bank*, “DNB”) as the supervisory authority of its home member state. In addition, it is subject to supervision by the Dutch Authority for the Financial Markets (*Autoriteit Financiële Markten*, “AFM”). The AFM is the regulator tasked with conduct supervision relating to Lemonade Insurance N.V.’s Dutch activities. The German Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht*, “BaFin”), as the supervisory authority of a host member state. BaFin is the competent regulator tasked with the supervision of Lemonade Insurance N.V.’s compliance with German regulations and conduct requirements. The French Autorité de Contrôle Prudentiel et de Résolution, "ACPR", which is charged with preserving the stability of the financial system and protecting the customers, insurance policyholders, members and beneficiaries of the persons that it supervises, and Organisme pour le Registre des Intermédiaires en Assurance, "ORIAS", an association under the supervision of the Treasury Department in France and in charge of approving insurance intermediaries operating on the French market; the Bank of England’s Prudential Regulation Authority in charge of prudentially regulating and supervising financial services firms operating in the UK; the British Financial Conduct Authority, whose role includes protecting consumers, keeping the industry stable, and promoting healthy competition between financial service providers.

Lemonade Agency B.V. is subject to supervision by the AFM. Lemonade B.V. as parent and Lemonade Insurance N.V. as subsidiary is an E.U. sub-group within the meaning of Article 213(2)(b) of Solvency II, as implemented in article 3:285 (2) DFSA. Lemonade B.V. is subject to group supervision by DNB under the Solvency II Directive. The relevant EU supervisory body for insurers, EIOPA, has limited supervisory powers in the Netherlands, however it plays an important role in drafting and issuing technical standards and preparing guidance relating to various European directives and regulations. EIOPA aims to accomplish efficient and harmonized financial supervision across the European Union.

Lemonade Agency B.V. is subject to supervision by the AFM. Lemonade B.V. as parent and Lemonade Insurance N.V. as subsidiary is an E.U. sub-group within the meaning of Article 213(2)(b) of Solvency II, as implemented in article 3:285 (2) DFSA. Lemonade B.V. is subject to group supervision by DNB under the Solvency II Directive. The relevant EU supervisory body for insurers, EIOPA, has limited supervisory powers in the Netherlands, however it plays an important role in drafting and issuing technical standards and preparing guidance relating to various European directives and regulations. EIOPA aims to accomplish efficient and harmonized financial supervision across the European Union.

DNB and AFM employ a risk-based and proportionate approach to supervision, comprising a firm systemic framework, which focuses on the continuous assessment of how firms manage the risks they create and identifying the root causes of risk. DNB regularly pro-actively contacts insurers to discuss matters of strategy, day-to-day operations and the current (and expected future) financial standing of the undertaking, in order to assess what parts of a regulated undertaking (if any) could pose (systemic) risk. In addition, DNB monitors operations and business through monthly updates, the submission of Quantitative Reporting Templates, by reviewing annual reports, approving prospective Management Board and Supervisory Board members prior to their appointment and through scheduled and unannounced audits.

DNB also regulates the acquisition and increase of control over certain authorized firms, such as insurers. Under the DFSA, any person intending to acquire control of, or increase (or decrease) control over, an insurer must first obtain the consent of the DNB. In considering whether to grant or withhold its approval for the acquisition of control, DNB must be satisfied that the acquirer is a fit and proper person and that the interests of consumers would not be threatened by their acquisition of, or increase in, control. A person will be treated as increasing (or decreasing) their control over an insurer if the level of their percentage of (indirect) shareholding or voting power in the insurer crosses the 10, 20, 33, 50 percent or 100 percent threshold.

Both Lemonade Insurance N.V. and Lemonade Agency B.V. ("UK branch establishments") commenced operations in the UK under the Temporary Permission Regime in accordance with which certain European Economic Area based firms may continue to operate in the UK for a limited period following the UK's departure from the European Union. During 2023, the UK branch establishments of Lemonade Insurance N.V., and Lemonade Agency B.V. received a third country branch authorization in the UK allowing both companies to continue to operate in the UK market on a permanent basis. See Required Licensing section below for a description.

Enforcement

DNB and AFM expect firms to avoid actions that jeopardize compliance with their statutory objectives and applicable rules and regulations and have extensive powers to intervene in the affairs of a regulated firm. When DNB is concerned that an insurer may present a risk, this may lead to negative consequences, including the requirement to maintain a higher level of regulatory capital (via capital "add-ons" under the Solvency II Directive) to match the higher perceived risks and enforcement action where the risks identified breach applicable rules and regulations. In case of a breach of our license requirements or obligations arising from the applicable rules and regulations, although both DNB and AFM must apply the principle of proportionality in all of their actions, the regulators have a large amount of discretion in determining what measures to impose (if any) in order to address, remedy, or sanction the breach. DNB and the AFM have a large amount of enforcement tools at their disposal to sanction breaches of applicable rules and regulations, including (public) formal warnings, orders to adopt a certain course of conduct, incremental penalties, and administrative fines. In addition, breaches may lead to a revocation of an undertaking license and, in the case of insurers, where the breach relates to material prudential shortcomings, DNB may impose emergency measures (including the appointment of an administrator or the imposition of measures aimed at winding-up the undertaking).

Required Licensing

Our subsidiary Lemonade Insurance N.V. is licensed and supervised by the insurance supervision division of DNB as a Solvency II non-life insurance company. DNB, as the supervisory authority of its home member state, has permitted us to sell in other European countries, such as Germany and France, on a Freedom of Services basis. In general, in addition to continuing to meet the threshold conditions to authorization, Lemonade Insurance N.V. and Lemonade Agency B.V. are obliged to comply with European regulations, European directives (in as far as these directives have direct effect in the Netherlands or other European member states in which our subsidiaries do business), the DFSA and the lower regulations set out thereunder, and other national regulations, all of which contain detailed rules covering, among other things, systems and controls, conduct of business, and prudential (*i.e*. capital and solvency) requirements.

Lemonade Insurance N.V. launched its first product in the UK market in October 2022. Since 2023 the Company has operated in the UK through its registered branch establishment Lemonade Insurance N.V., UK Branch (BR025196) which received third-country branch authorization from the Prudential Regulation Authority in the UK in May 2023. This allows the company to operate in the UK market permanently. Lemonade Insurance N.V. is licensed as an insurance company by De Nederlandsche Bank in the Netherlands (R162036). Authorized by the Prudential Regulation Authority. Subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority (FRN 846181).

Additional Information

Our internet website address is www.lemonade.com. In addition to the information about us and our subsidiaries contained in this Annual Report, information about us can be found on our website. Our website and information included in or linked to our website are not part of this Annual Report.

Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, are available free of charge through our website as soon as reasonably practicable after they are electronically filed with or furnished to the Securities and Exchange Commission (the "SEC"). Additionally the SEC maintains an internet site that contains reports, proxy and information statements and other information. The address of the SEC's website is www.sec.gov.

Item 1A. Risk Factors

Investing in our common stock involves a high degree of risk. You should carefully consider the following risks, together with all of the other information contained in this Annual Report, before deciding to invest in our common stock. Our business, financial condition, results of operations or prospects could be materially and adversely affected by any of these risks or uncertainties. In that case, the trading price of our common stock could decline, and you may lose all or part of your investment. Unless the context indicates otherwise, references in this section to the “merger” or “mergers” refer to the acquisition consummated on July 28, 2022 pursuant to the terms of that certain 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.

Risks Relating to Our Business

We have a history of losses and we may not achieve or maintain profitability in the future.

We have not been profitable since our inception in 2015 and had an accumulated deficit of $1,096.6 million and $859.7 million as of December 31, 2023 and December 31, 2022, respectively. We incurred net losses of $236.9 million and $297.8 million in the years ended December 31, 2023 and December 31, 2022, respectively. We expect to make significant investments to further develop and expand our business. In particular, we expect to continue to expend substantial financial and other resources on marketing and advertising as part of our strategy to increase our user base. The marketing and advertising expenses that we incur are typically expensed immediately while any revenues that they generate are recognized ratably over the 12-month term of each insurance policy that we write. This timing difference can therefore result in expenses that exceed the related revenue generated in any given year. As a public company, we have incurred and expect to continue to incur significant legal, accounting and other expenses that we did not incur as a private company. We expect that our net loss will increase in the near term as we continue to make such investments to grow our business. Despite these investments, we may not succeed in increasing our revenue on the timeline that we expect or in an amount sufficient to lower our net loss and ultimately become profitable. Moreover, if our revenue declines, we may not be able to reduce costs in a timely manner because many of our costs are fixed at least in the short term. In addition, if we reduce variable costs to respond to losses, this may limit our ability to sign up new customers and grow our revenues. Accordingly, we may not achieve or maintain profitability and we may continue to incur significant losses 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.

We have experienced significant customer growth since we commenced operations; however, we may not be able to maintain this growth and thus, our customer base could stop growing or even shrink over time.

Our ability to attract new customers and retain existing customers depends, in large part, on our ability to continue to be perceived as providing delightful and superior insurance-buying and claims- filing customer experiences, competitive pricing, and adequate insurance coverage. In order to maintain this perception, we may be required to incur significantly higher marketing and advertising expenses, costs related to improving our service, and lower margins in order to attract new customers and retain existing customers. If we fail to remain competitive on customer experience, pricing, and insurance coverage options, our ability to grow our business and generate revenue by attracting and retaining customers may be adversely affected.

There are many factors that could negatively affect our ability to grow our customer base, including if:

- we fail to effectively use search engines, social media platforms, digital app stores, content- based online advertising, and other online sources for generating traffic to our website and our online app;
- potential customers in a particular marketplace or generally do not meet our underwriting guidelines;
- our competitors mimic our digital platform, causing current and potential customers to purchase their insurance products instead of our products;
- our digital platform experiences disruptions;
- we experience unfavorable shifts in customer perception of our chat-bots;
- we suffer reputational harm to our brand resulting from negative publicity, whether accurate or inaccurate;
- we fail to expand geographically;

- we fail to offer new and competitive products;
- customers have difficulty installing, updating or otherwise accessing our app or website on mobile devices or web browsers as a result of actions by us or third parties;
- technical or other problems frustrate the customer experience, particularly if those problems prevent us from generating quotes or paying claims in a fast and reliable manner; or
- we are unable to address customer concerns regarding the content, privacy, and security of our digital platform.

Our inability to overcome these challenges could impair our ability to attract new customers and retain existing customers, and could have a material adverse effect on our business, revenue, operating results and financial condition.

The "Lemonade" brand may not become as widely known as incumbents' brands or the brand may become tarnished.

Many of our competitors have brands that are well recognized. As a relatively new entrant into the insurance market, we spend considerable money and other resources to create brand awareness and build our reputation. We may not be able to build brand awareness, and our efforts at building, maintaining and enhancing our reputation could fail. Complaints or negative publicity about our business practices, our marketing and advertising campaigns, our compliance with applicable laws and regulations, the integrity of the data that we provide to consumers or business partners, data privacy and security issues, and other aspects of our business, whether valid or not, could diminish confidence in our brand, which could adversely affect our reputation and business. As we expand our product offerings and enter new markets, we need to establish our reputation with new customers, and to the extent we are not successful in creating positive impressions, our business in these newer markets could be adversely affected. We may not be able to maintain or enhance our reputation, and failure to do so could materially adversely affect our business, results of operations and financial condition. If we are unable to maintain or enhance consumer awareness of our brand cost-effectively, our business, results of operations and financial condition could be materially adversely affected.

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.

We must accurately and timely evaluate and pay claims that are made under our policies. Many factors affect our ability to pay claims accurately and timely, including the efficacy of our artificial intelligence claims processing, the training and experience of our claims adjusters, including our third-party claims administrators, and our ability to develop or select and implement appropriate procedures and systems to support our claims functions.

The speed by which our artificial intelligence technology allows us to process and pay claims is a differentiating factor for our business and an increase in the average time to process claims could undermine our reputation and position in the insurance marketplace. Any failure to pay claims accurately or timely could also lead to regulatory and administrative actions or material litigation, or result in damage to our reputation, any one of which could materially and adversely affect our business, financial condition, results of operations, and prospects.

If our claims adjusters or third party claims administrators are unable to effectively process our volume of non-automated claims, our ability to grow our business while maintaining high levels of customer satisfaction could be compromised, which in turn, could adversely affect our operating margins.

Our future revenue growth and prospects depend on attaining greater value from each user.

Our future growth and prospects depend on our ability to increase the premium per customer of our users, as described in the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations." Currently, the large majority of our users are renters. In order to increase our premium per customer, we must increase the number of higher-priced customers, such as homeowners, and the proportion of higher-priced customers relative to lower-priced customers, such as renters. Our business model is premised on the expectation that a significant number of our users that are renters will continue to retain coverage with us as they move from being renters to homeowners. Currently, however, given our limited operating history, substantially all of our current homeowner users are new users who were not previously renters with us. The purchase of a home is a significant event in a person's life and we cannot provide assurances that we will succeed in retaining existing customers that are renters as they become homeowners. This may occur for a variety of factors. For example, at the time a renter purchases a home, he or she is exposed to a large number of service providers who have direct and personal access to that renter in a way that we do not. Those service providers may have, and share, their own views and preferences for homeowners insurance. Furthermore, given the expenditure involved in a home purchasing decision, differences in price between our insurance product and that of our competitors may appear less significant. In addition, there may even be a perception that a higher priced policy from a traditional brand name insurer may be of higher quality when coupled with the size and longevity of such traditional insurers. A failure to retain renters as they transition to homeowner status may materially adversely impact our future growth and prospects. Moreover, we also sell homeowner policies directly, or indirectly through independent insurance agencies, to customers who did not previously have a renters policy with us. To the extent we are unable to sell homeowner policies directly or via our insurance agency partners to new customers either now or in the future, our ability to increase our premium per customer would be negatively impacted, which could materially adversely impact our future growth and prospects.

The novelty of our business model makes its efficacy unpredictable and susceptible to unintended consequences.

Our business model is predicated on behavioral economics. Under our model, excess premiums can be donated to nonprofits selected by our customers as part of our annual 'Giveback'. We designed our business model to attract users, align our incentives with those users, discourage fraudulent claims and allow us to offer competitive pricing, but it may not operate as intended over time and on a larger scale. For example:

- Our commitment to charitable giving through our Giveback program may not align our interests with those of our customers or prospective customers to the extent anticipated. Moreover, our commitment to charitable giving may not resonate with our existing customers or may fail to attract new customers.
- The amount contributed to nonprofits may be viewed as insufficient by existing or new customers. Furthermore, there may be insufficient money remaining after paying claims to make charitable contributions.
- See "Business — Our Vertically-Integrated Platform — Reinsurance." False claims or higher than expected claims could cause reinsurers to charge higher rates, refuse to provide reinsurance or provide reinsurance on less favorable terms. The control procedures we have implemented to detect false claims, may not prevent such claims from being filed or prevent a sufficient number of them from being paid out.

The failure of our business model to function as intended could materially and adversely impact our financial condition and results of operations.

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 Giveback is a cornerstone of our business model that, when coupled with our fixed fee, works to align our interests with those of our customers, which we believe builds trust, minimizes fraud, and keeps our costs down. If a state, federal authority or foreign jurisdiction was to find that the Giveback was a rebate rather than a charitable contribution, or impermissible on other grounds, we may not be able to donate the residual value of our customers' premiums to nonprofits in certain, or any, of the states or foreign jurisdictions in which we operate. If even one regulator were to disallow the Giveback, it could force us to abandon the Giveback in part or entirely, either of which could undermine the behavioral economics foundation on which our business model is based, which in turn could materially and adversely affect our brand, financial condition and results of operations.

Additionally, we could modify, reduce or eliminate the Giveback at our discretion for a variety of reasons. Lemonade Insurance Company's board of directors may determine the amount and distribution of the Giveback by taking into consideration various factors such as the current goodwill and reputation of the nonprofit selected by customers, the amount of funds available for distribution by each cohort, the reasonableness of such contribution, and general shareholders' interests, such as the proposed amount and distribution of the Giveback against factors like overall shareholder returns, our financial and operating performance, and our social responsibility and the benefits shareholders and their communities receive from proposed contributions. Before determining the amount of the Giveback, Lemonade Insurance Company's board of directors may also analyze the extent of our reinsurance coverage and management's expectations with respect to such reinsurance coverage for the upcoming fiscal year, particularly as it relates to the amount of capital and surplus required to continue to operate successfully. If after weighing any of these factors, Lemonade Insurance Company's board of directors were to reduce or eliminate the

Giveback, our business model would be impacted, which, in turn, could materially and adversely affect our brand, financial condition and results of operations.

Our limited operating history makes it difficult to evaluate our current business performance, implementation of our business model, and our future prospects.

We launched our business to sell renters and homeowners insurance in late 2016 and have a limited operating history. Due to our limited operating history and the rapid growth we have experienced since we began operations, our operating results are hard to predict, and our historical results may not be indicative of, or comparable to, our future results. In addition, we have limited data to validate key aspects of our business model. For example, our user base is made up primarily of renters and we have very few instances of those renters becoming homeowners, a key element of our business model. It is also difficult for us to track that data and the data that we collect may not provide useful measures for evaluating our business model. Our inability to adequately assess our performance and growth could have a material adverse effect on our brand, business, financial condition and results of operations.

We may not be able to manage our growth effectively.

Our revenue grew from $128.4 million for the year ended December 31, 2021, $256.7 million for the year ended December 31, 2022, to $429.8 million for the year ended December 31, 2023. Our total number of employees grew from 1,119 as of December 31, 2021, to 1,367 as of December 31, 2022, and then declined slightly to 1,258 as of December 31, 2023. Our rapid growth has placed and may continue to place significant demands on our management and our operational and financial resources. Our organizational structure is becoming more complex as we add staff, and we will continue to enhance our operational, financial and management controls as well as our reporting systems and procedures. We will require significant capital expenditures and the allocation of valuable management resources to grow and change in these areas without undermining our corporate culture of rapid innovation, teamwork and attention to the insurance buying experience for the customer. If we cannot manage our growth effectively to maintain the quality and efficiency of our customers' insurance- buying experience, as well as their experience as ongoing customers, our business could be harmed as a result, and our results of operations and financial condition could be materially and adversely affected.

Intense competition in the segments of the insurance industry in which we operate could negatively affect our ability to attain or increase profitability.

The renters and homeowners insurance market is highly competitive with carriers competing through product coverage, reputation, financial strength, advertising, price, customer service and distribution.

While we face limited direct competition from traditional insurance companies for first-time renters, we face significant competition from traditional insurance companies for homeowners, car and life. Competitors include companies such as Allstate, Farmers, Liberty Mutual, State Farm, GEICO, Progressive and Travelers. These companies are larger than us and have significant competitive advantages over us, including increased name recognition, higher financial ratings, greater resources, and additional access to capital. Our future growth will depend in large part on our ability to grow our homeowners insurance business in which traditional insurance companies retain certain advantages. In particular, unlike us, many of these competitors offer consumers the ability to purchase renters, homeowners and multiple other types of insurance coverage and "bundle" them together into one policy and, in certain circumstances, include an umbrella liability policy for additional coverage at competitive prices. Moreover, as we expand into new lines of business and offer additional products beyond renters, homeowners, pet, life and car insurance, we could face intense competition from insurance companies that are already established in such markets. Competitors in the pet insurance space include companies such as Nationwide, Embrace, and Trupanion. Competitors in the car insurance space include companies such as Progressive, GEICO and Allstate. Additionally, any new insurance products could take months to be approved by regulatory authorities, or may not be approved at all.

We currently face competition by technology companies in the markets in which we operate. There are various technology companies that have recently started operating in adjacent insurance categories that may in the future offer renters, homeowners, pet, life and car insurance products. Technology companies may in the future begin operating and offering products at better and more competitive pricing than us, which could cause our results of operations and financial condition to be materially and adversely affected. In addition, traditional insurance companies may seek to adapt their businesses to sell insurance and process claims using technology similar to ours. Given their size, resources, and other competitive advantages, they may be able to erode any market advantage we may currently have over them.

Reinsurance may be unavailable at current levels and prices, which may limit our ability to write new business and impact our capital needs. 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. 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.

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.

We must have sufficient capital to comply with insurance regulatory requirements and maintain authority to conduct our business. The National Association of Insurance Commissioners ("NAIC") has developed a system to test the adequacy of statutory capital of U.S.-based insurers, known as risk-based capital that all states have adopted. This system establishes the minimum amount of capital necessary for an insurance company to support its overall business operations. It identifies insurers, including property-casualty insurers, that may be inadequately capitalized by looking at certain inherent risks of each insurer's assets and liabilities and its mix of net written premiums. Insurers falling below a calculated threshold may be subject to varying degrees of regulatory action, including supervision, rehabilitation or liquidation. Moreover, as a new entrant to the insurance industry, we may face additional capital requirements as compared to those of our larger and more established competitors. Failure to maintain adequate risk-based capital at the required levels could adversely affect the ability of our insurance subsidiaries to maintain regulatory authority to conduct its business. See "Regulation — Risk-Based Capital."

If we are unable to maintain relationships with third-party service providers, or renew contracts with them on favorable terms, or if those parties face financial, reputational or regulatory issues our prospects for future growth may be adversely affected.

Some parts of our business depend on our relationships and contractual arrangements with third parties. If our third parties terminate business arrangements with us, or renew contracts on terms less favorable to us, we may fail to meet our business objectives and targets, and our cash flows, results of operations and financial condition could be adversely affected. For example, our life insurance product is offered through an arrangement with a life insurance provider. In these relationships, we rely on the third-party’s internal controls, to manage the product. Although we monitor the third-party provider’s and other service providers on an ongoing basis, our monitoring efforts may not be adequate, or our providers could exceed their authorities or otherwise breach obligations owed to us, which could result in operational disruption, reputational damage and regulatory intervention and otherwise have a material adverse effect on our results of operation and financial condition.

If we are unable to expand our product offerings, or expand into new markets, our prospects for future growth may be adversely affected.

Our ability to attract and retain customers and therefore increase our revenue depends on our ability to successfully expand our product offerings into new markets. In 2020, we launched pet insurance and in 2021 we launched our life and car insurance products to add to our renters and homeowners insurance offerings. Our success in the renters, homeowners, pet, life and car insurance markets depend on our deep understanding of each market and associated business challenges faced by participants in them. Developing this level of understanding of the newer markets we have entered may require substantial investments of time and resources, and we may not be successful. In addition to the need for substantial resources, insurance regulation could limit our ability to introduce new product offerings or the states in which we offer them. Additionally, any new insurance products could take months to be approved by regulatory authorities, or may not be approved at all. If our products are not competitive in current markets or we do not penetrate new markets successfully, our revenue may grow at a slower rate than we anticipate and our business, results of operations and financial condition could be materially and adversely affected. In addition, our decision to expand our insurance product offerings beyond the renters, homeowners, pet, life and car insurance market would subject us to additional regulatory requirements specific to such insurance products, which, in turn, could require us to incur additional costs or devote additional resources to compliance.

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.

We utilize the data gathered from the insurance application process to determine whether or not to write a particular policy and, if so, how to price that particular policy. Similarly, we use proprietary artificial intelligence algorithms to process many of our claims. The data that we gather through our interactions with our customers is evaluated and curated by proprietary artificial intelligence algorithms. The continuous development, maintenance and operation of our deep-learned backend data analytics engine is expensive and complex, and may involve unforeseen difficulties including material performance problems, undetected defects or errors, for example, with new capabilities incorporating artificial intelligence. We may encounter technical obstacles, and it is possible that we may discover additional problems that prevent our proprietary algorithms from operating properly. If our data analytics do not function reliably, we may incorrectly price insurance products for our customers or incorrectly pay or deny claims made by our customers. Either of these situations could result in customer dissatisfaction with us, which could cause customers to cancel their insurance policies with us, prevent prospective customers from obtaining new insurance policies, or cause us to underprice policies or overpay claims. Such situations may also result in fines and monetary penalties as well as regulatory orders requiring remedial, injunctive, or other corrective action.

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.

Our future success depends on our ability to continue to develop and implement our proprietary artificial intelligence algorithms, and to maintain the confidentiality of this technology. Changes to existing regulations, their interpretation or implementation, or new regulations could impede our use of this technology, or require that we disclose our proprietary technology to our competitors, which could impair our competitive position and result in a material adverse effect on our business, results of operations, and financial condition.

Existing and 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.

State and federal lawmakers, and insurance regulators are focusing upon the use of AI broadly, including concerns about transparency, deception, and fairness in particular. Changes in laws or regulations, or changes in the interpretation of laws or regulations by a regulatory authority, specific to the use of AI, may decrease our revenues and earnings and may require us to change the manner in which we conduct some aspects of our business. In addition, our business and operations are subject to various U.S. federal, state, and local consumer protection laws, including laws which place restrictions on the use of automated and non-automated tools and technologies to communicate with wireless telephone subscribers or consumers generally.

For example, in the United States, the CAN-SPAM Act, among other things, obligates the sender of commercial emails to provide recipients with the ability to opt out of receiving future commercial emails from the sender. In addition, the Telephone Consumer Protection Act (TCPA) places restrictions on making outbound calls, faxes, and SMS text messages to consumers using certain types of automated or prerecorded technology or that involve marketing. Among other restrictions under the TCPA, with respect to phone calls and text messages, prior express consent, and in the case of certain marketing messages, prior express written consent, of consumers may be required before sending certain outbound calls or text messages. We could face allegations that we have violated the TCPA, CAN-SPAM Act, or similar laws, rules and regulations, and even if these allegations are without merit, we could face regulatory inquiries, lawsuits and related defense costs, liability (such as fines, damages, consent decrees, and injunctions), harm to our reputation and other losses that could harm our business.

A California law, effective as of July 2019, makes it unlawful for any person to use a bot to communicate with a person in California online with the intent to mislead the other person about its artificial identity for the purpose of knowingly deceiving the person about the content of the communication in order to incentivize a purchase of goods or services in a commercial transaction. Although we have taken steps to mitigate our liability for violations of this and other laws restricting the use of electronic communication tools, no assurance can be given that we will not be exposed to civil litigation or regulatory enforcement. Further, to the extent that any changes in law or regulation further restrict the ways in which we communicate with prospective or current customers before or during onboarding, customer care, or claims management, these restrictions could result in a material reduction in our customer acquisition and retention, reducing the growth prospects of our business, and adversely affecting our financial condition and future cash flows.

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 use artificial intelligence, telematics, mobile technology, and our digital platforms to collect data that we evaluate in pricing and underwriting certain of our insurance policies, managing claims and customer support, and improving business processes. If federal, state or international regulators or courts were to determine that the type of data we collect, the process we use for collecting this data or how we use it unfairly discriminates against or otherwise violates the rights of some groups of people, laws and regulations could be interpreted or implemented to prohibit or restrict our ability to collect or use this data.

State legislatures and insurance regulators have also shown interest in the use of external data and artificial intelligence in insurance practices, including underwriting, marketing and claims practices. The National Association of Insurance Commissioners ("NAIC") adopted Artificial Intelligence Principles in August 2020, and a number of states have had legislative or regulatory initiatives relating to the use of external data and artificial intelligence in the insurance industry, including bulletins issued in 2022 by the California and Connecticut Departments of Insurance, and more recently in January 2024 by the New York State Department of Financial Services, advising insurers of their obligations related to unfair discrimination when using big data and artificial intelligence.

Due to Proposition 103 in California, our largest market for car insurance, we are currently limited in our ability to use telematics data beyond miles-driven to underwrite insurance, including data on how the car is driven. This could hinder our ability to accurately assess the risks that we underwrite in other states if they were to pass similar laws or regulations. In three other states where we currently operate, we do not use behavioral telematics data because it is either (a) permitted, but we opted out given uncertainty regarding the impact such data would have on pricing, or (b) it is voluntary (meaning the policyholder has to opt in). As we aim to be a fully national provider of insurance across 50 states and Washington, D.C. in the future, we will need to comply with the rules and regulations of each market. At this time, we do not know which of our target markets prohibit, permit with conditions, or fully permit the use of behavioral telematics to set premiums, and if permitted, if this will be of benefit to us in pricing. While we are currently in discussions with regulators to allow the use of telematics to a greater extent to underwrite and price insurance policies, we cannot predict the outcome of these discussions, and there can be no assurance that state regulators will revise regulations accordingly, if at all, nor that current permissive states will further restrict the use of such data. Although there is currently limited federal and state legislation outside of California restricting our ability to collect driving behavior data, private organizations are implementing principles and guidelines to protect driver privacy. Some state regulators have expressed interest in the use of external data sources, algorithms and/or predictive models in insurance underwriting or rating. Specifically, regulators have raised questions about the potential for unfair discrimination, disparate impact, and lack of transparency associated with the use of external consumer data. Regulators may also require us to disclose the external data we use, algorithms and/or predictive matters prior to approving our underwriting models and rates. Such disclosures could put our intellectual property at risk.

Further, the National Association of Insurance Commissioners ("NAIC"), announced on July 23, 2020 the formation of a Race and Insurance Special Committee (the "Special Committee"). The Special Committee is tasked with analyzing the level of diversity and inclusion within the insurance sector, identifying current practices in the insurance industry that disadvantage minorities and making recommendations to increase diversity and inclusion within the insurance sector and address practices that disadvantage minorities. The Special Committee may look into strengthening the unfair discrimination laws, such as prohibiting the use of credit scores in the underwriting of car insurance. Any new unfair discrimination legislation that would prohibit us from using data that it currently uses or plans to use in the future to underwrite insurance could negatively impact our business.

Additionally, existing laws, such as the California Consumer Privacy Act of 2018 ("CCPA"), future laws, and evolving attitudes about privacy protection may impair our ability to collect, use, and maintain data points of sufficient type or quantity to develop and train our artificial intelligence algorithms. If such laws or regulations were enacted federally or in a large number of states in which we operate, it could impact the integrity and quality of our pricing and underwriting processes.

There is also increasing focus on regulating the use of artificial intelligence and machine learning in Europe. On December 8, 2023, the European Union legislators reached a political agreement on the EU Artificial Intelligence Act (“EU AI Act”), which establishes a comprehensive, risk-based governance framework for artificial intelligence in the EU market. The EU AI Act is expected to enter into force in 2024, and the majority of the substantive requirements will apply two years later. The EU AI Act will apply to companies like ours that develop, use and/ or provide artificial intelligence in the EU and includes requirements around transparency, conformity assessments and monitoring, risk assessments, human oversight, security, accuracy, general purpose artificial intelligence and foundation models, and proposes fines for breach of up to 7% of worldwide annual turnover. In addition, on September 28, 2022, the European Commission proposed two Directives seeking to establish a harmonized civil liability regime for artificial intelligence in the EU, in order to facilitate civil claims in respect of harm caused by artificial intelligence and to include artificial intelligence-enabled products within the scope of the EU’s existing strict liability regime. Once fully applicable, the EU AI Act will have a material impact on the way artificial intelligence is regulated in the EU, and together with developing guidance and/ or decisions in this area, is likely to affect our use of artificial intelligence and our ability to provide and to improve our services, require additional compliance measures and changes to our operations and processes, result in increased compliance costs and potential increases in civil claims against us, and could adversely affect our business, operations and financial condition.

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.

Our success depends on our ability to attract consumers to our website and our online app and convert them into customers in a cost-effective manner. We depend, in large part, on search engines, social media platforms, digital app stores, content-based online advertising and other online sources for traffic to our website and our online app.

With respect to search engines, we are included in search results as a result of both paid search listings, where we purchase specific search terms that result in the inclusion of our advertisement, and free search listings, which depend on algorithms used by search engines. For paid search listings, if one or more of the search engines or other online sources on which we rely for purchased listings modifies or terminates its relationship with us, our expenses could rise, we could lose consumers and traffic to our website could decrease, any of which could have a material adverse effect on our business, results of operations and financial condition. For free search listings, if search engines on which we rely for algorithmic listings modify their algorithms, our websites may appear less prominently or not at all in search results, which could result in reduced traffic to our websites.

Our ability to maintain and increase the number of consumers directed to our products from digital platforms is not within our control. Search engines, social media platforms and other online sources often revise their algorithms and introduce new advertising products. If one or more of the search engines or other online sources on which we rely for traffic to our website and our online app were to modify its general methodology for how it displays our advertisements or keyword search results, resulting in fewer consumers clicking through to our website and our online app, our business and operating results are likely to suffer. In addition, if our online display advertisements are no longer effective or are not able to reach certain consumers due to consumers' use of ad-blocking software, our business and operating results could suffer.

Additionally, changes in regulations or commercial practices could limit the ability of search engines and social media platforms, including, but not limited to, Google and Facebook, to collect data from users and engage in targeted advertising, making them less effective in disseminating our advertisements to our target customers. For example, the proposed Designing Accounting Safeguards to Help Broaden Oversight and Regulations on Data (DASHBOARD) Act would mandate annual disclosure to the SEC of the type and "aggregate value" of user data used by harvesting companies, such as, but not limited to, Facebook, Google and Amazon, including how revenue is generated by user data and what measures are taken to protect the data. If the costs of advertising on search engines and social media platforms increase, we may incur additional marketing expenses or be required to allocate a larger portion of our marketing spend to other channels and our business and operating results could be adversely affected. Similarly, insurance brokerage and distribution regulation may limit our ability to rely on key distribution platforms, such as the Lemonade API, if the third party distribution platforms are unable to continue to distribute our insurance products pursuant to insurance law and regulations.

The marketing of our insurance products depends on our ability to cultivate and maintain cost-effective and otherwise satisfactory relationships with digital app stores, in particular, those operated by Google and Apple. Furthermore, because many of our customers access our insurance products through an online app, we depend on the Apple App Store and the Google Play Store to distribute our online app. Both Apple and Google have broad discretion to change their respective terms and conditions applicable to the distribution of our online app, including those relating to the amount of (and requirement to pay) certain fees associated with purchases facilitated by Apple and Google through our online app, to interpret their respective terms and conditions in ways that may limit, eliminate or otherwise interfere with our ability to distribute online app through their stores, the features we provide and the manner in which we market in-app products. We cannot be certain that Apple or Google will not limit, eliminate or otherwise interfere with the distribution of our online app, the features we provide and the manner in which we market our online app. To the extent either or both of them do so, our business, results of operations and financial condition could be adversely affected. Furthermore, one of the factors we use to evaluate our customer satisfaction and market position is our Apple App Store ratings. This rating, however, may not be a reliable indicator of our customer satisfaction relative to other companies who are rated on the Apple App Store since, to date, we have received a fraction of the number of reviews of some of the companies we benchmark against.

We also attract customers through our relationships with certain business development partners. If our business development partners were to charge higher rates or decide to terminate their relationships with us, our ability to attract customers could be materially impaired. In addition, we have expanded our direct to customer acquisition channels, including subway and taxicab panels. Our efforts to acquire customers through direct marketing may subject us to increased regulatory scrutiny by state insurance regulators pursuant to unfair methods of competition or unfair or deceptive acts or practices laws.

We may require additional capital to grow our business, which may not be available on terms acceptable to us or at all.

To the extent that our capital is insufficient at any point in time to meet future operating requirements (including regulatory capital requirements) or to cover losses, we may need to raise additional funds through financings or curtail our projected growth. Many factors will affect our capital needs as well as their amount and timing, including our growth and profitability, the availability of reinsurance, as well as market disruptions and other developments.

Historically, we have funded our operations, marketing expenditures and capital expenditures primarily through equity issuances. We evaluate financing opportunities from time to time, and our ability to obtain financing will depend, among other things, on our development efforts, business plans and operating performance, and the condition of the capital markets at the time we seek financing. In addition, the NYDFS and other regulatory bodies may not permit additional equity issuances or other forms of financing that we may wish to pursue. We cannot be certain that additional financing will be available to us on favorable terms, or at all.

If we raise additional funds through the issuance of equity, equity-linked or debt securities, those securities may have rights, preferences or privileges senior to those of our common stock and warrants, and our existing stockholders may experience dilution. Our stockholders may also face dilution as the warrants issued to Chewy Insurance Services, LLC which will vest in installments, in increasing amounts over a period of five years, subject to certain vesting events and thresholds. See Note 16 for more information about the terms of these warrants. Furthermore, any debt financing secured by us in the future could require that a substantial portion of our operating cash flow be devoted to the payment of interest and principal on such indebtedness, which may decrease available funds for other business activities, and could involve restrictive covenants relating to our capital-raising activities and other financial and operational matters, which may make it more difficult for us to obtain additional capital and to pursue business opportunities.

If we are unable to obtain adequate financing or financing on terms satisfactory to us, when we require it, our ability to continue to support our business growth, maintain minimum amounts of risk-based capital and to respond to business challenges could be significantly limited, and our business, results of operations and financial condition could be adversely affected.

Interruptions or delays in the services provided by our sole provider of third-party data centers or our internet service providers could impair the operability of our website and our online app and may cause our business to suffer.

We currently offer our products through our website and online app using Amazon Web Services ("AWS") data centers, a provider of cloud infrastructure services. We do not have control over the operations of the facilities of AWS that we use. AWS's facilities are vulnerable to damage or interruption from human error, intentional bad acts, earthquakes, floods, fires, severe storms, war, terrorist attacks, power losses, hardware failures, systems failures, telecommunications failures, and similar events, many of which are beyond our control, any of which could disrupt our services, prevent customers from accessing our products, destroy customer data, or prevent us from being able to continuously back up and record data. In the event of significant physical damage to one of these data centers, it may take a significant period of time to achieve full resumption of our services, and our disaster recovery planning may not account for all eventualities. If our data centers or related systems fail to operate properly or become disabled even for a brief period of time, we could suffer financial loss, a disruption of our business, liability to customers or damage to our reputation. We may not be able to easily switch our AWS operations to another cloud or other data center provider if there are disruptions or interference with our use of AWS, and, even if we do switch our operations, other cloud and data center providers are subject to the same risks. Moreover, negative publicity arising from these types of disruptions could damage our reputation and may adversely impact use of our website and online app. We may not carry sufficient business interruption insurance, it may not be sufficient to compensate us for the potentially significant losses, including the potential harm to the future growth of our business that may result from interruptions in our services or products.

AWS enables us to order and reserve server capacity in varying amounts and sizes distributed across multiple regions and provides us with computing and storage capacity pursuant to an agreement that continues until terminated by either party. Termination of the AWS agreement may harm our ability to access data centers we need to host our website and online app or to do so on terms as favorable as those we have with AWS.

As we continue to expand the number of customers to whom we provide our products and services, we may not be able to scale our technology to accommodate the increased capacity requirements, which may result in interruptions or delays in service. In addition, the failure of AWS data centers or third-party internet service providers to meet our capacity requirements could result in interruptions or delays in access to our website or online app or impede our ability to scale our operations. In the event that our AWS service agreements are terminated, or there is a lapse of service, interruption of internet service provider connectivity or damage to such facilities, we could experience interruptions in access to our website or online app as well as delays and additional expense in arranging new facilities and services, which could harm our business, results of operations, and financial condition.

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.

Our continued success is dependent on our systems, applications, and software continuing to operate and to meet the changing needs of our customers and users. We rely on our technology and engineering staff and vendors to successfully implement changes to and maintain our systems and services in an efficient and secure manner. Like all information systems and technology, our website and online app may contain material errors, failures, vulnerabilities or bugs, particularly when new features or capabilities are released, and may be subject to computer viruses or malicious code, break-ins, phishing impersonation attacks, attempts to overload our servers with denial-of-service or other attacks, ransomware and similar incidents or disruptions from unauthorized use of our computer systems, as well as unintentional incidents causing data leakage, any of which could lead to interruptions, delays or website or online app shutdowns, or could cause loss of critical data, or the unauthorized disclosure, access, acquisition, alteration or use of personal or other confidential information.

If we experience compromises to our security that result in technology performance, integrity, or availability problems, the complete shutdown of our website or our online app or the loss or unauthorized disclosure, access, acquisition, alteration or use of confidential information, customers may lose trust and confidence in us, and customers may decrease the use of our website or our online app, or stop using our website or our online app entirely. Further, outside parties may attempt to fraudulently induce employees or customers to disclose sensitive information in order to gain access to our information or customers' information. Because the techniques used to obtain unauthorized access, disable or degrade service, or sabotage systems change frequently, often they are not recognized until launched against a target, and may originate from less regulated and remote areas around the world, we may be unable to proactively address these techniques or to implement adequate preventative measures. Even if we take steps that we believe are adequate to protect us from cyber threats, hacking against our competitors or other companies could create the perception among our customers or potential customers that our digital platform is not safe to use.

A significant impact on the performance, reliability, security, and availability of our systems, software, or services may harm our reputation, impair our ability to operate, retain existing customers or attract new customers, and expose us to legal claims and government action, each of which could have a material adverse impact on our financial condition, results of operations, and growth prospects.

We are periodically subject to examinations by our primary state insurance regulators, which could result in adverse examination findings and necessitate remedial actions.

We provide insurance through our subsidiaries, LIC and MIC. Since LIC is a New York State-domiciled insurance company, LIC’s primary insurance regulator responsible for supervision and examination is the NYDFS. Since MIC is domiciled in Delaware and is commercially domiciled in California, MIC’s primary insurance regulators responsible for supervision and examination are the Delaware Department of Insurance and the California Department of Insurance. LIC and MIC are subject to a financial examination by their primary insurance regulators every three to five years, under which they will review LIC and MIC’s financials, including their relationships and transactions with affiliates. NYDFS is currently leading a group financial exam for LIC and MIC covering the years 2019 through 2022. We cannot predict with precision the likelihood, nature, or extent of any necessary remedial actions, if any, resulting from any examination, or the associated costs of such remedial actions or regulatory scrutiny.

In addition, insurance regulators of other states in which we are licensed to operate periodically conduct market conduct examinations or other targeted investigations. We are presently subject to, and in the future will continue to be subject to, such examination and investigations. Any regulatory or enforcement action or any regulatory order imposing remedial, injunctive, or other corrective action against us resulting from these examinations or investigations could have a material adverse effect on our business, reputation, financial condition or results of operations. The results of each examination can give rise to fines and monetary penalties as well as regulatory orders requiring remedial, injunctive, or other corrective action.

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.

Use of technology to offer insurance products involves the storage and transmission of information, including personal information, in relation to our staff, contractors, business partners and current, past or potential customers. Security breaches, including by hackers or insiders, could expose confidential information, which could result in potential regulatory investigations, fines, penalties, compliance orders, liability, litigation and remediation costs, as well as reputational harm, any of which could materially adversely affect our business and financial results. For example, unauthorized parties could steal or access our users' names, email addresses, physical addresses, phone numbers and other information that we collect when providing insurance quotes, and credit card or other payment information if a customer agrees to purchase insurance coverage from us. Further, outside parties may attempt to fraudulently induce employees or customers to disclose sensitive information in order to gain access to our information or customers' information. Any of these incidents, or any other types of security or privacy related incidents, could result in an investigation by a competent regulator, resulting in a fine or penalty, or an order to implement specific compliance measures. It could also trigger claims by affected third parties. While we use encryption and authentication technology licensed from third parties designed to effect secure transmission of such information, we cannot guarantee the security of the transfer and storage of personal information.

Any or all of the issues above could adversely affect our ability to attract new customers or retain existing customers, or subject us to governmental or third-party lawsuits, investigations, regulatory fines or other actions or liability, resulting in a material adverse effect to our business, results of operations and financial condition.

In addition, many state legislatures have adopted legislation that regulates how businesses operate online, including measures relating to privacy, data security, and data breaches. Such legislation includes the CCPA, which increases privacy rights for California residents and imposes obligations on companies that process their personal information, including an obligation to provide certain new disclosures to such residents. Specifically, among other things, the CCPA creates new consumer rights, and imposes corresponding obligations on covered businesses, relating to the access to, deletion of, and sharing of personal information collected by covered businesses, including California residents' right to access and delete their personal information, opt out of certain sharing and sales of their personal information, and receive detailed information about how their personal information is used. The law exempts from certain requirements of the CCPA certain information that is collected, processed, sold, or disclosed pursuant to the California Financial Information Privacy Act, the federal Gramm-Leach-Bliley Act or the federal Driver's Privacy Protection Act. The definition of "personal information" in the CCPA is broad and may encompass other information that we maintain beyond that excluded under the Gramm-Leach-Bliley Act, the Driver's Privacy Protection Act or the California Financial Information Privacy Act exemption. Further, the CCPA provides for civil penalties for violations, as well as a private right of action for certain data breaches that result in the loss of personal information. This private right of action increases the likelihood of, and risks associated with, data breach litigation.

Additionally, a new California ballot initiative, the California Privacy Rights Act, or the CPRA, was recently passed in California and expands the scope of the CCPA and creates new consumer privacy rights for California residents, including rights to correct personal information. Further, the CPRA imposes additional obligations on businesses to implement data retention and minimization practices contractually limit the use of personal information by service providers and contractors, perform cybersecurity audits and risk assessments, and implement reasonable security. The CPRA also permits consumers to opt out of the sharing of personal information for use in behavioral advertising, which may impact our ability to market our products and services. The CPRA also establishes the California Privacy Protection Agency, which is the first data privacy regulator in the U.S., to enforce the CPRA. The CPRA strengthens some of the enforcement authority established under the CCPA and could result in increased enforcement actions and fines. We may incur additional costs associated with compliance efforts leading up to the effective date.

Some observers have noted that the CCPA and CPRA could mark the beginning of a trend toward more stringent privacy legislation in the United States, and multiple states have enacted, or are expected to enact, similar laws. There is also discussion in Congress of a new comprehensive federal data protection and privacy law to which we likely would be subject if it is enacted. The effects of the CCPA and CPRA, and other similar state or federal laws, are potentially significant and may require us to modify our data processing practices and policies and to incur substantial costs and potential liability in an effort to comply with such legislation.

As we continue to expand into Europe, we may also face particular privacy, data security, and data protection risks in connection with requirements of the GDPR and other data protection regulations. The GDPR imposes comprehensive data privacy compliance obligations in relation to our collection, processing, sharing, disclosure, transfer and other use of data relating to an identifiable living individual or “personal data” , including a principal of accountability and the obligation to demonstrate compliance through policies, procedures, training and audit. Any failure or perceived failure to comply with these rules may result in regulatory fines or penalties including orders that require us to change the way we process data (including by way of our algorithms). In the event of a data breach, we are also subject to breach notification laws in the jurisdictions in which we operate, including U.S. state laws and the GDPR, and the risk of litigation and regulatory enforcement actions. In addition, a number of federal and state laws and regulations relating to privacy affect and apply to the insurance industry specifically, including those imposed by the NYDFS. See "Business - Regulation."

Additionally, we are subject to the terms of our privacy policies and privacy-related obligations to third parties. Any failure or perceived failure by us to comply with our privacy policies, our privacy-related obligations to customers or other third parties, or our privacy-related legal obligations, or any compromise of security that results in the unauthorized release or transfer of sensitive information, which could include personally identifiable information or other user data, may result in governmental or regulatory investigations, enforcement actions, regulatory fines, compliance orders, litigation or public statements against us by consumer advocacy groups or others, and could cause customers to lose trust in us, all of which could be costly and have an adverse effect on our business. In addition, new and changed rules and regulations regarding privacy, data protection (in particular those that impact the use of artificial intelligence) and cross-border transfers of customer information could cause us to delay planned uses and disclosures of data to comply with applicable privacy and data protection requirements. Moreover, if third parties that we work with violate applicable laws or our policies, such violations also may put personal information at risk, which may result in increased regulatory scrutiny and have a material adverse effect to our reputation, business and operating results.

We employ third-party licensed software for use in our business, and the inability to maintain these licenses, errors in the software we license or the terms of open source licenses could result in increased costs or reduced service levels, which would adversely affect our business.

Our business relies on certain third-party software obtained under licenses from other companies. We anticipate that we will continue to rely on such third-party software in the future. Although we believe that there are commercially reasonable alternatives to the third-party software we currently license, this may not always be the case, or it may be difficult or costly to replace. In addition, integration of new third-party software may require significant work and require substantial investment of our time and resources. Our use of additional or alternative third-party software would require us to enter into license agreements with third parties, which may not be available on commercially reasonable terms or at all. Many of the risks associated with the use of third-party software cannot be eliminated, and these risks could negatively affect our business.

Additionally, the software powering our technology systems incorporates software covered by open source licenses. The terms of many open source licenses have not been interpreted by U.S. courts, and there is a risk that the licenses could be construed in a manner that imposes unanticipated conditions or restrictions on our ability to operate our systems. In the event that portions of our proprietary software are determined to be subject to an open source license, we could be required to publicly release the affected portions of our source code or re-engineer all or a portion of our technology systems, each of which could reduce or eliminate the value of our technology systems. Such risk could be difficult or impossible to eliminate and could adversely affect our business, financial condition, and results of operations.

We may be subject to compliance obligations arising from medical information privacy regulations.

By processing certain personal injury data on behalf of our clients, we may be subject to specific compliance obligations under privacy and data security-related laws specific to the protection of healthcare information. Although we may be subject to the Health Insurance Portability and Accountability Act, the Health Information Technology for Economic and Clinical Health Act, and related state laws, we do not have a process in place to assess or align our privacy and security practices specifically against requirements for protecting medical information.

We may face particular privacy, data security, and data protection risks as we continue to expand into Europe and the UK in connection with the GDPR, UK GDPR, and other data protection regulations.

The GDPR applies to the processing of personal data by our business in the context of our establishments in the European Union and/or the UK. In addition, all portions of our business established outside the European Union may be required to comply with the requirements of the GDPR with respect to the offering of products or services to individuals in the European Union or UK. The GDPR could also apply to our establishments of business outside the European Union if we were to monitor the activities of individuals in the European Union or become established in the European Union/UK. The GDPR increases the maximum level of fines for the most serious compliance failures to the greater of four percent of annual worldwide turnover or €20,000,000/ GBP17,500,000, respectively.

We may also be subject to the local privacy and data protection laws of the E.U. Member States in which we offer products or services, which can carry penalties and potential criminal sanctions.

The regulatory requirements and restrictions set out in the GDPR include, among others, the following:

- The GDPR imposes a number of principles with respect to the processing of personal data, including requirements to process personal data lawfully, fairly, and in a transparent manner, to process personal data only to the extent necessary for the purposes required, maintain the accuracy of personal data, limit the retention of personal data for no longer than is necessary, and maintain appropriate technical and organizational security measures against unauthorized processing or accidental loss, destruction, or damage. We are implementing external and internal policies and procedures, technical measures and internal training designed to adhere to those principles;
- In relation to the transparency principle, the GDPR requires us to provide individuals in the European Union whose personal data we process ("data subjects") with certain information regarding the processing of their personal data by us, and we have an E.U. privacy policy, which can be found at

https://www.lemonade.com/de/en/privacy-policy (with respect to Germany), https://www.lemonade.com/nl/en/privacy-policy (with respect to the Netherlands) and http://www.lemonade.com/fr/en/privacy-policy (with respect to France);

- The GDPR requires us to maintain internal records of our processing activities and to make those records available to regulators on demand;
- The GDPR requires us to include certain mandatory terms in our agreements with third parties that process personal data subject to the GDPR on our behalf ("Processors") and we are in the process of entering into compliant data processing terms with each of our Processors. If third parties with whom we work were to violate their obligations under the GDPR, and/or under their agreements with us, such violation could potentially have an adverse impact on our business;
- The GDPR grants data subjects certain rights, including the right to object to the processing of their personal data by us, to request copies of their personal data from us, to receive information regarding the processing of their personal data and to exercise certain other rights against us in respect of their personal data, and we are implementing internal policies and procedures designed to address those rights;
- The GDPR prohibits automated decision making, i.e. a decision evaluating a data subject's personal aspects based solely on automated processing that produces legal effects or other significant effects for that data subject, except where such decision making is necessary for entering into or performing a contract or is based on the data subject's explicit consent. There is not yet any clear precedent as to whether use of artificial intelligence to make insurance offers to individuals will be considered necessary even though it is integral to our business model. If our automated decision making processes cannot meet this necessity threshold, we cannot use these processes with E.U. data subjects unless we obtain their explicit consent. Relying on consent to conduct this type of processing holds its own risks because consent must be considered freely given (commentators argue that seeking consent by tying it to a service may be problematic) and consent can be withdrawn by a data subject at any time. We are continually monitoring for updates to guidance in this area, however, if subsequent guidance and/or decisions limit our ability to use our artificial intelligence models, that may decrease our operational efficiency and result in an increase to the costs of operating our business. Automated decision making also attracts a higher regulatory burden under the GDPR, which requires the existence of such automated decision making be disclosed to the data subject including a meaningful explanation of the logic used in such decision making, and safeguards must be implemented to safeguard individual rights, including the right to obtain human intervention and to contest any decision. Further obligations in terms of transparency are likely to be imposed under new laws regulating AI, including the EU AI Act which is expected to enter into force in 2024, and the majority of the substantive requirements applying two years later. The EU AI Act includes requirements around transparency, conformity assessments and monitoring, risk assessments, human oversight, security and accuracy, and proposes fines for breach of up to 7% of worldwide annual turnover. Once fully applicable, the EU AI Act will have a material impact on the way artificial intelligence is regulated in the EU, and together with developing guidance and/ or decisions in this area, is likely to affect our use of artificial intelligence and our ability to provide and to improve our services, require additional compliance measures and changes to our operations and processes, result in increased compliance costs and potential increases in civil claims against us, and could adversely affect our business, operations and financial condition.; and
- The GDPR also places limits on the profiling of individuals, i.e. processing of personal data to evaluate certain personal aspects, like analyzing or predicting aspects of a person's economic situation, health, personal preferences, location, etc. There is a lack of clarity on when we can rely on consent from the data subject to conduct profiling, or when we can rely on our legitimate business interests to do so. In the latter case, it is unclear what kind of opt-out mechanism would be required to achieve GDPR compliance. We are continually monitoring for updates to guidance in this area, however, if subsequent guidance and/or decisions limit our ability to engage in profiling, that may decrease our operational efficiency and result in an increase to the costs of operating our business.

We are also subject to European Union rules with respect to cross-border transfers of personal data out of the European Economic Area (“EEA”) and the United Kingdom. Case law from the Court of Justice of the European Union (“CJEU”) states that reliance on the standard contractual clauses - a standard form of contract approved by the European Commission as an adequate personal data transfer mechanism - alone may not necessarily be sufficient in all circumstances and that transfers must be assessed on a case-by-case basis. On October 7, 2022, President Biden signed an Executive Order on ‘Enhancing Safeguards for United States Intelligence Activities’ which introduced new redress mechanisms and binding safeguards to address the concerns raised by the CJEU in relation to data transfers from the EEA to the United States and which formed the basis of the new EU-US Data Privacy Framework (“DPF”), as released on December 13, 2022. The European Commission adopted its Adequacy Decision in relation to the DPF on July 10, 2023, rendering the DPF effective as an EU GDPR transfer mechanism to U.S. entities self-certified under the DPF. On October 12, 2023, the UK Extension to the DPF came into effect (as approved by the UK Government), as a UK GDPR data transfer mechanism to U.S. entities self-certified under the UK Extension to the DPF.

We currently rely on the DPF to transfer certain personal data from the EEA to the United States and on the UK Extension to the DPF to transfer certain personal data from the UK to the United States. We also currently rely on the EU standard contractual clauses and the UK Addendum to the EU standard contractual clauses and the UK International Data Transfer Agreement as relevant to transfer personal data outside the EEA and the UK with respect to both intragroup and third party transfers. We expect the existing legal complexity and uncertainty regarding international personal data transfers to continue. In particular, we expect the DPF Adequacy Decision to be challenged and international transfers to the United States and to other jurisdictions more generally to continue to be subject to enhanced scrutiny by regulators. As the regulatory guidance and enforcement landscape in relation to data transfers continue to develop, we could suffer additional costs, complaints and/or regulatory investigations or fines; we may have to stop using certain tools and vendors and make other operational changes; we may have to implement revised standard contractual clauses for existing intragroup, customer and vendor arrangements within required time frames; and/or it could otherwise affect the manner in which we provide our services, and could adversely affect our business, operations and financial condition.

In respect of the GDPR’s obligations, we rely on positions and interpretations of the law that have yet to be fully tested before the relevant courts and regulators. If a regulator or court of competent jurisdiction determined that one or more of our compliance efforts does not satisfy the applicable requirements of the GDPR, or if any party brought a claim in this regard, there could be potential governmental or regulatory investigations, enforcement actions, regulatory fines, compliance orders, litigation or public statements against us by consumer advocacy groups or others, and that could cause customers to lose trust in us and damage our reputation. Likewise, a change in guidance could be costly and have an adverse effect on our business.

We are also subject to evolving EU and UK privacy laws on cookies, tracking technologies and e-marketing. In the EU and the UK under national laws derived from the ePrivacy Directive, informed consent is required for the placement of a cookie or similar technologies on an individual’s device and for direct electronic marketing. The GDPR also imposes conditions on obtaining valid consent for cookies, such as a prohibition on pre-checked consents and a requirement to ensure separate consents are sought for each type of cookie or similar technology. Recent European court and regulator decisions are driving increased attention to cookies and tracking technologies. Recent European court and regulator decisions are also driving increased attention to cookies and tracking technologies. If the trend of increasing enforcement by regulators of the strict approach to opt-in consent for all but essential use cases, as seen in recent guidance and decisions continues this may increase the cost of operating our business and lead to a decline in revenues and impair our ability to collect user information. In addition, legal uncertainties about the legality of cookies and other tracking technologies may lead to regulatory scrutiny and increase potential civil liability under data protection or consumer protection laws. Any such changes may force us to incur substantial costs or require us to change our business practices which could compromise our ability to pursue our growth strategy effectively and may adversely affect our ability to acquire customers or otherwise harm our business, financial condition and operating results. In light of the complex and evolving nature of EU, EU Member State and UK privacy laws on cookies and tracking technologies, there can be no assurances that we will be successful in our efforts to comply with such laws; violations of such laws could result in regulatory investigations, fines, orders to cease/ change our use of such technologies, as well as civil claims including class actions, and reputational damage.

Any significant change to applicable laws, regulations, interpretations of laws or regulations, or market practices, regarding the use of personal data, or regarding the manner in which we seek to comply with applicable laws and regulations, could require us to make modifications to our products, services, policies, procedures, notices, and business practices, including potentially material changes. Such changes could potentially have an adverse impact on our business.

We may be unable to prevent or address the misappropriation of our data.

From time to time, third parties may misappropriate our data through website scraping, bots or other means and aggregate this data on their websites with data from other companies. In addition, copycat websites or online apps may misappropriate data and attempt to imitate our brand or the functionality of our website or our online app. If we become aware of such websites or online apps, we intend to employ technological or legal measures in an attempt to halt their operations. However, we may be unable to detect all such websites or online apps in a timely manner and, even if we could, technological and legal measures may be insufficient to halt their operations. In some cases, particularly in the case of websites or online apps operating outside of the United States, our available remedies may not be adequate to protect us against the effect of the operation of such websites or online apps. Regardless of whether we can successfully enforce our rights against the operators of these websites or online apps, any measures that we may take could require us to expend significant financial or other resources, which could harm our business, results of operations or financial condition. In addition, to the extent that such activity creates confusion among consumers or advertisers, our brand and business could be harmed.

We rely on the experience and expertise of our Co-Founders, senior management team, highly-specialized insurance experts, key technical employees and other highly skilled personnel.

Our success depends upon the continued service of Daniel Schreiber, our co-founder, Chief Executive Officer and a member of our board of directors, and Shai Wininger, our co-founder, President and a member of our board of directors (collectively with Mr. Schreiber, our "Co-Founders"), and senior management team, highly-specialized insurance experts and key technical employees, as well as our ability to continue to attract and retain additional highly qualified personnel. Our future success depends on our continuing ability to identify, hire, develop, motivate, retain and integrate highly skilled personnel for all areas of our organization. If we are unable to attract the requisite personnel, our business and prospects may be adversely affected. Each of our Co-Founders, executive officers, specialized insurance experts, key technical personnel and other employees could terminate his or her relationship with us at any time. The loss of either of our Co-Founders or any other member of our senior management team, specialized insurance experts or key personnel might significantly delay or prevent the achievement of our strategic business objectives and could harm our business. We rely on a small number of highly-specialized insurance experts, the loss of any one of whom could have a disproportionate impact on our business. Competition in our industry for qualified employees is intense. Our compensation arrangements, such as our equity award programs, may not always be successful in attracting new employees and retaining and motivating our existing employees. Moreover, if and when the stock options or other equity awards are substantially vested, employees under such equity arrangements may be more likely to leave, particularly when the underlying shares have seen a value appreciation.

We face significant competition for personnel, particularly in New York, where our headquarters is located and in Tel Aviv, where many of our technical employees are located. To attract top talent, we offer, and will need to continue to offer, competitive compensation and benefits packages. We may also need to increase our employee compensation levels in response to competitor actions. If we are unable to hire new employees quickly enough to meet our needs, or otherwise fail to effectively manage our hiring needs or successfully integrate new hires, our efficiency, ability to meet forecasts and our employee morale, productivity and retention could suffer, which in turn could have an adverse effect on our business, results of operations and financial condition.

If our customers were to claim that the policies they purchased failed to provide adequate or appropriate coverage, we could face claims that could harm our business, results of operations and financial condition.

Although we aim to provide adequate and appropriate coverage under each of our policies, customers could purchase policies that prove to be inadequate or inappropriate. If such customers were to bring a claim or claims alleging that we failed in our responsibilities to provide them with the type or amount of coverage that they sought to purchase, Lemonade Insurance Agency, LLC or Metromile Insurance Services LLC could be found liable, resulting in an adverse effect on our business, results of operations and financial condition. While we maintain agents errors and omissions insurance coverage to protect us against such liability, such coverage may be insufficient or inadequate.

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 December 31, 2023, we had approximately 294 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 in October 2023, 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.

We may become subject to claims under Israeli law for remuneration or royalties for assigned service invention rights by our Israel-based contractors or employees, which could result in litigation and adversely affect our business.

We enter into assignment of invention agreements with employees and contractors, pursuant to which such individuals assign to us all rights to any inventions created in the scope of their employment or engagement with us. Under the Israeli Patent Law, 5727-1967 (the "Israel Patent Law"), inventions conceived by an employee or a person deemed to be an employee during and in consequence of their employment are regarded as "service inventions," which belong to the employer, absent a specific agreement between employee and employer giving the employee service invention rights. In the case of a service invention, employees and former employees may petition the Israeli Compensation and Royalties Committee established under the Israel Patent Law to determine whether they are entitled to remuneration for their service inventions. The Israeli Compensation and Royalties Committee and the Supreme Court have held that employees may be entitled to remuneration for their service inventions despite having waived such rights, resulting in uncertainty under Israeli law with respect to the efficacy of waivers of service invention rights. Although our contractors and employees have agreed to assign to us service invention rights, we may face claims demanding remuneration in consideration for assigned inventions. As a consequence of such claims, we could be required to pay additional remuneration or royalties to our current or former contractors or employees, or be forced to litigate such claims, which could negatively affect our business.

Our company culture has contributed to our success and if we cannot maintain this culture as we grow, our business could be harmed.

We believe that our company culture has been critical to our success. Our status as a Certified B Corp and commitment to charitable giving distinguish us from our competitors and promote a relationship among our employees and customers founded on trust. We not only seek to engender a trusting relationship between our brand and our customers, but also among our employees. Our ability to continue to cultivate and maintain this culture is essential to our growth and continued success. We face a number of challenges that may affect our ability to sustain our corporate culture, including:

- failure to identify, attract, reward and retain people in leadership positions in our organization who share and further our culture, values and mission;
- the increasing size and geographic diversity of our workforce, and our ability to promote a uniform and consistent culture across all our offices and employees;
- the market perception about our charitable contributions and social and political stances;
- competitive pressures to move in directions that may divert us from our mission, vision and values;
- the continued challenges of a rapidly-evolving industry; and
- the increasing need to develop expertise in new areas of business that affect us.

Our unique culture is one of our core characteristics that helps us to attract and retain key personnel. If we are not able to maintain our culture, we would have to incur additional costs and find alternative methods to recruit key employees, which in turn could cause our business, results of operations and financial condition to be adversely affected.

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.

In general, the premiums for our insurance policies are established at the time a policy is issued and, therefore, before all of our underlying costs are known. The accuracy of our pricing is subject to our ability to adequately assess risks, estimate losses and comply with state insurance regulations. Like other insurance companies, we rely on estimates and assumptions in setting our premium rates. We also utilize the data that we gather through our interactions with our customers, as evaluated and curated by our proprietary artificial intelligence algorithms.

Establishing adequate premium rates is necessary, together with investment income, if any, to generate sufficient revenue to offset losses, loss adjustment expenses ("LAE") and other costs. If we do not accurately assess the risks that we underwrite, we may not charge adequate premiums to cover our losses and expenses, which would adversely affect our results of operations and our profitability. Moreover, if we determine that our prices are too low, insurance regulations may preclude us from being able to cancel insurance contracts, non-renew customers, or raise prices. Alternatively, we could set our premiums too high, which could reduce our competitiveness and lead to lower revenues, which could have a material adverse effect on our business, results of operations and financial condition.

Pricing involves the acquisition and analysis of historical loss data and the projection of future trends, loss costs and expenses, and inflation trends, among other factors, for each of our products in multiple risk tiers and many different markets. In order to accurately price our policies, we must:

- collect and properly analyze a substantial volume of data from our customers;
- develop, test and apply appropriate actuarial projections and rating formulas;
- review and evaluate competitive product offerings and pricing dynamics;
- closely monitor and timely recognize changes in trends; and
- project both frequency and severity of our customers' losses with reasonable accuracy.

There are no assurances that we will have success in implementing our pricing methodology accurately in accordance with our assumptions. Our ability to accurately price our policies is subject to a number of risks and uncertainties, including:

- insufficient or unreliable data;
- incorrect or incomplete analysis of available data;
- uncertainties generally inherent in estimates and assumptions;
- our failure to implement appropriate actuarial projections and rating formulas or other pricing methodologies;
- incorrect or incomplete analysis of the competitive environment;
- regulatory constraints on rate increases; and
- our failure to accurately estimate investment yields and the duration of our liability for loss and loss adjustment expense, as well as unanticipated court decisions, legislation or regulatory action.

To address the potential inadequacy of our current business model, we may be compelled to increase the amount allocated to cover policy claims, increase premium rates or adopt tighter underwriting standards, any of which may result in a decline in new business and renewals and, as a result, could have a material adverse effect on our business, results of operations and financial condition.

Our exposure to loss activity and regulation may be greater in states where we currently have most of our customers: California, New York and Texas.

Approximately 53% of our gross written premium for the year ended December 31, 2023 originated from customers in California, New York, and Texas. As a result of this concentration, if a significant catastrophe event or series of catastrophe events occur, such as COVID-19 or a natural disaster, and cause material losses in California, New York and Texas, our business, financial condition and results of operation could be materially adversely affected. Further, as compared to our competitors who operate on a wider geographic scale, any adverse changes in the regulatory environment affecting property and casualty insurance in California, New York and Texas may expose us to more significant risks.

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.

Because our products are highly-advanced and require rigorous testing and regulatory approvals, development cycles can be complex. Moreover, development projects can be technically challenging and expensive, and may be delayed or defeated by the inability to obtain licensing or other regulatory approvals. The nature of these development cycles may cause us to experience delays between the time we incur expenses associated with research and development and the time we generate revenues, if any, from such expenses. If we expend a significant amount of resources on research and development and our efforts do not lead to the successful introduction or improvement of products that are competitive in the marketplace, this could materially and adversely affect our business and results of operations. Additionally, anticipated customer demand for a product we are developing could decrease after the development cycle has commenced. Such decreased customer demand may cause us to fall short of our sales targets, and we may nonetheless be unable to avoid substantial costs associated with the product's development. If we are unable to complete product development cycles successfully and in a timely fashion and generate revenues from such future products, the growth of our business may be harmed.

Litigation and legal proceedings filed by or against us and our subsidiaries could have a material adverse effect on our business, results of operations and financial condition.

Litigation and other proceedings may include, but are not limited to, complaints from or litigation by customers or reinsurers, related to alleged breaches of contract or otherwise. As our market share increases, competitors may pursue litigation to require us to change our business practices or offerings and limit our ability to compete effectively. As is typical in the insurance industry, we continually face risks associated with litigation of various types arising in the normal course of our business operations, including disputes relating to insurance claims under our policies as well as other general commercial and corporate litigation. Although we are not currently involved in any material litigation with our customers, us and other members of the insurance industry are the target of class action lawsuits and other types of litigation, some of which involve claims for substantial or indeterminate amounts, and the outcomes of which are unpredictable. This litigation is based on a variety of issues, including sale of insurance and claim settlement practices. In addition, because we employ artificial intelligence to collect data points, customers or consumer groups have brought and could bring individual or class action claims alleging that our methods of collecting or using data and pricing risk are impermissibly discriminatory or otherwise improper. We cannot predict with any certainty whether we will be involved in such material litigation in the future or what impact such material litigation would have on our business. If we were to be involved in litigation and it was determined adversely, it could require us to pay significant damage amounts or to change aspects of our operations, either of which could have a material adverse effect on our financial results. Even claims without merit can be time- consuming and costly to defend and may divert management's attention and resources away from our business and adversely affect our business, results of operations and financial condition. Additionally, routine lawsuits over claims that are not individually material could in the future become material if aggregated with a substantial number of similar lawsuits. In addition to increasing costs, a significant volume of customer complaints or litigation could adversely affect our brand and reputation, regardless of whether such allegations are valid or whether we are liable. We cannot predict with certainty the costs of defense, the costs of prosecution, insurance coverage or the ultimate outcome of litigation or other proceedings filed by or against us, including remedies or damage awards, and adverse results in such litigation, and other proceedings may harm our business and financial condition. See "Legal Proceedings."

Failure to protect or enforce our intellectual property rights could harm our business, results of operations and financial condition.

Our success is dependent in part on protecting our intellectual property rights and technology (such as source code, information, data, processes and other forms of information, knowhow and technology). We rely on a combination of copyrights, trademarks, service marks, trade secret laws and contractual restrictions to establish and protect our intellectual property. However, there are steps that we have not yet taken to protect our intellectual property on a global basis. Additionally, the steps that we have already taken to protect our intellectual property may not be sufficient or effective. Even if we do detect violations, we may need to engage in litigation to enforce our rights.

While we take precautions designed to protect our intellectual property, it may still be possible for competitors and other unauthorized third parties to copy our technology and use our proprietary brand, content and information to create or enhance competing solutions and services, which could adversely affect our competitive position in our rapidly evolving and highly competitive industry. Some license provisions that protect against unauthorized use, copying, transfer and disclosure of our technology may be unenforceable under the laws of certain jurisdictions and foreign countries. We enter into confidentiality and invention assignment agreements with our employees and consultants and enter into confidentiality agreements with our third-party providers and strategic partners. We cannot assure you that these agreements will be effective in controlling access to, and use and distribution of, our platform and proprietary information. Further, these agreements do not prevent our competitors from independently developing technologies that are substantially equivalent or superior to our offerings. Such arrangements may limit our ability to protect, maintain, enforce or commercialize such intellectual property rights, including requiring agreement with or payment to our joint development partners before protecting, maintaining, licensing or initiating enforcement of such intellectual property rights, and may allow such joint development partners to register, maintain, enforce or license such intellectual property rights in a manner that may affect the value of the jointly-owned intellectual property or our ability to compete in the market.

We have filed, and may continue in the future to file, applications to protect certain of our innovations and intellectual property. We do not know whether any of our applications will result in the issuance of a patent, trademark or copyright, as applicable, or whether the examination process will require us to narrow our claims. In addition, we may not receive competitive advantages from the rights granted under our intellectual property. Our existing intellectual property, and any intellectual property granted to us or that we otherwise acquire in the future, may be contested, circumvented or invalidated, and we may not be able to prevent third parties from infringing our rights to our intellectual property. Therefore, the exact effect of the protection of this intellectual property cannot be predicted with certainty. In addition, given the costs, effort, risks and downside of obtaining patent protection, including the requirement to ultimately disclose the invention to the public, we may choose not to seek patent protection for certain innovations. Any failure to adequately obtain such patent protection, or other intellectual property protection, could later prove to adversely impact our business.

We currently hold various domain names relating to our brand, including Lemonade and Lemonade.com. Failure to protect our domain names could adversely affect our reputation and brand and make it more difficult for users to find our website and our online app. We may be unable, without significant cost or at all, to prevent third parties from acquiring domain names that are similar to, infringe upon or otherwise decrease the value of our trademarks and other proprietary rights.

We may be required to spend significant resources in order to monitor and protect our intellectual property rights, and some violations may be difficult or impossible to detect. Litigation to protect and enforce our intellectual property rights could be costly, time-consuming and distracting to management and could result in the impairment or loss of portions of our intellectual property. Our efforts to enforce our intellectual property rights may be met with defenses, counterclaims and countersuits attacking the validity and enforceability of our intellectual property rights. Our inability to protect our proprietary technology against unauthorized copying or use, as well as any costly litigation or diversion of our management's attention and resources, could impair the functionality of our platform, delay introductions of enhancements to our platform, result in our substituting inferior or more costly technologies into our platform or harm our reputation or brand. In addition, we may be required to license additional technology from third parties to develop and market new offerings or platform features, which may not be on commercially reasonable terms or at all and could adversely affect our ability to compete.

If we are unable to prevent the unauthorized use or exploitation of our intellectual property, the value of our brand, content, and other intangible assets may be diminished, competitors may be able to more effectively mimic our service and methods of operations, the perception of our business and service to customers and potential customers may become confused, and our ability to attract customers may be adversely affected. Any inability or failure to protect our intellectual property could adversely impact our business, results of operations and financial condition.

Claims by others that we infringed their proprietary technology or other intellectual property rights could harm our business.

Companies in the internet and technology industries are frequently subject to litigation based on allegations of infringement or other violations of intellectual property rights. In addition, certain companies and rights holders seek to enforce and monetize patents or other intellectual property rights they own, have purchased or otherwise obtained. As we gain an increasingly high public profile, the possibility of intellectual property rights claims against us grows. From time to time, third parties may assert claims of infringement of intellectual property rights against us. Although we believe that we have meritorious defenses, there can be no assurance that we will be successful in defending against these allegations or reaching a business resolution that is satisfactory to us. Our competitors and others may now and in the future have significantly larger and more mature patent portfolios than us. In addition, future litigation may involve patent holding companies or other adverse patent owners who have no relevant product or service revenue and against whom our own patents may therefore provide little or no deterrence or protection. Many potential litigants, including some of our competitors and patent-holding companies, have the ability to dedicate substantial resources to assert their intellectual property rights. Any claim of infringement by a third party, even those without merit, could cause us to incur substantial costs defending against the claim, could distract our management from our business and could require us to cease use of such intellectual property. Furthermore, because of the substantial amount of discovery required in connection with intellectual property litigation, we risk compromising our confidential information during this type of litigation. We may be required to pay substantial damages, royalties or other fees in connection with a claimant securing a judgment against us, we may be subject to an injunction or other restrictions that prevent us from using or distributing our intellectual property, or from operating under our brand, or we may agree to a settlement that prevents us from distributing our offerings or a portion thereof, which could adversely affect our business, results of operations and financial condition.

With respect to any intellectual property rights claim, we may have to seek out a license to continue operations found to violate such rights, which may not be available on favorable or commercially reasonable terms and may significantly increase our operating expenses. Some licenses may be non-exclusive, and therefore our competitors may have access to the same technology licensed to us. If a third party does not offer us a license to its intellectual property on reasonable terms, or at all, we may be required to develop alternative, non-infringing technology, which could require significant time (during which we would be unable to continue to offer our affected offerings), effort and expense and may ultimately not be successful. Any of these events could adversely affect our business, results of operations and financial condition.

We may not be able to utilize a portion of our net operating loss carryforwards ("NOLs") to offset future taxable income for U.S. federal income tax purposes, which could adversely affect our net income and cash flows.

As of December 31, 2023, we had gross accumulated federal NOLs for tax purposes of $269.9 million, which can be offset against our future taxable income. Of these federal NOLs, $21.4 million in losses will begin to expire in 2035 and $248.5 million in losses can be carried forward indefinitely. As of December 31, 2023, the Company has gross accumulated state and local losses for tax purposes of $29.6 million which will begin to expire in 2029.

We may be unable to fully use our NOLs, if at all. Under Section 382 of the Code, if a corporation undergoes an "ownership change" (very generally defined as a greater than 50% change, by value, in the corporation's equity ownership by certain shareholders or groups of shareholders over a rolling three- year period), the corporation's ability to use its pre-ownership change NOLs to offset its post- ownership change income may be limited. We may experience ownership changes in the future as a result of subsequent shifts in our stock ownership, some of which may be outside of our control. If we undergo an ownership change, we may be prevented from fully utilizing our NOLs existing at the time of the ownership change prior to their expiration. Future regulatory changes could also limit our ability to utilize our NOLs. To the extent we are not able to offset future taxable income with our NOLs, our net income and cash flows may be adversely affected.

The enactment of legislation implementing changes in tax legislation or policies in different geographic jurisdictions may impact our business, financial condition and results of operations.

We conduct business globally and file income tax returns in multiple jurisdictions. Our consolidated effective income tax rate could be materially adversely affected by several factors, including: changing tax laws, regulations and treaties, or the interpretation thereof (such as the recent Inflation Reduction Act which, among other changes, introduced a 15% corporate minimum tax on certain United States corporations and a 1% excise tax on certain stock redemptions by United States corporations); tax policy initiatives and reforms in effect or under consideration (such as those related to the OECD/G20 Inclusive Framework on Base Erosion and Profit Sharing or other projects); the practices of tax authorities in jurisdictions in which we operate; and the resolution of issues arising from tax audits or examinations and any related interest or penalties.

We are unable to predict what tax reforms may be proposed or enacted in the future or what effect such changes would have on our business, but such changes, to the extent they are brought into tax legislation, regulations, policies or practices in jurisdictions in which we operate, could increase the estimated tax liability that we have expensed to date and paid or accrued on our consolidated statements of operations and comprehensive loss, and otherwise affect our future results of operations, cash flows in a particular period and overall or effective tax rates in the future in countries where we have operations, reduce post-tax returns to our shareholders and increase the complexity, burden and cost of tax compliance.

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.

Our success depends in significant part on our ability to expand into additional markets in the United States and abroad. As of December 31, 2023, we were licensed to sell renters, homeowners, pet and/or car insurance policies in 50 states of the United States and Washington D.C. We operate in 38 of those states and Washington D.C. covering approximately 92% of the U.S. population. We have targeted coverage across all 50 states, but we cannot guarantee that we will be able to provide nationwide coverage in the near term or at all. Moreover, one or more states could revoke our license to operate, or implement additional regulatory hurdles that could inhibit our ability to obtain or maintain our license in such states.

In addition to growing our domestic business, we have started expanding our presence internationally, particularly in Europe. We currently hold a pan-European license, which enables us to sell in 30 countries across Europe, and commenced operating in Germany in 2019, and in the Netherlands and France in 2020. In October, 2022, the Company began selling contents insurance in the UK on a cross border basis under the UK's Temporary Permission Regime. The Company also registered two UK branches: (i) Lemonade Insurance N.V., UK Branch and its affiliate (ii) Lemonade Agency B.V.. In May and June 2023, respectively, we received a third country branch authorization in the UK for both of these registered branches allowing us to operate on a permanent basis in the UK market. Operating outside of the United States may require significant management attention to oversee operations over a broad geographic area with varying cultural norms and customs, in addition to placing strain on our finance, analytics, compliance, legal, engineering, and operations teams. Moreover, international operations are subject to risks and uncertainties inherent in operating in these regions, including political unrest, such as the current situation with Ukraine and Russia. We may incur significant operating expenses and may not be successful in our international expansion for a variety of reasons, including:

- obtaining any required government approvals, licenses or other authorizations;
- complying with varying laws and regulatory standards, including with respect to the insurance business and insurance distribution, capital and outsourcing requirements, data privacy, tax and local regulatory restrictions;
- recruiting and retaining talented and capable employees in foreign countries;
- competition from local incumbents that better understand the local market, may market and operate more effectively and may enjoy greater local affinity or awareness;
- differing demand dynamics, which may make our product offerings less successful;
- currency exchange restrictions or costs and exchange rate fluctuations;
- operating in jurisdictions that do not protect intellectual property rights to the same extent as the United States; and
- limitations on the repatriation and investment of funds as well as foreign currency exchange restrictions.

Our limited experience in operating our business internationally increases the risk that any potential future expansion efforts that we may undertake may not be successful. If we invest substantial time and resources to expand our operations internationally and are unable to manage these risks effectively, our business, results of operations and financial condition could be adversely affected.

In addition, international expansion may increase our risks in complying with various laws and standards, including with respect to anti-corruption, anti-bribery, anti-money laundering, export controls, and trade and economic sanctions.

Expansion into new markets here and abroad will require additional investments by us in both regulatory approvals and marketing. These incremental costs may include hiring additional personnel, as well as engaging third-party service providers and other research and development costs. If we fail to grow our geographic footprint or geographic growth occurs at a slower rate than expected, our business, results of operations and financial condition could be materially and adversely affected.

Fluctuations in foreign currency exchange rates may adversely affect our financial results.

Since we conduct limited operations in Israel and Europe, portions of our revenues, expenses, assets and liabilities are denominated in New Israeli Shekels, Euros and GBP pounds. Because our consolidated financial statements are presented in U.S. dollars, we must translate non-U.S. dollar denominated revenues, income and expenses, as well as assets and liabilities, into U.S. dollars at exchange rates in effect during or at the end of each reporting period. Therefore, increases or decreases in the value of the U.S. dollar against the other currencies may affect our revenues, income and the value of balance sheet items denominated in foreign currencies.

External events such as Brexit, global pandemics, the ongoing uncertainty regarding actual and potential shifts in U.S. and foreign, trade, economic and other policies, the passage of U.S. taxation reform legislation, and concerns over interest rates (particularly short-term rates) each have caused, and may continue to cause, significant volatility in currency exchange rates, especially among the U.S. dollar, the pound sterling and the euro. If global economic and market conditions, or economic conditions in the United Kingdom, European Union, the United States or other key markets remain uncertain or deteriorate further, the value of the pound sterling and euro and the global credit markets may further weaken.

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 January 8, 2024, we entered into an Amended and Restated Customer Investment Agreement (the “Customer Investment Agreement”), with GC Customer Value Arranger, LLC (a General Catalyst company) ("GC"). Under the Customer Investment Agreement, up to $150 million of financing will be provided from June 28, 2023 through December 31, 2024, and up to $140 million will be provided from December 31, 2024 to December 31, 2025, in each case for the Company’s sales and marketing growth efforts. Under the Customer Investment 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, 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. The Customer Investment 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.

The Company may not realize the anticipated benefits of the mergers with Metromile, which may adversely affect the Company’s business results and negatively affect the value of the Company’s common stock and warrants.

An inability to realize the full extent of the anticipated benefits of the mergers and the other transactions contemplated by the merger agreement, as well as any future delays encountered in the integration process, could have an adverse effect upon the revenues, level of expenses and operating results of the Company, which may adversely affect the value of the Company’s common stock and warrants.

In addition, continued integration may result in additional and unforeseen expenses, and the anticipated benefits of the integration plan may not be realized. Actual growth and any potential cost savings, if achieved, may be lower than what we expect and may take longer to achieve than anticipated. If we are not able to adequately address integration challenges, we may not realize the anticipated benefits of the integration of the two companies.

Lemonade and Metromile operated independently until the completion of the mergers. There can be no assurances that our businesses can be fully integrated successfully. It is possible that the integration process could ultimately result in the loss of key Lemonade or Metromile employees, the loss of customers, the disruption of either company’s or both companies’ ongoing businesses, inconsistencies in standards, controls, procedures and policies, unexpected integration issues, higher than expected integration costs and an overall post-completion integration process that takes longer than originally anticipated. We have faced and expect to continue to face numerous challenges as we continue to integrate the operations of Lemonade and Metromile in order to realize the anticipated benefits of the mergers, including:

- combining the business of Lemonade and Metromile and meeting the capital requirements, in a manner that permits the combined company achieve any cost savings or other synergies, the failure of which would result in the anticipated benefits of the mergers not being realized in the time frame currently anticipated or at all;
- integrating the companies' technologies and technologies licensed from third parties;
- integrating and unifying the offerings and services available to customers;
- identifying and eliminating redundant and underperforming functions and assets;
- maintaining existing agreements with customers, suppliers, distributors and vendors, avoiding delays in entering into new agreements with prospective customers, suppliers, distributors and vendors, and leveraging relationships with such third parties for the benefit of the combined company;
- consolidating the companies information technology infrastructure;

In addition, at times the attention of certain members of Lemonade's management and respective resources have been and may in the future be focused on the integration of the businesses and diverted from day-to-day business operations or other opportunities that may have been beneficial to such company, which may disrupt the business of the Company.

Risks Relating to Our Industry

The insurance business, including the market for renters, homeowners, pet, life and car 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.

Historically, insurers have experienced significant fluctuations in operating results due to competition, frequency and severity of catastrophic events, levels of capacity, adverse litigation trends, regulatory constraints, general economic conditions, and other factors. The supply of insurance is related to prevailing prices, the level of insured losses and the level of capital available to the industry that, in turn, may fluctuate in response to changes in rates of return on investments being earned in the insurance industry. As a result, the insurance business historically has been a cyclical industry characterized by periods of intense price competition due to excessive underwriting capacity as well as periods when shortages of capacity increased premium levels. Demand for insurance depends on numerous factors, including the frequency and severity of catastrophic events, levels of capacity, the introduction of new capital providers and general economic conditions. All of these factors fluctuate and may contribute to price declines generally in the insurance industry.

We cannot predict with certainty whether market conditions will improve, remain constant or deteriorate. Negative market conditions may impair our ability to underwrite insurance at rates we consider appropriate and commensurate relative to the risk assumed. Additionally, negative market conditions could result in a decline in policies sold, an increase in the frequency of claims and premium defaults, and an uptick in the frequency of falsification of claims. If we cannot underwrite insurance at appropriate rates, our ability to transact business will be materially and adversely affected. Any of these factors could lead to an adverse effect on our business, results of operations and financial condition.

We are subject to extensive insurance industry regulations.

As of December 31, 2023, we were licensed to sell renters, homeowners, pet and/or car insurance policies in 50 states of the United States, and operate in 38 of those states, and Washington, D.C. We also hold a pan-European license, which enables us to sell in 30 countries across Europe, and commenced operating in Germany in 2019, and in the Netherlands and in France in 2020. We also began selling contents insurance in the UK on a cross border basis under the UK's Temporary Permission Regime in October 2022. In 2023, we received a third country branch authorization in the UK for us to operate on a permanent basis in the UK market.

In the United States, each state regulator retains the authority to license insurers in their states, and an insurer generally may not operate in a state in which it is not licensed. Accordingly, we are not permitted to sell insurance to residents of the remaining states and territories of the United States, which is likely to put us at a disadvantage among many of our competitors that have been in business much longer than us and are licensed to sell their insurance products in most, if not all, U.S. jurisdictions. We have a reinsurance captive subsidiary, Lemonade Re SPC, domiciled in the Cayman Islands which is subject to inspections by the Cayman Islands Monetary Authority.

We are subject to extensive regulation and supervision in the states in which we transact business by the individual state insurance departments. This regulation is generally designed to protect the interests of customers, and not necessarily the interests of insurers or agents, their shareholders or other investors. Numerous aspects of our insurance business are subject to regulation, including, but not limited to, premium rates, mandatory covered risks, limitations on the ability to renew or elect not to renew business, prohibited exclusions, licensing and appointment of agents, restrictions on the size of risks that may be insured under a single policy, reserves and provisions for unearned premiums, losses and other obligations, deposits of securities for the benefit of customers, investments and capital, policy forms and coverages, advertising and other conduct, including restrictions on the use of credit information and other factors in underwriting, as well as other underwriting and claims practices. To the extent we decide to expand our current product offerings to include other insurance products, this would subject us to additional regulatory requirements and scrutiny in each state in which we elect to offer such products. States have also adopted legislation defining and prohibiting unfair methods of competition and unfair or deceptive acts and practices in the business of insurance. Prohibited practices include, but are not limited to, misrepresentations, false advertising, coercion, disparaging other insurers, unfair claims settlement procedures, and discrimination in the business of insurance. Noncompliance with any of such state statute may subject us to regulatory action by the relevant state insurance regulator, and, in certain states, private litigation. States also regulate various aspects of the contractual relationships between insurers and independent agents.

Such laws, rules and regulations are usually overseen and enforced by the various state insurance departments, as well as through private rights of action and by state attorneys general. Such regulations or enforcement actions are often responsive to current consumer and political sensitivities, such as homeowners insurance rates and coverage forms, or which may arise after a major event. Such rules and regulations may result in rate suppression, limit our ability to manage our exposure to unprofitable or volatile risks, or lead to fines, premium refunds or other adverse consequences. The federal government also may regulate aspects of our businesses, such as the protection of consumer confidential information or the use of consumer insurance (credit) scores to underwrite and assess the risk of customers under the Fair Credit Reporting Act ("FCRA"). Among other things, the FCRA requires insurance companies to have a permissible purpose before obtaining and using a consumer report for underwriting purposes, as well as comply with related notice and recordkeeping requirements. Failure to comply with federal requirements under the FCRA or any other applicable federal laws would subject us to regulatory fines and other sanctions. In addition, given our short operating history to-date and rapid speed of growth, we are particularly vulnerable to regulators identifying errors in the policy forms we use, the rates we charge, and our customer communications. As a result of such noncompliance, regulators could impose fines, rebates or other penalties, including cease-and-desist orders for an individual state, or all states, until the identified noncompliance is rectified.

Our ability to retain state licenses depends on our ability to meet licensing requirements established by the NAIC and adopted by each state, subject to variations across states. If we are unable to satisfy the applicable licensing requirements of any particular state, we could lose our license to do business in such state, which would result in the temporary or permanent cessation of our operations in that state. Alternatively, if we are unable to satisfy applicable state licensing requirements, we may be subject to additional regulatory oversight, have our license suspended, or be subject to seizure of assets. Any such events could adversely affect our business, results of operations or financial condition. See "Regulation — Required Licensing."

In addition, as a condition to writing business in certain states, insurers are required to participate in various pools or risk sharing mechanisms or to accept certain classes of risk, regardless of whether such risks meet their underwriting requirements for voluntary business. Some states also limit or impose restrictions on the ability of an insurer to withdraw from certain classes of business. New York, among other states, imposes significant restrictions on a company's ability to materially reduce its exposures or to withdraw from certain lines of business. The state insurance departments can impose significant charges on an insurer in connection with a market withdrawal or refuse to approve withdrawal plans on the grounds that they could lead to market disruption. Laws and regulations that limit cancellation and non-renewal of policies or that subject withdrawal plans to prior approval requirements may significantly restrict our ability to exit unprofitable markets. Such actions and related regulatory restrictions may limit our ability to reduce our potential exposure to hurricane-related losses.

Our European insurance entities, Lemonade Insurance N.V., Lemonade Agency B.V. and Lemonade B.V., are subject to primary supervision by the Dutch Central Bank (De Nederlandsche Bank, "DNB") as the supervisory authority of its home member state, the Dutch Authority for the Financial Markets (Autoriteit Financiële Markten, "AFM"), and the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht, "BaFin") as the supervisory authority of a host member state. DNB and AFM expect firms to avoid actions that jeopardize compliance with their statutory objectives and applicable rules and regulations and have extensive powers to intervene in the affairs of a regulated firm. When DNB is concerned that an insurer may present a risk, this may lead to negative consequences, including the requirement to maintain a higher level of regulatory capital (via capital "add-ons" under the Solvency II Directive) to match the higher perceived risks and enforcement action where the risks identified breach applicable rules and regulations. In the case of a breach of our license requirements or obligations arising from the applicable rules and regulations, we may be subject to the DNB and the AFM's sanctions, including (public) formal warnings, orders to adopt a certain course of conduct, incremental penalties and administrative fines, revocation of an undertaking license and, in the case of insurers, where the breach relates to material prudential shortcomings, emergency measures (including the appointment of an administrator or the imposition of measures aimed at winding-up the undertaking). Any such events could adversely affect our business, results of operations or financial condition. See "Business - Regulation - European Regulation."

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.

We are subject to the insurance holding company laws of New York, Delaware and California, which require LIC and MIC to register with the NYDFS, the Delaware Department of Insurance ("DE Dept.") and the California Department of Insurance ("CDI"), as applicable, and furnish information concerning the operations of companies within the holding company system that may materially affect the operations, management or financial condition of LIC and MIC. These statutes also provide that all transactions among members of a holding company system must be fair and reasonable and, if material or of specified types, such transactions require prior notice and approval or non-disapproval by the NYDFS, DE Dept. or the CDI. These prior notification and approval requirements may result in business delays and additional business expenses. If we fail to comply with such requirements or fail to comply with other applicable insurance regulations in New York, Delaware or California, we may be subject to fines and penalties imposed by the applicable state insurance departments.

In the past decade, various state insurance regulators have increased their focus on risks within an insurer's holding company system that may pose enterprise risk to the insurer. In 2012, the NAIC adopted significant changes to the insurance holding company act and regulations (the "NAIC Amendments"). The NAIC Amendments, when adopted by the various states, are designed to respond to perceived gaps in the regulation of insurance holding company systems in the United States. One of the major changes is a requirement that an insurance holding company system's ultimate controlling person submit annually to its lead state insurance regulator an "enterprise risk report" that identifies activities, circumstances or events involving one or more affiliates of an insurer that, if not remedied properly, are likely to have a material adverse effect upon the financial condition or liquidity of the insurer or its insurance holding company system as a whole. Other changes include requiring a controlling person to submit prior notice to its domiciliary insurance regulator of a divestiture of control, having detailed minimum requirements for cost sharing and management agreements between an insurer and its affiliates and expanding of the agreements between an insurer and its affiliates to be filed with its domiciliary insurance regulator. The NAIC Amendments must be adopted by the individual state legislatures and insurance regulators in order to be effective. New York State, Delaware and California include a form of the enterprise risk report requirement.

In 2012, the NAIC also adopted the Risk Management and Own Risk and Solvency Assessment Model Act (the "ORSA Model Act"). The ORSA Model Act, when adopted by the various states, will require an insurance holding company system's Chief Risk Officer to submit annually to its lead state insurance regulator an Own Risk and Solvency Assessment Summary Report ("ORSA"). The ORSA is a confidential internal assessment appropriate to the nature, scale and complexity of an insurer, conducted by that insurer of the material and relevant risks identified by the insurer associated with an insurer's current business plan and the sufficiency of capital resources to support those risks. The ORSA Model Act must be adopted by the individual state legislature and insurance regulators in order to be effective. While New York has not formally passed the ORSA requirement, it has implemented a form "F" filing requirement that is the initial response to the ORSA Model Act. We cannot predict the impact, if any, that the NAIC Amendments, compliance with the ORSA Model Act, or any other regulatory requirements may have on our business, financial condition or results of operations. See "Business - Regulation."

The increasing adoption by states of cybersecurity regulations could impose additional compliance burdens on us and expose us to additional liability.

In response to the growing threat of cyber-attacks in the insurance industry, certain jurisdictions, including New York, have begun to consider new cybersecurity measures, including the adoption of cybersecurity regulations. In March 2017, the NYDFS promulgated Cybersecurity Requirements for Financial Services Companies, which requires covered financial institutions, including Lemonade Insurance Company, to establish and maintain a cybersecurity program and implement and maintain cybersecurity policies and procedures with specific requirements. On November 1, 2023, the NYDFS amended the Cybersecurity Requirements for Financial Services Companies to expand such requirements and add new obligations. Additionally, on October 24, 2017, the NAIC adopted its Insurance Data Security Model Law, intended to serve as model legislation for states to enact in order to govern cybersecurity and data protection practices of insurers, insurance agents, and other licensed entities registered under state insurance laws. Alabama, Connecticut, Delaware, Hawaii, Illinois, Indiana, Iowa, Kentucky, Louisiana, Maine, Maryland, Michigan, Minnesota, Mississippi, New Hampshire, North Dakota, Ohio, Pennsylvania, South Carolina, Tennessee, Vermont, Virginia and Wisconsin have adopted versions of the NAIC Insurance Data Security Model Law, each with a different effective date, and other states may adopt versions of the NAIC Insurance Data Security Model Law in the future. Although we take steps to comply with financial industry cybersecurity regulations and believe we are materially compliant with their requirements, our failure to comply with new or existing cybersecurity regulations could result in regulatory actions and other penalties. In addition, efforts to comply with new or existing cybersecurity regulations could impose significant costs on our business, which could materially and adversely affect our business, financial condition or results of operations. See "Business - Regulation of Enterprise Risk, Cybersecurity, and Other Recent Developments".

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.

Our renters, homeowners, pet, life and car insurance business is exposed to the risk of severe weather conditions and other catastrophes. Severe weather events include, but are not limited to, winter storms, rain, hail, and high winds. The incidence and severity of weather conditions are largely unpredictable. Catastrophes can be caused by various events, such as wildfires, tornadoes, tsunamis, hurricanes, tropical storms, earthquakes, windstorms, hailstorms, severe thunderstorms, fires, and other non-natural events such as explosions, riots, terrorism, or war.

The incidence and severity of severe weather conditions and catastrophes are inherently unpredictable and the occurrence of one catastrophe does not render the possibility of another catastrophe greater or lower. The extent of losses from a catastrophe is a function of both the total amount of insured exposure in the area affected by the event and the severity of the event. In particular, severe weather and other catastrophes could significantly increase our costs due to a surge in claims following such events and/or legal and regulatory changes in response to catastrophes that may impair our ability to limit our liability under our policies. Severe weather conditions and catastrophes can cause greater losses for us, which can cause our liquidity and financial condition to deteriorate. Resulting reductions in our capital could materially adversely affect our ability to underwrite new insurance policies. In addition, we may not be able to obtain reinsurance coverage at reasonable rates and in amounts adequate to mitigate the risks associated with severe weather conditions and other catastrophes. While we only work with reinsurers whom we believe have acceptable credit, if our reinsurers are unable to pay for the claims for which they are responsible, we could be exposed to additional liability, which could have a material adverse effect on our business and results of operations.

Climate change may affect the occurrence of certain natural events, such as an increase in the frequency or severity of wind and thunderstorm events, eruptions of volcanoes, and tornado or hailstorm events due to increased convection in the atmosphere; more frequent wildfires in certain geographies; higher incidence of deluge flooding and the potential for an increase in severity of the hurricane events due to higher sea surface temperatures. Additionally, climate change may cause an impact on the demand, price and availability of homeowners and renters insurance and reinsurance coverages, as well as the value of our investment portfolio. Due to significant variability associated with future changing climate conditions, we are unable to predict the impact climate change will have on our business.

In addition, global pandemics, such as COVID-19 have impacted and may further impact the broader economies of affected countries, including negatively impacting economic growth, the proper functioning of financial and capital markets, foreign currency exchange rates, and interest rates. Any pandemic, epidemic or a similar future outbreak of disease or public health concern, could cause an economic slowdown which could result in an increase in fraudulent claims or a decrease in apartment rentals or home sales, an increase in costs associated with claims under our policies, as well as an increase in the number of customers experiencing difficulty paying premiums, any of which could have a material adverse effect on our business and results of operations.

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.

The effects of climate change continue to create an alarming level of concern for the state of the global environment. As a result, the global business community has increased its political and social awareness surrounding the issue, and the United States has entered into international agreements in an attempt to lessen expected increases in global temperatures, such as reentering the Paris Agreement. Further, the U.S. Congress, state legislatures and federal and state regulatory agencies continue to propose and enact initiatives to supplement the global effort to combat climate change. If new legislation or regulation is enacted, we could incur increased costs and capital expenditures to comply with its limitations, which may impact our financial condition and operating performance.

For example, on November 21, 2021, the NYDFS issued Guidance for New York Domestic Insurers on Managing the Financial Risks from Climate Change, pursuant to which domestic insurers are expected to take a strategic approach to managing climate risks. The guidance imposed an initial deadline of August 15, 2022, under which domestic insurers were expected to implement certain board and management governance measures and develop specific plans to implement certain organizational structure changes. NYDFS is expected to issue further guidance on timing regarding more complex expectations, such as those relating to risk appetite, analysis of the impact of climate risks on existing risk factors, reflection of climate risks in the Own Risk and Solvency Assessment (ORSA), scenario analysis, and public disclosure. In addition, the U.S. Federal Reserve recently identified climate change as a systemic risk to the economy. It also reported that a gradual change in investor sentiment regarding climate risk introduces the possibility of abrupt tipping points or significant swings in sentiment, which could create unpredictable follow-on effects in financial markets. If this occurred, we could be negatively impacted by the general economic decline, including by possible negative impacts to our stock price.

Increasing scrutiny, actions and changing expectations from investors, clients, regulators and our employees and other stakeholders 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.

Increased focus, including from governmental organizations, investors, employees, clients and other stakeholders, on ESG matters such as environmental stewardship, climate change, diversity, equity and inclusion, pay equity, racial justice, workplace conduct and cybersecurity and data privacy, may result in increased costs (including but not limited to increased costs related to compliance and stakeholder engagement), impact our reputation, or otherwise affect our business performance. Negative public perception, adverse publicity or negative comments in social media could damage our reputation or harm our relationships with regulators and the communities in which we operate, if we do not, or are not perceived to, adequately address these issues, including if we fail to demonstrate progress towards any current or future our ESG goals. Any harm to our reputation could negatively impact employee engagement and retention and the willingness of customers to do business with us.

ESG matters have been the subject of increased focus by certain regulators, including in the U.S., EU, and the UK. In the event divergent ESG disclosure obligations arise between the U.S., UK and the EU, this may also present an increased compliance risk if we are required to comply with different regulatory standards. Additionally, conflicting ESG policies within jurisdictions, such as between federal and some state policies in the U.S., is leading to a complex and fragmented regulatory environment, which may be difficult to navigate.

It is possible that stakeholders may not be satisfied with our ESG practices or the speed of their adoption. At the same time, certain stakeholders might not be satisfied that we have adopted ESG practices at all. Actual or perceived shortcomings with respect to our ESG practices and reporting could negatively impact our business. We could also incur additional costs and require additional resources to monitor, report, and comply with various ESG practices.

In addition, a variety of organizations have developed ratings to measure the performance of companies on ESG topics, and the results of some of these assessments are widely publicized. Such ratings are used by some investors to inform their investment and voting decisions. In addition, many investors have created their own proprietary ratings that inform their investment and voting decisions. Unfavorable ratings of the Company or our industry, as well as omission of inclusion of our stock into ESG-oriented investment funds may lead to negative investor sentiment and the diversion of investment to other companies or industries, which could have a negative impact on our stock price and our access to and cost of capital.

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.

Our revenue and results of operations could vary significantly from period to period and may fail to match expectations as a result of a variety of factors, some of which are outside of our control. Our results may vary as a result of fluctuations in the number of customers purchasing our insurance products and fluctuations in the timing and amount of our expenses. In addition, the insurance industry, and particularly renters and homeowners insurance, are subject to their own cyclical trends and uncertainties, including extreme weather which is often seasonal and may result in volatility in claims reporting and payment patterns. Fluctuations and variability across the industry may affect our revenue. As a result of the potential variations in our revenue and results of operations, period-to-period comparisons may not be meaningful and the results of any one period should not be relied on as an indication of future performance. In addition, our results of operations may not meet the expectations of investors or public market analysts who follow us, which may adversely affect our stock price.

We have experienced, and expect to continue to experience, seasonal fluctuations in our revenues and resulting fluctuations in our rate of growth as a result of insurance spending patterns. Specifically, our revenues may be proportionately higher in our third fiscal quarter due to the seasonality of when renters and homeowners move into new homes, which historically occurs in the months of July, August and September. Accordingly, the amount of growth we experience may also be greater in the third quarter. In addition, as our business expands and matures, other seasonality trends may develop and the existing seasonality and customer behavior that we experience may change. Volatility in our key operating metrics or their rates of growth could have a negative impact on our financial results and investor perceptions of our business prospects and a failure to achieve our quarterly forecasts or to meet or exceed the expectations of research analysts or investors will cause our stock price to decline.

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.

We use data, technology and intellectual property licensed from unaffiliated third parties in certain of our products, including insurance industry proprietary information that we license from Insurance Services Office, Inc. ("ISO"), and we may license additional third-party technology and intellectual property in the future. Any errors or defects in this third-party technology and intellectual property could result in errors that could harm our brand and business. In addition, licensed technology and intellectual property may not continue to be available on commercially reasonable terms, or at all. Also, should ISO refuse to license its proprietary information to us on the same terms that it offers to our competitors, we could be placed at a significant competitive disadvantage.

Further, although we believe that there are currently adequate replacements for the third-party technology and intellectual property we presently use other than proprietary information provided by ISO, the loss of our right to use any of this technology and intellectual property could result in delays in producing or delivering affected products until equivalent technology or intellectual property is identified, licensed or otherwise procured, and integrated. Our business would be disrupted if any technology and intellectual property we license from others or functional equivalents of this software were either no longer available to us or no longer offered to us on commercially reasonable terms. In either case, we would be required either to attempt to redesign our products to function with technology and intellectual property available from other parties or to develop these components ourselves, which would result in increased costs and could result in delays in product sales and the release of new product offerings. Alternatively, we might be forced to limit the features available in affected products. Any of these results could harm our business, results of operations and financial condition.

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.

Along with others in the insurance industry, models developed internally and by third party vendors are used along with our own historical data in assessing property insurance exposure to catastrophe losses. These models assume various conditions and probability scenarios; however, they do not necessarily accurately predict future losses or measure losses currently incurred. Further, the accuracy of such models may be negatively impacted by changing climate conditions. Catastrophe models use historical information and scientific research about natural events, such as hurricanes and earthquakes, as well as detailed information about our in-force business. This information is used in connection with pricing and risk management activities. However, since actual catastrophic events vary considerably, there are limitations with respect to its usefulness in predicting losses in any reporting period. Other limitations are evident in significant variations in estimates between models, material increases and decreases in results due to model changes and refinements of the underlying data elements and actual conditions that are not yet well understood or may not be properly incorporated into the models.

We are subject to payment processing risk.

We currently rely on third-party vendors to provide payment processing services, including the processing of payments from credit cards and debit cards, and our business would be disrupted if these vendors become unwilling or unable to provide these services to us and we are unable to find a suitable replacement on a timely basis. If we or our processing vendor fail to maintain adequate systems for the authorization and processing of credit card transactions, it could cause one or more of the major credit card companies to disallow our continued use of their payment products. In addition, if these systems fail to work properly and, as a result, we do not charge our customers' credit cards on a timely basis or at all, our business, revenue, results of operations and financial condition could be harmed.

The payment methods that we offer also subject us to potential fraud and theft by criminals, who are becoming increasingly more sophisticated, seeking to obtain unauthorized access to or exploit weaknesses that may exist in the payment systems. If we fail to comply with applicable rules or requirements for the payment methods we accept, or if payment-related data are compromised due to a breach of data, we may be liable for significant costs incurred by payment card issuing banks and other third parties or subject to fines and higher transaction fees, or our ability to accept or facilitate certain types of payments may be impaired. In addition, our customers could lose confidence in certain payment types, which may result in a shift to other payment types or potential changes to our payment systems that may result in higher costs. If we fail to adequately control fraudulent credit card transactions, we may face civil liability, diminished public perception of our security measures, and significantly higher credit card-related costs, each of which could harm our business, results of operations and financial condition.

Our success depends upon the insurance industry continuing to move online at its current pace and the continued growth and acceptance of online products and services as effective alternatives to traditional offline products and services.

We provide renters, homeowners, pet, life and car insurance products through our website and our online app that compete with traditional offline counterparts. We do not generally offer insurance through traditional, offline brokers. We believe that the continued growth and acceptance of online products and services generally will depend, to a large extent, on the continued growth in commercial use of the internet and the continued migration of traditional offline markets and industries online.

Purchasers of insurance may develop the perception that purchasing insurance products online is not as effective as purchasing such products through a broker or other traditional offline methods, and the homeowners and renters insurance markets may not migrate online as quickly as (or at the levels that) we expect. Moreover, if, for any reason, an unfavorable perception develops that data automation, artificial intelligence and/or bots are less efficacious than traditional offline methods of purchasing insurance, underwriting, claims processing, and other functions that use data automation, artificial intelligence and/or bots, our business, results of operations and financial condition could be adversely affected.

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 financial condition and results of operations depends on our ability to accurately assess potential losses and loss adjustment expenses under the terms of the policies we underwrite. Reserves do not represent an exact calculation of liability. Rather, reserves represent an estimate of what the expected ultimate settlement and administration of claims will cost, and the ultimate liability may be greater or less than the current estimate. In our industry, there is always the risk that reserves may prove inadequate as it is possible for us to underestimate the cost of claims and claims administration.

We base our estimates on our assessment of known facts and circumstances, as well as estimates of future trends in claim severity, claim frequency, judicial theories of liability, and other factors. These variables are affected by both internal and external events that could increase our exposure to losses, including changes in actuarial projections, claims handling procedures, inflation, severe weather, climate change, economic and judicial trends and legislative changes. We regularly monitor reserves using new information on reported claims and a variety of statistical techniques to update our current estimate. Our estimates could prove to be inadequate, and this underestimation could have a material adverse effect on our financial condition.

Recorded claim reserves, including case reserves and incurred but not reported ("IBNR") claims reserves, are based on our estimates of losses after considering known facts and interpretations of the circumstances, including settlement agreements. Additionally, models that rely on the assumption that past loss development patterns will persist into the future are used. Internal factors are considered including our experience with similar cases, actual claims paid, historical trends involving claim payment patterns, pending levels of unpaid claims, loss management programs, product mix, contractual terms and changes in claim reporting, and settlement practices. External factors are also considered, such as court decisions, changes in law and litigation imposing unintended coverage. We also consider benefits, such as disallowing the use of benefit payment schedules, requiring coverage designed to cover losses that occur in a single policy period to losses that develop continuously over multiple policy periods or requiring the availability of multiple limits. Regulatory requirements and economic conditions are also considered.

Since reserves are estimates of the unpaid portion of losses that have occurred, including IBNR losses, the establishment of appropriate reserves, including reserves for catastrophes, is an inherently uncertain and complex process that is regularly refined to reflect current estimation processes and practices. The ultimate cost of losses may vary materially from recorded reserves and such variance may adversely affect our results of operations and financial condition as the reserves and reinsurance recoverables are reestimated.

If any of our insurance reserves should prove to be inadequate for the reasons discussed above, or for any other reason, we will be required to increase reserves, resulting in a reduction in our net income and stockholders' equity in the period in which the deficiency is identified. Future loss experience substantially in excess of established reserves could also have a material adverse effect on future earnings and liquidity and financial rating, which would affect our ability to attract new business or to retain existing customers.

Our insurance subsidiaries are subject to minimum capital and surplus requirements, and our failure to meet these requirements could subject us to regulatory action.

Our insurance subsidiaries are subject to risk-based capital standards and other minimum capital and surplus requirements imposed under the laws of the State of New York and Delaware, respectively. The risk-based capital standards, based upon the Risk-Based Capital Model Act adopted by the NAIC, require our insurance subsidiaries to report their results of risk-based capital calculations to the NYDFS, or DE Dept., as applicable and the NAIC. These risk-based capital standards provide for different levels of regulatory attention depending upon the ratio of an insurance company's total adjusted capital, as calculated in accordance with NAIC guidelines, to its authorized control level risk-based capital. Authorized control level risk-based capital is determined using the NAIC's risk-based capital formula, which measures the minimum amount of capital that an insurance company needs to support its overall business operations.

An insurance company with total adjusted capital that is less than 200% of its authorized control level risk-based capital is at a company action level, which would require the insurance company to file a risk-based capital plan that, among other things, contains proposals of corrective actions the Company intends to take that are reasonably expected to result in the elimination of the Company action level event. Additional action level events occur when the insurer's total adjusted capital falls below 150%, 100%, and 70% of its authorized control level risk-based capital. The lower the percentage, the more severe the regulatory response, including, in the event of a mandatory control level event (total adjusted capital falls below 70% of the insurer's authorized control level risk-based capital), placing the insurance company into receivership. As of December 31, 2023, our risk-based capital ratio was 416% for LIC and 476% for MIC.

In addition, our insurance subsidiaries are required to maintain certain minimum capital and surplus and to limit its written premiums to specified multiples of its capital and surplus. The insurance subsidiaries could exceed these ratios if its volume increases faster than anticipated or if its surplus declines due to catastrophe or non-catastrophe losses or excessive underwriting and operational expenses.

Any failure by our insurance subsidiaries to meet the applicable risk-based capital or minimum statutory capital requirements or the writings ratio limitations imposed by the laws of the State of New York or Delaware, as applicable (or other states where currently or may in the future conduct business) could subject them to further examination or corrective action imposed by state regulators, including limitations on our writing of additional business, state supervision, or liquidation.

Any changes in existing risk-based capital requirements, minimum statutory capital requirements, or applicable writings ratios may require us to increase our statutory capital levels, which we may be unable to do. See "Business - Regulation of Our Business — Risk-Based Capital."

We are subject to assessments and other surcharges from state guaranty funds, and mandatory state insurance facilities, which may affect our ability to achieve profitability.

The insurance laws of many states subject property and casualty insurers doing business in those states to statutory property and casualty guaranty fund assessments. The purpose of a guaranty fund is to protect customers by requiring that solvent property and casualty insurers pay the insurance claims of insolvent insurers. These guaranty associations generally pay these claims by assessing solvent insurers proportionately based on each insurer's share of voluntary premiums written in the state. While most guaranty associations provide for recovery of assessments through subsequent rate increases, surcharges or premium tax credits, there is no assurance that insurers will ultimately recover these assessments, which could be material, particularly following a large catastrophe or in markets which become disrupted.

Maximum contributions required by law in any one year vary by state. We cannot predict with certainty the amount of future assessments because they depend on factors outside our control, such as insolvencies of other insurance companies. Significant assessments could have a material adverse effect on our financial condition and results of operations. See "Business - Regulation of Our Business — Insolvency Funds and Associations, Mandatory Pools, and Insurance Facilities."

Our ability to compete in the property and casualty insurance industry and our ability to expand our business is partially dependent on us maintaining our Demotech, Inc. rating, and may be negatively affected by the fact that we do not have a rating from A.M. Best.

Our insurance subsidiary, LIC, currently has a Financial Stability Rating ("FSR") of 'A' Exceptional from Demotech, Inc., a financial analysis firm that provides FSRs as well as consulting services for property and casualty insurance companies and title underwriters. Demotech, Inc. provides financial stability ratings to insurance companies of all sizes. When providing a rating, Demotech, Inc. evaluates total assets, liabilities, revenues and expenses, working capital, administrative expenses, net income, surplus, receivables, amount of business written, industry focus and business model, among others. Below is Demotech, Inc.'s rating scale:

- A" (A Double Prime), Unsurpassed: 100% of insurers with this rating are expected to have a positive surplus at least 18 months from the initial date of rating assignment;
- A' (A Prime), Unsurpassed: 99% of insurers with this rating are expected to have a positive surplus at least 18 months from the initial date of rating assignment;
- A, Exceptional: 97% of insurers with this rating are expected to have a positive surplus at least 18 months from the initial date of rating assignment;
- S, Substantial: 95% of insurers with this rating are expected to have a positive surplus at least 18 months from the initial date of rating assignment;
- M, Moderate: 90% of insurers with this rating are expected to have a positive surplus at least 18 months from the initial date of rating assignment; and
- L, Licensed: These companies have been assessed but have not been given one of the financial strength ratings listed above.

While our Demotech, Inc. rating has proved satisfactory to date, we cannot assure that this rating will remain at its current level and it is possible that some prospective customers may be reluctant to do business with a company that is not rated by A.M. Best. We have never been reviewed by A.M. Best and do not currently intend to seek a rating from A.M. Best. Unlike Demotech, Inc., A.M. Best may penalize companies that are highly leveraged, including those companies that utilize reinsurance to support premium writings. We do not plan to give up revenues or efficiency of size as a means to qualify for an acceptable A.M. Best rating. Not having an A.M. Best rating may prevent us from expanding our business or limit our access to credit from certain financial institutions, which may in turn limit our ability to compete with large, national insurance companies and certain regional insurance companies.

Performance of our investment portfolio is subject to a variety of investment risks that may adversely affect our financial results.

Our results of operations depend, in part, on the performance of our investment portfolio. We seek to hold a diversified portfolio of investments in accordance with our investment policy and routinely reviewed by our Investment Committee. However, our investments are subject to general economic and market risks as well as risks inherent to particular securities.

Our primary market risk exposures are to changes in interest rates and equity prices. See Part II Item 7A. “Quantitative and Qualitative Disclosures about Market Risk.” Although in previous years, interest rates have been at or near historic lows, interest rates began and remained at historically high levels during fiscal 2023. A protracted low interest rate environment could place pressure on our net investment income, particularly as it relates to fixed income securities and short-term investments, which, in turn, may adversely affect our operating results. A protracted high interest rate environment could cause the values of our fixed income securities portfolios to decline, with the magnitude of the decline depending on the duration of securities included in our portfolio and the amount by which interest rates increase. Some fixed income securities have call or prepayment options, which create possible reinvestment risk in declining rate environments. Other fixed income securities, such as mortgage-backed and asset-backed securities, carry prepayment risk or, in a rising interest rate environment, may not prepay as quickly as expected.

The value of our investment portfolio is subject to the risk that certain investments may default or become impaired due to deterioration in the financial condition of one or more issuers of the securities we hold, or due to deterioration in the financial condition of an insurer that guarantees an issuer's payments on such investments. Downgrades in the credit ratings of fixed maturities also have a significant negative effect on the market valuation of such securities.

Such factors could reduce our net investment income and result in realized investment losses. Our investment portfolio is subject to increased valuation uncertainties when investment markets are illiquid. The valuation of investments is more subjective when markets are illiquid, thereby increasing the risk that the estimated fair value (i.e., the carrying amount) of the securities we hold in our portfolio does not reflect prices at which actual transactions would occur.

We may also invest in marketable equity securities. These securities are carried on the balance sheet at fair market value and are subject to potential losses and declines in market value.

Risks for all types of securities are managed through the application of our investment policy, which establishes investment parameters that include, but are not limited to, maximum percentages of investment in certain types of securities and minimum levels of credit quality, which we believe are within applicable guidelines established by the NAIC, the NYDFS and the DE Department.

Although we seek to preserve our capital, we cannot be certain that our investment objectives will be achieved, and results may vary substantially over time. In addition, although we seek to employ investment strategies that are not correlated with our insurance and reinsurance exposures, losses in our investment portfolio may occur at the same time as underwriting losses and, therefore, exacerbate the adverse effect of the losses on us.

Unexpected changes in the interpretation of our coverage or provisions, including loss limitations and exclusions, in our policies could have a material adverse effect on our financial condition and results of operations.

There can be no assurances that specifically negotiated loss limitations or exclusions in our policies will be enforceable in the manner we intend. As industry practices and legal, judicial, social, and other conditions change, unexpected and unintended issues related to claims and coverage may emerge. For example, many of our policies limit the period during which a customer may bring a claim, which may be shorter than the statutory period under which such claims can be brought against our customers. While these limitations and exclusions help us assess and mitigate our loss exposure, it is possible that a court or regulatory authority could nullify or void a limitation or exclusion or legislation could be enacted modifying or barring the use of such limitations or exclusions. These types of governmental actions could result in higher than anticipated loss and loss adjustment expense, which could have a material adverse effect on our financial condition or results of operations. In addition, court decisions, such as the 1995 Montrose decision in California could read policy exclusions narrowly so as to expand coverage, thereby requiring insurers to create and write new exclusions. These issues may adversely affect our business by either broadening coverage beyond our underwriting intent or by increasing the frequency or severity of claims. In some instances, these changes may not become apparent until sometime after we have issued insurance contracts that are affected by the changes. As a result, the full extent of liability under our insurance contracts may not be known for many years after a contract is issued.

Risks Relating to Our Existence as a Public Benefit Corporation

We operate as a Delaware public benefit corporation. As a public benefit corporation, we cannot provide any assurance that we will achieve our public benefit purpose.

As a public benefit corporation, we are required to produce a public benefit or benefits and to operate in a responsible and sustainable manner, balancing our stockholders' pecuniary interests, the best interests of those materially affected by our conduct, and the public benefit or benefits identified by our amended and restated certificate of incorporation (the “Amended Charter”). There is no assurance that we will achieve our public benefit purpose or that the expected positive impact from being a public benefit corporation will be realized, which could have a material adverse effect on our reputation, which in turn may have a material adverse effect on our business, results of operations and financial condition.

As a public benefit corporation, we are required to publicly disclose a report at least biennially on our overall public benefit performance and on our assessment of our success in achieving our specific public benefit purpose. If we are not timely or are unable to provide this report, or if the report is not viewed favorably by parties doing business with us or regulators or others reviewing our credentials, our reputation and status as a public benefit corporation may be harmed.

If we lose our certification as a Certified B Corp or our publicly reported B Corp score declines, or if state or federal regulators restrict, delay or otherwise interfere with our ability to make charitable contributions, our reputation could be harmed and our business could be adversely affected.

Our business model and brand could be harmed if we were to lose our certification as a Certified B Corp or if state or federal regulators impede or otherwise delay or restrict our ability to make charitable contributions. Certified B Corp status is a certification that requires us to consider the impact of our decisions on our workers, customers, suppliers, community and the environment. We believe that Certified B Corp status has allowed us to build credibility and trust among our customers. Whether due to our choice or our failure to meet B Lab's certification requirements, any change in our status could create a perception that we are more focused on financial performance and no longer as committed to the values shared by Certified B Corp. Likewise, our reputation could be harmed if our publicly reported B Corp score declines and there is a perception that we are no longer committed to the Certified B Corp standards. Similarly, our reputation could be harmed if we take actions that are perceived to be misaligned with B Lab's values. See "Business — Certified B Corp Status."

Furthermore, state or federal regulators could restrict, delay, or otherwise interfere with our ability to contribute the residual amount left over after paying claims and reinsurance to nonprofits selected by our customers. This could erode customer trust in our products and services, weaken incentives for good customer behavior, and drive down demand for our products and services.

Any such harm to our reputation could have a material adverse effect on our business, financial position and results of operations.

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.

Unlike traditional corporations, which have a fiduciary duty to focus exclusively on maximizing stockholder value, our directors have a fiduciary duty to consider not only the stockholders' interests, but also the Company's specific public benefit and the interests of other stakeholders affected by our actions. Therefore, we may take actions that we believe will be in the best interests of those stakeholders materially affected by our specific benefit purpose, even if those actions do not maximize our financial results. While we intend for this public benefit designation and obligation to provide an overall net benefit to us and our customers, it could instead cause us to make decisions and take actions without seeking to maximize the income generated from our business, and hence available for distribution to our stockholders. Our pursuit of longer-term or non-pecuniary benefits may not materialize within the timeframe we expect or at all, yet may have an immediate negative effect on any amounts available for distribution to our stockholders. Accordingly, being a public benefit corporation and complying with our related obligations could have a material adverse effect on our business, results of operations and financial condition, which in turn could cause our stock price to decline.

As a public benefit corporation, we are less attractive as a takeover target than a traditional company would be and, therefore, your ability to realize your investment through an acquisition may be limited. Under Delaware law, a public benefit corporation cannot merge or consolidate with another entity if, as a result of such merger or consolidation, the surviving entity's charter "does not contain the identical provisions identifying the public benefit or public benefits," unless the transaction receives approval from two-thirds of the target public benefit corporation's outstanding voting shares. Additionally, public benefit corporations may also not be attractive targets for activists or hedge fund investors because new directors would still have to consider and give appropriate weight to the public benefit along with shareholder value, and shareholders committed to the public benefit can enforce this through derivative suits. Further, by requiring that board of directors of public benefit corporations consider additional constituencies other than maximizing shareholder value, Delaware public benefit corporation law could potentially make it easier for a board to reject a hostile bid, even where the takeover would provide the greatest short-term financial yield to investors.

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.

While directors of traditional corporations are required to make decisions they believe to be in the best interests of their stockholders, directors of a public benefit corporation have a fiduciary duty to consider not only the stockholders' interests, but also the company's specific public benefit and the interests of other stakeholders affected by the company's actions. Under Delaware law, directors are shielded from liability for breach of these obligations if they make informed and disinterested decisions that serve a rational purpose. Thus, unlike traditional corporations which must focus exclusively on stockholder value, our directors are not merely permitted, but obligated, to consider our specific public benefit and the interests of other stakeholders. In the event of a conflict between the interests of our stockholders and the interests of our specific public benefit or our other stakeholders, our directors must only make informed and disinterested decisions that serve a rational purpose; thus, there is no guarantee such a conflict would be resolved in favor of our stockholders, which could have a material adverse effect on our business, results of operations and financial condition, which in turn could cause our stock price to decline.

As a Delaware public benefit corporation, we may be subject to increased derivative litigation concerning our duty to balance stockholder and public benefit interest, the occurrence of which may have an adverse impact on our financial condition and results of operations.

Stockholders of a Delaware public benefit corporation (if they, individually or collectively, own at least two percent of the company's outstanding shares) are entitled to file a derivative lawsuit claiming the directors failed to balance stockholder and public benefit interests. This potential liability does not exist for traditional corporations. Therefore, we may be subject to the possibility of increased derivative litigation, which would require the attention of our management, and, as a result, may adversely impact our management's ability to effectively execute our strategy. Additionally, any such derivative litigation may be costly, which may have an adverse impact on our financial condition and results of operations.

Risks Relating to Ownership of Our Common Stock and Warrants

The market price of our common stock and warrants may be volatile or decline, and you may not be able to resell your shares at or above the price you initially paid for our common stock.

The trading price of our common stock and warrants could be volatile, and you could lose all or part of your investment. The following factors, in addition to other factors described in this "Risk Factors" section and included elsewhere in this document may have a significant impact on the market price of our common stock and warrants:

- the occurrence of severe weather conditions and other catastrophes;
- our operating and financial performance, quarterly or annual earnings relative to similar companies;
- publication of research reports or news stories about us, our competitors or our industry, or positive or negative recommendations or withdrawal of research coverage by securities analysts;
- the public's reaction to our press releases, our other public announcements and our filings with the SEC;
- announcements by us or our competitors of acquisitions, business plans or commercial relationships;
- any major change in our board of directors or senior management, including the departure of either of our Co-Founders;
- additional sales of our common stock and warrants by us, our directors, executive officers, principal shareholders, or our Co-Founders;
- adverse market reaction to any indebtedness we may incur or securities we may issue in the future;
- short sales, hedging and other derivative transactions in our common stock and warrants;
- exposure to capital market risks related to changes in interest rates, realized investment losses, credit spreads, equity prices, foreign exchange rates and performance of insurance- linked investments;
- our creditworthiness, financial condition, performance, and prospects;
- our dividend policy and whether dividends on our common stock and warrants have been, and are likely to be, declared and paid from time to time;
- perceptions of the investment opportunity associated with our common stock relative to other investment alternatives;
- regulatory or legal developments;
- changes in general market, economic, and political conditions;
- conditions or trends in our industry, geographies or customers;
- short selling activities
- changes in accounting standards, policies, guidance, interpretations or principles; and
- threatened or actual litigation or government investigations.

In addition, broad market and industry factors may negatively affect the market price of our common stock and warrants, regardless of our actual operating performance, and factors beyond our control may cause our stock price to decline rapidly and unexpectedly. In addition, in the past, companies that have experienced volatility in the market price of their stock have been subject to securities class action litigation. We may be the target of this type of litigation in the future. Litigation of this type could result in substantial costs and diversion of management's attention and resources, which could have a material adverse effect on our business, financial condition, results of operations or prospects. Any adverse determination in litigation could also subject us to significant liabilities.

Some provisions of our charter documents and Delaware law may have anti-takeover effects that could discourage an acquisition of us by others, even if an acquisition would be beneficial to our stockholders, and may prevent attempts by our stockholders to replace or remove our current management.

Provisions in our Amended Charter and our Amended Bylaws, as well as provisions of the Delaware General Corporation Law (the "DGCL"), could make it more difficult for a third party to acquire us or increase the cost of acquiring us, even if doing so would benefit our stockholders, including transactions in which stockholders might otherwise receive a premium for their shares. These provisions include:

- our board of directors is classified into three classes of directors with staggered three-year terms and directors are only able to be removed from office for cause;
- nothing in our Amended Charter precludes future issuances without stockholder approval of the authorized but unissued shares of our common stock;
- advance notice procedures apply for stockholders to nominate candidates for election as directors or to bring matters before an annual meeting of stockholders;

- our stockholders will only be able to take action at a meeting of stockholders and not by written consent;
- only our chairman of the board of directors, our chief executive officer, our president (in the absence of the chief executive officer), or a majority of the board of directors are authorized to call a special meeting of stockholders;
- no provision in our Amended Charter or Amended Bylaws provides for cumulative voting, which limits the ability of minority stockholders to elect director candidates;
- directors will only be able to be removed for cause;
- certain amendments to our Amended Charter will require the approval of two-thirds of the then outstanding voting power of our capital stock;
- our Amended Bylaws will provide that the affirmative vote of two-thirds of the then-outstanding voting power of our capital stock, voting as a single class, is required for stockholders to amend or adopt any provision of our bylaws;
- our Amended Charter authorizes undesignated preferred stock, the terms of which may be established and shares of which may be issued, without the approval of the holders of our capital stock; and
- certain litigation against us can only be brought in Delaware.

These anti-takeover defenses could discourage, delay or prevent a transaction involving a change in control of our Company. These provisions could also discourage proxy contests and make it more difficult for you and other stockholders to elect directors of your choosing and cause us to take corporate actions other than those you desire.

Applicable insurance laws may make it difficult to effect a change of control.

Under applicable state insurance laws and regulations, no person may acquire control of a domestic insurer until written approval is obtained from the state insurance commissioner following a public hearing on the proposed acquisition. Such approval would be contingent upon the state insurance commissioner's consideration of a number of factors including, among others, the financial strength of the proposed acquiror, the acquiror's plans for the future operations of the domestic insurer and any anti- competitive results that may arise from the consummation of the acquisition of control. Lemonade Insurance Company is domiciled in New York and Metromile Insurance Company is domiciled in Delaware. Per the applicable laws and regulations of New York and Delaware, respectively, generally no person may acquire control of any insurer, whether by purchase of its securities or otherwise, unless it gives prior notice to the insurer and has received prior approval from the superintendent or Commissioner of Financial Services. Under New York and Delaware insurance law, an entity is presumed to have control of an insurance company if it owns, directly or indirectly, 10% or more of the voting stock of that insurance company or its parent company. These requirements may discourage potential acquisition proposals and may delay, deter, or prevent a change of control of Lemonade, Inc., including through transactions that some or all of the stockholders might consider to be desirable.

Our Amended Charter designates the Court of Chancery of the State of Delaware as the exclusive forum for certain litigation that may be initiated by our stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us.

Our Amended Charter provides that the Court of Chancery of the State of Delaware will be the sole and exclusive forum for (i) any derivative action or proceeding brought on our behalf, (ii) any action asserting a claim of breach of a fiduciary duty owed to us or our stockholders by any of our directors, officers, employees or agents, (iii) any action asserting a claim against us arising under the DGCL or (iv) any action asserting a claim against us that is governed by the internal affairs doctrine; provided that, the exclusive forum provision will not apply to suits brought to enforce any liability or duty created by the Securities Act or the Exchange Act, or to any claim for which the federal courts have exclusive jurisdiction. By becoming a stockholder in the Company, you will be deemed to have notice of and have consented to the provisions of our Amended Charter related to choice of forum. The choice of forum provision in our Amended Charter may limit our stockholders' ability to obtain a favorable judicial forum for disputes with us. Additionally, the enforceability of choice of forum provisions in other companies’ governing documents has been challenged in legal proceedings, and it is possible that, in connection with any applicable action brought against us, a court could find the choice of forum provisions contained in our Amended
Charter to be inapplicable or unenforceable in such action. If so, we may incur additional costs associated with resolving such action in other jurisdictions, which could harm our business, results of operations, and financial condition.

We are subject to rules and regulations established from time to time by the SEC and the NYSE and the NYSE American regarding our internal control over financial reporting. Failure to establish and maintain effective internal controls in accordance with Section 404 of the Sarbanes-Oxley Act could have a material adverse effect on our business and stock price.

We are subject to the rules and regulations established from time to time by the SEC,the NYSE and the NYSE American. These rules and regulations require, among other things, that we establish and periodically evaluate procedures with respect to our internal control over financial reporting. Such reporting obligations place a considerable strain on our financial and management systems, processes and controls, as well as our personnel.

In addition, we are required to document and test our internal controls over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act so that our management can certify as to the effectiveness of our control over financial reporting by the time our second annual report is filed with the SEC and thereafter, which will require us to document and make changes to our internal control over financial reporting. Section 404(b) requires our independent registered public accounting firm to issue an annual report that addresses the effectiveness of our internal control over financial reporting.

We expect to continue to incur costs related to implementing an internal audit and compliance function in the upcoming years to further enhance our internal control environment. If we identify material weaknesses in our internal control over financial reporting or if we are unable to comply with the demands placed upon us as a public company, including the requirements of Section 404 of the Sarbanes-Oxley Act, in a timely manner, we may be unable to accurately report our financial results, or report them within the timeframes required by the SEC. We also could become subject to sanctions or investigations by the SEC or other regulatory authorities. In addition, if we are unable to assert that our internal control over financial reporting is effective, or if our independent registered public accounting firm is unable to express an opinion as to the effectiveness of our internal control over financial reporting, when required, investors may lose confidence in the accuracy and completeness of our financial reports, we may face restricted access to the capital markets and our stock price may be adversely affected.

We depend on the ability of our subsidiaries to transfer funds to us to meet our obligations, and our insurance subsidiaries ability to pay dividends to us is restricted by law.

We are a holding company that transacts a majority of our business through operating subsidiaries. Our ability to meet our operating and financing cash needs depends on the surplus and earnings of our subsidiaries, and upon the ability of our insurance subsidiaries to pay dividends to us.

Payments of dividends by our insurance subsidiaries are restricted by state insurance laws, including laws establishing minimum solvency and liquidity thresholds. The limitations are based on income and surplus determined in accordance with statutory accounting principles, not GAAP. In addition, our insurance subsidiaries could be subject to contractual restrictions in the future, including those imposed by indebtedness we may incur in the future. Our insurance subsidiaries may also face competitive pressures in the future to maintain insurance financial stability or strength ratings. These restrictions and other regulatory requirements would affect the ability of our insurance subsidiaries to make dividend payments and we may not receive dividends in the amounts necessary to meet our obligations. See "Business - Regulation of Our Business — Restrictions on Paying Dividends."

We do not currently expect to pay any cash dividends.

We do not currently expect to pay any cash dividends on our common stock for the foreseeable future. Instead, we intend to retain future earnings, if any, for the future operation and expansion of our business. Any determination to pay dividends in the future will be at the discretion of our board of directors and will depend on our results of operations (including our ability to generate cash flow in excess of expenses and our expected or actual net income), liquidity, cash requirements, financial condition, retained earnings and collateral and capital requirements, general business conditions, contractual restrictions, legal, tax and regulatory limitations, the effect of a dividend or dividends upon our financial strength ratings, and other factors that our board of directors deems relevant. See "Dividends."

Because we are a holding company and all of our business is conducted through our subsidiaries, dividends, distributions and other payments from, and cash generated by, our subsidiaries will be our principal sources of cash to fund operations and pay dividends. Accordingly, our ability to pay dividends to our stockholders is dependent on the earnings and distributions of funds from our subsidiaries. Our ability to pay dividends may also be restricted by the terms of any future credit agreement or any of our future debt or preferred equity securities or our subsidiaries. Accordingly, if you purchase shares of our common stock, realization of a gain on your investment will depend on the appreciation of the price of shares of our common stock, which may never occur. Investors seeking cash dividends in the foreseeable future should not purchase our common stock.

There is no guarantee that the warrants may ever be in the money, and they may expire worthless.

The exercise price for Metromile's warrants that were assumed by us in connection with the merger is $281.51 per share. There can be no assurance that the warrants will be in the money prior to their expiration and, as such, they may expire worthless. These warrants are listed on the NYSE American under the symbol "LMND-WS."

The terms of the warrants may be amended in a manner that may be adverse to the holders. The warrant agreement, as amended, between American Stock Transfer & Trust Company, LLC, as warrant agent, and us, as successor thereunder following the consummation of the merger (the "Metromile Warrant Agreement"), provides that the terms of the warrants may be amended without the consent of any holder to cure any ambiguity or correct any defective provision, but requires the approval by the holders of at least 65% of the then outstanding Public Warrants (as defined in the Metromile Warrant Agreement) to make any change that adversely affects the interests of the registered holders. Accordingly, we may amend the terms of the warrants in a manner adverse to a holder if holders of at least 65% of the then outstanding Public Warrants approve of such amendment. Our ability to amend the terms of the warrants with the consent of at least 65% of the then outstanding Public Warrants is unlimited. Examples of such amendments could be amendments to, among other things, increase the exercise price of the warrants, shorten the exercise period or decrease the number of shares of our common stock purchasable upon exercise of a warrant.

We may redeem your unexpired warrants prior to their exercise at a time that is disadvantageous to you, thereby making your warrants worthless.

We have the ability to redeem outstanding warrants (excluding any Placement Warrants (as defined the Metromile Warrant Agreement) held by the initial holders or their permitted transferees) at any time after they become exercisable and prior to their expiration, at $0.01 per warrant, provided that the last reported sales price (or the closing bid price of our common stock in the event the shares of our common stock are not traded on any specific trading day) of our common stock equals or exceeds $342.01 per share (as adjusted for stock splits, stock dividends, reorganizations and the like) on each of 20 trading days within the 30 trading-day period ending on the third business day prior to the date on which we send proper notice of such redemption, provided that on the date we give notice of redemption and during the entire period thereafter until the time we redeems the warrants, we have an effective registration statement under the Securities Act covering the shares of common stock issuable upon exercise of the warrants and a current prospectus relating to them is available. If and when the warrants become redeemable by us, we may exercise its redemption right even if we are unable to register or qualify the underlying securities for sale under all applicable state securities laws. Redemption of the outstanding warrants could force a warrant holder: (i) to exercise its warrants and pay the exercise price therefore at a time when it may be disadvantageous for it to do so, (ii) to sell its warrants at the then-current market price when it might otherwise wish to hold its warrants or (iii) to accept the nominal redemption price which, at the time the outstanding warrants are called for redemption, will be substantially less than the market value of its warrants

If we are unable to make acquisitions and investments, or successfully integrate them into our business, our business, results of operations and financial condition could be adversely affected.

As part of our business strategy, we will continue to consider a wide array of potential strategic transactions, including acquisitions of businesses, new technologies, services and other assets and strategic investments that complement our business. We may evaluate target companies and make acquisitions in the future. There is no assurance that such acquired businesses will be successfully integrated into our business or generate substantial revenue.

Acquisitions such as the acquisition of Metromile, involve numerous risks, any of which could harm our business and negatively affect our financial condition and results of operations, including:

- intense competition for suitable acquisition targets, which could increase prices and adversely affect our ability to consummate deals on favorable or acceptable terms;
- failure or material delay in closing a transaction, including as a result of regulatory review and approvals;
- inadequacy of reserves for losses and loss expenses;
- quality of their data and underwriting processes;
- conditions imposed by regulatory agencies that make the realization of cost-savings through integration of operations more difficult;
- difficulties in obtaining regulatory approvals on our ability to be an acquirer;
- a need for additional capital that was not anticipated at the time of the acquisition;
- transaction-related lawsuits or claims;
- difficulties in integrating the technologies, operations, existing contracts and personnel of an acquired company;
- difficulties in retaining key employees or business partners of an acquired company;
- diversion of financial and management resources from existing operations or alternative acquisition opportunities;
- failure to realize the anticipated benefits or synergies of a transaction;
- failure to identify the problems, liabilities or other shortcomings or challenges of an acquired company or technology, including issues related to intellectual property, regulatory compliance practices, litigation, accounting practices, or employee or user issues;
- risks that regulatory bodies may enact new laws or promulgate new regulations that are adverse to an acquired company or business;
- theft of our trade secrets or confidential information that we share with potential acquisition candidates;
- risk that an acquired company or investment in new offerings cannibalizes a portion of our existing business; and
- adverse market reaction to an acquisition.

If we fail to address the foregoing risks or other problems encountered in connection with past or future acquisitions of businesses, new technologies, services and other assets and strategic investments, or if we fail to successfully integrate such acquisitions or investments, our business, results of operations and financial condition could be adversely affected.

Concentrated ownership of our common stock could limit your ability to influence the outcome of important transactions, including a change in control. This concentration may create a risk of sudden changes in our common stock price.

As of December 31, 2023, entities affiliated with SoftBank Group Corp. beneficially own, in the aggregate, approximately 17.1% of our outstanding common stock, corresponding to 9.9% of the total voting rights in our Company under our Amended Charter. 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, and might ultimately affect the market price of our common stock. Further, the sale by a major shareholder of a significant portion of their holdings (particularly entities affiliated with SoftBank Group Corp.) could have a material adverse effect on the market price of our common stock. In November 2023, we filed a registration statement on Form S-3 registering all of the shares of our common stock then held by entities affiliated with SoftBank Group Corp.

An active, liquid trading market for our common stock may not be sustained, which may cause our common stock to trade at a discount from the public offering price and make it difficult for you to sell the common stock you purchase.

We cannot predict the extent to which investor interest in us will sustain a trading market on the NYSE and NYSE American or how active and liquid that market may remain. If an active and liquid trading market is not sustained, you may have difficulty selling any of our common stock that you purchase at a price above the price you purchase it or at all. The failure of an active and liquid trading market to continue would likely have a material adverse effect on the value of our common stock. The market price of our common stock may decline below the public offering price, and you may not be able to sell your shares of our common stock at or above the price you paid or at all. An inactive market may also impair our ability to raise capital to continue to fund operations by selling shares and may impair our ability to acquire other companies or technologies by using our shares as consideration.

If securities or industry analysts cease publishing research or reports about us, our business or our markets, or if they adversely change their recommendations or publish negative reports regarding our business or our stock, our stock price and trading volume could materially decline.

The trading market for our common stock will be influenced by the research and reports that industry or securities analysts may publish about us, our business, our markets, or our competitors. We cannot provide any assurance that analysts will continue to cover us or provide favorable coverage. If any of the analysts who may cover us adversely change their recommendation regarding our stock, or provide more favorable relative recommendations about our competitors, our stock price could materially decline. If any analyst who may cover us were to cease coverage of the Company or fail to regularly publish reports on us, we could lose visibility in the financial markets, which in turn could cause our stock price or trading volume to materially decline.

Item 1B. Unresolved Staff Comments

None.

Item 1C. Cybersecurity

Cybersecurity Risk Management and Strategy

We have developed and implemented a cybersecurity risk management program intended to protect the confidentiality, integrity, and availability of our critical systems and information. Our cybersecurity risk management program includes a cybersecurity incident response plan, employee training, testing and assessments and a third party risk management process.

Our program is informed by best practice approaches relevant to the technologies we use, the environments in which our services are designed and deployed, our business needs, and relevant regulatory requirements. This does not imply that we meet any particular technical standards, specifications, or requirements, only that we use the various standards and frameworks as guides to help us identify, assess, and manage cybersecurity risks relevant to our business.

Our cybersecurity risk management program is integrated into our overall enterprise risk management program, and shares common approaches, reporting channels, and governance processes that apply the enterprise risk management program to other legal, compliance, strategic, operational, and financial risk areas.

Our cybersecurity risk management program includes:

- Risk assessments designed to help identify material cybersecurity risks to our critical systems, information, products, services, and our broader enterprise IT environment;
- A security team principally responsible for managing (1) our cybersecurity risk assessment processes, (2) our security controls, and (3) our response to cybersecurity incidents;
- The use of external service providers, where appropriate, to assess, test or otherwise assist with aspects of our security controls;
- Security tools deployed in the IT environment for protection against and monitoring of suspicious events;
- Security awareness training of our employees, incident response personnel, and senior management;
- A cybersecurity incident response plan that includes procedures for responding to cybersecurity incidents; and
- A third-party risk management process for service providers, suppliers, and vendors who access our data and/or systems.

We have not identified known cybersecurity threats to date that could have materially affected or are reasonably likely to materially affect us, including our operations, business strategy, results of operations, or financial condition. We face certain ongoing risks from cybersecurity threats such as loss or theft of data, disruptive attacks from financially motivated bad actors, and third party supply chain issues that, if realized, are reasonably likely to materially affect us, including our operations, business strategy, results of operations, or financial condition. See “Risk Factors – Risks Relating to Our Business.”

Cybersecurity Governance

Our Board considers cybersecurity risk as a critical part of its risk oversight function and has delegated to the Audit Committee oversight of cybersecurity and other information technology risks. The Audit Committee oversees management’s implementation of our cybersecurity risk management.

The Audit Committee periodically receives reports on our cybersecurity risks from our Chief Information Security Officer (“CISO”) or his designee at least twice annually. In addition, management updates the Audit Committee, as necessary, regarding any material cybersecurity incidents or incidents with lesser impact potential.

The Audit Committee regularly reports its activities, including those related to cybersecurity, to the full Board. The full Board also receives briefings from management on our cyber risk management. As part of the Board's continuing education on topics that impact public companies, Board members receive presentations on cybersecurity topics from our CISO or his designee.

The management team delegates responsibility for assessing and managing our cybersecurity risks to the CISO. The CISO has primary responsibility for our overall cybersecurity risk management and supervises both our internal cybersecurity personnel and any external cybersecurity consultants. The CISO has over two decades of security work that includes work for large global enterprises, managing global security teams, and establishing and running security programs for both conventional and high-tech companies, including publicly traded and regulated companies. The CISO reports to an internal security team periodically regarding current security posture, risk, and trending security incidents and threats relevant to the Company. The security team comprises key management personnel, department heads, and business unit leaders.

Our CISO supervises efforts to prevent, detect, mitigate, and remediate cybersecurity risks and incidents through various means, which includes managing a security team and security tools, and as appropriate may include briefings from internal security personnel threat intelligence and other information obtained from governmental, public or private sources, including external consultants engaged by us; and alerts and reports produced by security tools deployed in the IT environment.

Item 2. Properties

The Company does not own any real property. Our principal office is located at 5 Crosby Street, 3rd Floor, New York, New York 10013 where we lease approximately 43,985 square feet of office space under a lease agreement that terminates in November 2025. This office space is used for corporate functions and business operations.

The Company leases additional office space in Arizona, California, Tel Aviv, Amsterdam, and London, to support our operations in the U.S., Europe and the UK. “See Note 22 - Leases”. We believe that our facilities are sufficient to meet our current needs and that suitable additional space will be available as and when needed.

Item 3. Legal Proceedings

The Company is occasionally a party to routine claims or litigation incidental to its business. See “Note 21 - Commitments and Contingencies” in our consolidated financial statements included elsewhere in this Annual Report. The Company does not believe that it is a party to any pending legal proceeding that is likely to have a material adverse effect on its business, financial condition or results of operations.

Item 4. Mine Safety Disclosures

Not applicable.

INFORMATION ABOUT OUR EXECUTIVE OFFICERS AND DIRECTORS

The following table sets forth information regarding our executive officers and directors as of the date of this Annual Report.

Name	Age	Position
Executive Officers		
Daniel Schreiber	52	Co-Founder, Chief Executive Officer, Chairman and Director
Shai Wininger	50	Co-Founder, President and Director
Adina Eckstein	39	Chief Operating Officer
Tim Bixby	59	Chief Financial Officer
John Peters	52	Chief Insurance Officer
Maya Prosor	39	Chief Business Officer
Directors		
Michael Eisenberg (2)(3)	52	Director
Dr. Samer Haj-Yehia (1)(2)	54	Director
Mwashuma Nyatta (1)(2)	43	Director
Debra Schwartz (1)(3)	45	Director

(1) Member of the Audit Committee
(2) Member of the Compensation Committee
(3) Member of the Nominating and Corporate Governance Committee

The following is a brief biography of each of our executive officers and directors:

Daniel Schreiber has served as our Co-Founder, Chief Executive Officer, and Chairman of our board of directors since our founding in June 2015. Prior to co-founding Lemonade in 2015, Mr. Schreiber served as President and a member of the board of directors of Powermat Technologies Ltd., a wireless charging solutions and technology company, from 2011 to 2015. From 2003 to 2011, he served as Senior Vice President of Marketing and Vice President of Marketing and Business Development at SanDisk and M-Systems (which was acquired by SanDisk in 2006), respectively. In 1997, Mr. Schreiber co-founded and acted as the Chief Executive Officer of Alchemedia Inc., an internet security software company acquired by Finjan Software in 2002. Prior to that, Mr. Schreiber practiced corporate commercial law at Herzog, Fox & Neeman, and was a member of the Israeli Bar Association. He holds a Bachelor of Laws with First Class Honors from King's College London.

Shai Wininger has served in various roles, including as our Co-Founder, Co-Chief Executive Officer, Secretary, Treasurer, and Chief Technology Officer, since our founding in June 2015. Mr. Wininger has served as our President since January 1, 2024, and is a member of our board of directors since June 2015. Prior to co-founding Lemonade in 2015, Mr. Wininger founded Fiverr Ltd. in 2009, and as the Chief Technology Officer, managed the engineering, design, and product departments. Prior to 2010, Mr. Wininger served in senior management capacities for companies including: from 2005 to 2010, Mobideo Aerospace, an industrial grade analytics and control platform; from 2003 to 2005, Handsmart Software, a mobile licensing platform for content driven, mobile apps; and from 1999 to 2003, Trimus Inc., a virtual reality web browser. Mr. Wininger also served as a resident faculty member of Computer Graphics at The Neri Bloomfield Academy of Design and Education from 2002 to 2007 in Haifa, Israel.

Adina Eckstein has served as the Company's Chief Operating Officer since July 2021. Prior to becoming our Chief Operating Officer, Ms. Eckstein served as our Vice President of Operations since November 2020. Prior to joining the Company in 2019, Ms. Eckstein served as Chief Operating Officer of HSBC, where she helped one of the world's largest financial institutions with the digitization of its business. Prior to that, from 2014 to 2016, Ms. Eckstein served as Vice President of Programme and Portfolio at BBC Worldwide, where she led the development and operations of all consumer digital technology. She holds a Bachelor of Arts in Economics in Hebrew University and a Master of Business Administration from Tel Aviv University.

Tim Bixby has served as our Chief Financial Officer since June 2017. Since February 2021, he has also served as a director and as chair of the audit committee of the board of directors of Rent the Runway, a leading e-commerce fashion rental and resale business. Prior to joining Lemonade, Mr. Bixby served as Chief Financial Officer of Shutterstock, Inc., a digital content licensing marketplace, from 2011 to 2015. From 1999 to 2011 he served as the Chief Financial Officer, President, and a member of the board of directors of LivePerson, Inc., a provider of cloud mobile and online business messaging solutions. He holds a Bachelor of Arts in Mathematics from Dartmouth College and a Master of Business Administration from Harvard Business School.

John Peters has served as our Chief Insurance Officer since September 2016. Prior to joining Lemonade, he served as the Executive Vice President of Commercial Insurance Operations and the Chief Underwriting and Product Officer, Regional Companies Group for Liberty Mutual Insurance from 2011 to 2016. Mr. Peters also spent ten years with McKinsey & Company's global property-casualty insurance practice, serving in various roles including partner. He holds a Bachelor of Arts in Mathematics and German from Bowdoin College and is a former fellow of the Casualty Actuarial Society.

Maya Prosor is a founding team member of Lemonade and has served as our Chief Business Officer since July 2022. Prior to becoming our Chief Business Officer, Ms. Prosor served in different roles at Lemonade, including Homeowners company lead from July 2020 to July 2022, and VP business development from August 2015 to July 2020. Prior to joining Lemonade in 2015, Ms. Prosor was the AVP of market development for the joint venture of Duracell and Powermat Technologies Ltd. a wireless charging solutions and technology company, from 2010 to 2015. She holds a Bachelor's Art from the Reichman University in Business Administration and Entrepreneurship and is a graduate of the Zell Entrepreneurship Program.

Michael Eisenberg has served as a member of our board of directors since July 2015. Mr. Eisenberg is a Partner at Aleph, an early stage venture capital fund that invests in Israeli entrepreneurs, which he joined in July 2013. In addition to his role on our board of directors, Mr. Eisenberg serves as a member of the board of several private companies. He holds a Bachelor of Arts in Political Science from Yeshiva University.

Dr. Samer Haj-Yehia has served as a member of our board of directors since November 2023. Dr. Haj-Yehia brings extensive executive and board experience at various conglomerates across multiple industries in Israel and the US. Until October 2023, he was the Group Executive Chairman of Bank Leumi, Israel's largest and oldest bank. Under his leadership since 2019, Leumi became the largest and most efficient bank in Israel, grew its income and profitability, and underwent technological transformation and innovation. While in the US, Dr. Haj-Yehia practiced investment management, trading, and fintech innovation at leading financial institutions, including at Fidelity. He also served as a member of public and government committees, teaches finance and fintech at Reichman University, and is a guest speaker at international conferences. Dr. Haj-Yehia holds a Ph.D. in economics from MIT, and an MBA (summa cum laude), LLB, MA (magna cum laude) in economics, and BA (magna cum laude) in accounting, all from Hebrew University. He is a CFA charterholder.

Mwashuma (Shu) Nyatta has served as a member of our board of directors since November 2018. Mr. Nyatta is also an independent board member for a number of private companies. In May 2022, Mr. Nyatta founded Bicycle Capital, a growth equity investment firm, and serves as its founder and managing partner. Prior to Bicycle, he was a Managing Partner at SoftBank, which he joined in 2015. At SoftBank, he invested in and sat on the boards of multiple high-growth companies across varied industries and geographies. Prior to SoftBank, Mr. Nyatta served as a Vice President at J.P. Morgan from 2011 to 2015. Mr. Nyatta has passed the Series 63 Uniform Securities Agent State Law Exam and the Series 79 Investment Banking Representative Exam, both administered by FINRA. He holds a Bachelor of Arts in Economics from Harvard College, as well as a Master of Science in Anthropology with Distinction from Oxford University, where he was a Rhodes Scholar.

Debra Schwartz has served as a member of our board of directors since November 2023. Ms. Schwartz is a seasoned financial leader skilled at enabling companies to innovate, grow and scale. She is currently the Chief Financial Officer of H1, a leading healthcare data technology company whose mission is to connect the world to the right doctors. She previously served as CFO at Cameo, the celebrity video shoutout pioneer, and at Bustle Digital Group, the digital media provider. Ms. Schwartz spent more than a decade as an equity analyst with Goldman Sachs and Credit Suisse, and holds an MBA from Harvard University, and a BA/BS from the University of Pennsylvania.

PART II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

The Company’s common stock is listed and traded on the New York Stock Exchange under the trading symbol “LMND”. The Company’s warrants to purchase common stock are listed and traded on the New York Stock Exchange American under the trading symbol “LMND-WS”.

Holders

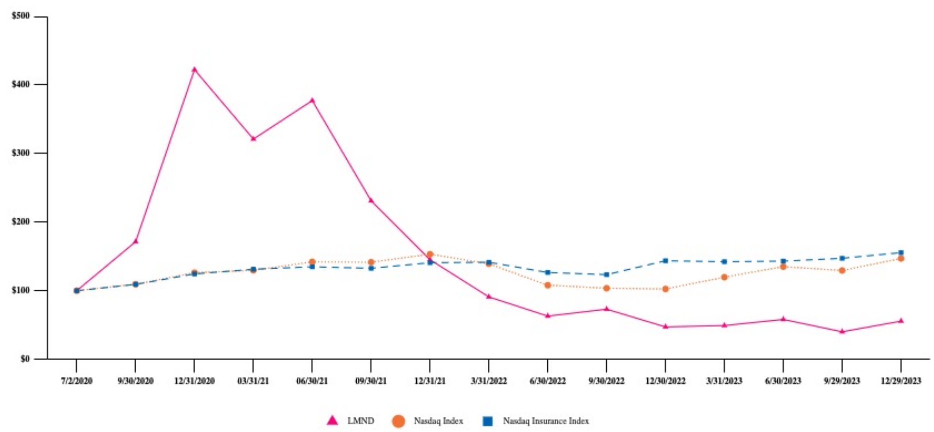
As of February 27, 2024, there were approximately 160 holders of record of the Company’s common stock and 3 holders of record of the Company’s warrants to purchase common stock.

Dividends

We have never declared or paid any cash dividends on our capital stock. We currently intend to retain any future earnings and do not expect to pay any dividends in the foreseeable future. Any future determination to declare cash dividends will be made at the discretion of our board of directors, subject to applicable laws, and will depend on a number of factors, including our financial condition, results of operations, capital requirements, contractual restrictions, general business conditions, and other factors that our board of directors may deem relevant.

Performance Graph

The following performance graph compares the cumulative total shareholder return of an investment in our common shares since July 2, 2020 (first day of trading) through December 31, 2023 to the cumulative total return of Nasdaq Composite Stock Index (“Nasdaq Index’) and the Nasdaq Insurance Index (“Nasdaq Insurance Index”). The graph assumes that $100 was invested on July 2, 2020 and the reinvestment of dividends, if any. The share price performance presented below is not necessarily indicative of future results.



	July 2, 2020	December 31, 2020	December 31, 2021	December 31, 2022	December 31, 2023
Lemonade, Inc.	$100.00	$422.41	$145.21	$47.17	$55.62
Nasdaq Composite Index	$100.00	$123.78	$153.27	$102.54	$147.06
Nasdaq Insurance Index	$100.00	$123.27	$140.90	$143.68	$155.54

The foregoing performance graph and data shall not be deemed "filed" as part of this Form 10-K for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities of that section and should not be deemed incorporated by reference into any other filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, except to the extent the Company specifically incorporates it by reference into such filing.

Recent Sales of Unregistered Securities

There have been no recent sales of unregistered securities.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

None.

Item 6. [Reserved]

Item 7. 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, the accompanying notes and other information included elsewhere in this Annual Report. This discussion and analysis below includes forward-looking statements that are subject to risks, uncertainties and other factors described in the “Risk Factors” section 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. A discussion of the year ended December 31, 2022 compared to the year ended December 31, 2021 has been reported previously under “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our Annual Report on Form 10-K for the year ended December 31, 2022 filed with the SEC on March 3, 2023 (the “2022 Annual Report’”).

In this Annual Report, unless we indicate otherwise or the context requires, "Lemonade, Inc.," "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, Inc.

Overview

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 and 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 two seconds. This breezy experience belies the extraordinary technology that enables it: a state-of-the-art platform that spans marketing to underwriting, customer care to claims processing, finance to regulation. Our architecture melds artificial intelligence with the human kind, and learns from the prodigious data it generates to become even better at delighting customers and evaluating risks.

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. See “Business - Our Business Model” and “Business - Our Product Offerings - Giveback Feature.”

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 December 31, 2023.

Customer Investment Agreement

On June 28, 2023, we 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 our sales and marketing growth efforts. The Agreement has a commitment period of 18 months which expires on December 31, 2024 (“Original Commitment End Date”). 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 our 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.

On January 8, 2024, we entered into an Amended and Restated Customer Investment Agreement (“Amended Agreement”) where GC will provide up to an additional $140 million of financing for our sales and marketing growth efforts beginning from the Original Commitment End Date through December 31, 2025. All other material terms and condition from the Agreement remain unchanged. The Amended Agreement contains standard customary representations, warranties and covenants by the parties, and will continue in effect unless terminated by any party pursuant to its terms.

We had $14.9 million of outstanding borrowings under the financing agreement and incurred interest expense of $0.4 million as of and for the year ended December 31, 2023.

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. For additional information, 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."

Current Macroeconomic Environment

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 “Risk Factors - Risks Relating to our Business - 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.”

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." 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 maintain 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 pay 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 $2,250,000, subject to certain limitations. Under the Automatic Facultative PPR Contract, claims in excess of $3,000,000 are 100% ceded with a potential recovery of at least $10,000,000, subject to certain limitations.

We also purchased an Excess of Loss ("XOL") Reinsurance Contract through a captive in Bermuda to cover catastrophe risk over the initial $50,000,000 limit for each loss occurrence, which is further subject to a limit of $80,000,000 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 June 30, 2024. We are 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 car 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 in reinsurance limits, retention levels and co-participation. Our ceded written premium can also be impacted significantly in certain periods due to changes in reinsurance agreements. In periods where we start or stop ceding a large volume of our premium, ceded written premium may increase or decrease significantly compared to prior periods and these fluctuations may not be indicative of future trends.

Gross Earned Premium

Gross earned premium represents the earned portion of our gross written premium. 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 car insurance policies which are 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 car insurance policies are 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 sale of investments and sublease income.

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

Sales and Marketing

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

We plan to continue to invest in sales and marketing to attract and acquire new customers and increase our brand awareness. We expect that, 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 to continue to incur 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, interest expense on borrowings under the 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 NYSE and NYSE American, 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 U.S..

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 U.S. generally accepted accounting principles (“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. GAAP.

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

	Year Ended December 31,	
	2023	2022
	($ in millions, except Premium per customer)	
Customers (end of period)	2,026,918	1,807,548
In force premium (end of period)	$ 747.3	$ 625.1
Premium per customer (end of period)	$ 369	$ 346
Annual dollar retention (end of period) (1)	87 %	86 %
Total revenue	$ 429.8	$ 256.7
Gross earned premium	$ 672.3	$ 490.5
Gross profit	$ 84.1	$ 42.3
Adjusted gross profit	$ 97.4	$ 64.9
Net loss	$ (236.9)	$ (297.8)
Adjusted EBITDA	$ (172.6)	$ (225.1)
Gross profit margin	20 %	16 %
Adjusted gross profit margin	23 %	25 %
Ratio of Adjusted Gross Profit to Gross Earned Premium	14 %	13 %
Gross loss ratio	85 %	90 %
Net loss ratio	89 %	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 for periods 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 the 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

The following table presents our results of operations for the periods indicated:

	Years Ended December 31, 2023	Years Ended December 31, 2022	Change	% Change
	($ in millions)			
Revenue				
Net earned premium	$ 315.2	$ 172.4	$ 142.8	83 %
Ceding commission income	69.8	64.1	5.7	9 %
Net investment income	24.7	8.4	16.3	194 %
Commission and other income	20.1	11.8	8.3	70 %
Total revenue	429.8	256.7	173.1	67 %
Expense				
Loss and loss adjustment expense, net	280.4	167.3	113.1	68 %
Other insurance expense	59.2	44.0	15.2	35 %
Sales and marketing	101.9	138.3	(36.4)	(26)%
Technology development	88.8	79.6	9.2	12 %
General and administrative	129.3	122.3	7.0	6 %
Total expense	659.6	551.5	108.1	20 %
Loss before income taxes	(229.8)	(294.8)	65.0	(22)%
Income tax expense	7.1	3.0	4.1	137 %
Net loss	$ (236.9)	$ (297.8)	$ 60.9	(20)%

Comparison of the Years Ended December 31, 2023 and 2022

Net Earned Premium

Net earned premium increased by $142.8 million, or 83%, to $315.2 million for the year ended December 31, 2023 compared to the year ended December 31, 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 in detail above under “Reinsurance.”

	Years Ended December 31, 2023	Years Ended December 31, 2022	Change	% Change
	($ in millions)			
Gross written premium	$ 738.4	$ 555.7	$ 182.7	33 %
Ceded written premium	(389.1)	(333.1)	(56.0)	17 %
Net written premium	$ 349.3	$ 222.6	$ 126.7	57 %

Gross written premium increased $182.7 million, or 33%, to $738.4 million for the year ended December 31, 2023 compared to the year ended December 31, 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 7% increase in premiums 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 $56.0 million, or 17%, to $389.1 million for the year ended December 31, 2023 compared to the year ended December 31, 2022, primarily due to growth in business across all products and the impact of our reinsurance arrangements. 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, we decreased the overall share of proportional reinsurance from 70% of premiums to 55% effective July 1, 2022. We also purchased a new 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 expired contracts. See "Reinsurance" above for further information.

Net written premium increased $126.7 million, or 57%, to $349.3 million for the year ended December 31, 2023 compared to the year ended December 31, 2022. The increase was primarily due to the $182.7 million, or 33% increase in gross written premium offset by the increase in ceded written premium of $56.0 million, or 17% for the year ended December 31, 2023, as compared to year ended December 31, 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 year ended December 31, 2023, as compared to 65% for the year ended December 31, 2022 primarily due to the change in total participation under the proportional reinsurance contracts, as discussed above.

	Years Ended December 31,			
	2023	2022	Change	% Change
	($ in millions)			
Gross earned premium	$ 672.3	$ 490.5	$ 181.8	37 %
Ceded earned premium	(357.1)	(318.1)	(39.0)	12 %
Net earned premium	$ 315.2	$ 172.4	$ 142.8	83 %

Ceding Commission Income

Ceding commission income increased $5.7 million, or 9% to $69.8 million for the year ended December 31, 2023 compared to the year ended December 31, 2022, consistent with the increase in ceded earned premium related to the proportional reinsurance contracts with third-party reinsurance companies during the year.

Net Investment Income

Net investment income increased $16.3 million, or 194%, to $24.7 million for the year ended December 31, 2023 compared to the year ended December 31, 2022. The increase was primarily driven by the diversification of the Company’s investment portfolio with higher returns in comparison to prior year, 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 $8.3 million, or 70% to $20.1 million for the year ended December 31, 2023 compared to year ended December 31, 2022, due to growth in premiums placed with third-party insurance companies and an increase in installment fees.

Loss and Loss Adjustment Expense, Net

Loss and LAE, net increased $113.1 million, or 68%, to $280.4 million for the year ended December 31, 2023 compared to the year ended December 31, 2022. The increase was primarily in line with growth in premium, increase in net retained losses due to change in participation under the proportional reinsurance contract and increased claims costs due to impact of inflation. Net incurred losses included $10.4 million from winter storm Elliott and $4.2 million from the hail storm that impacted our customers in Texas.

Other Insurance Expense

Other insurance expense increased $15.2 million, or 35%, to $59.2 million for the year ended December 31, 2023 compared to the year ended December 31, 2022. Professional fees, and other increased by $5.2 million, or 41%, as compared to the year ended December 31, 2022, primarily in support of growth and expansion initiatives. Amortization of deferred acquisition costs, net of ceded commissions also increased by $4.3 million, or 77% as compared to the year ended December 31, 2022, consistent with growth in business. Credit card processing fees increased $3.4 million, or 35%, as a result of the increase in customers and associated premium. Employee-related expense, including stock based compensation, increased by $2.3 million, or 14%, as compared to the year ended December 31, 2022, driven by an increase in underwriting staff to support our continued growth.

Sales and Marketing

Sales and marketing expenses decreased $36.4 million, or 26%, to $101.9 million for the year ended December 31, 2023 compared to the year ended December 31, 2022. Expense related to brand and performance advertising decreased by $33.3 million, or 38%, as a result of reduced spending on search advertising and other customer acquisition channels. Employee-related expense, including stock-based compensation decreased by $1.7 million or 5%, as compared to the year ended December 31, 2022, due to reduced headcount.

Technology

Technology development expenses increased $9.2 million, or 12%, to $88.8 million for the year ended December 31, 2023 compared to the year ended December 31, 2022. Employee-related expense, including stock based compensation, net of capitalized costs for the development of internal-use software, increased $3.3 million, or 5%, as compared to the year ended December 31, 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, new products, and geographic expansion. Hosting and development costs also increased by $3.0 million, or 49%, as compared to the year ended December 31, 2022 consistent with growth of business. Fees paid to contractors increased by $2.5 million, or 179%, as compared to December 31, 2022, due to the integration of Metromile.

General and Administrative

General and administrative expenses increased $7.0 million, or 6%, to $129.3 million for the year ended December 31, 2023 compared to the year ended December 31, 2022. Depreciation and amortization increased by $7.8 million or 64%, as compared to the year ended December 31, 2022, mainly due to acquired assets from Metromile. Employee related expense, including stock-based compensation, increased by $2.9 million, or 6%, as compared to the year ended December 31, 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 $2.7 million, or 57%, as compared to the year ended December 31, 2022, and was primarily related to the integration of Metromile. Nonrecurring transaction and integration costs of $8.4 million incurred in 2022 primarily relates to legal and other professional fees and employee retention and severance costs were incurred relating to the Metromile Acquisition. Insurance expense decreased $3.6 million or 42%, as compared to the year ended December 31, 2022. Legal and Professional fees decreased $2.5 million or 21%.

Income tax

Income tax expense increased $4.1 million, or 137%, to $7.1 million for the year ended December 31, 2023 compared to the year ended December 31, 2022 due to change in transfer pricing methodology and uncertain tax positions.

Net loss

Net loss decreased $60.9 million, or 20%, to $236.9 million for the year ended December 31, 2023 compared to the year ended December 31, 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, 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, interest income and other income, net realized gains and losses on sale of investments, plus fixed costs and overhead associated with our underwriting operations including employee-related expense, 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:

	Year Ended December 31,	
	2023	2022
	($ in millions)	
Total revenue	$ 429.8	$ 256.7
Adjustments:		
Loss and loss adjustment expense, net	$ (280.4)	$ (167.3)
Other insurance expense	(59.2)	(44.0)
Depreciation and amortization	(6.1)	(3.1)
Gross profit	$ 84.1	$ 42.3
Gross profit margin (% of total revenue)	20 %	16 %
Adjustments:		
Net investment income	$ (24.7)	$ (8.4)
Interest income and other income	(4.1)	(0.7)
Employee related expense	18.2	15.9
Professional fees and other	17.8	12.7
Depreciation and amortization	6.1	3.1
Adjusted gross profit	$ 97.4	$ 64.9
Adjusted gross profit margin (% of total revenue)	23 %	25 %

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:

	Year Ended December 31,	
	2023	2022
	($ in millions)	
Numerator: Adjusted gross profit	$ 97.4	$ 64.9
Denominator: Gross earned premium	$ 672.3	$ 490.5
Ratio of Adjusted Gross Profit to Gross Earned Premium	14 %	13 %

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 others, 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 the financing agreement, 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 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.

	Year Ended December 31,	
	2023	2022
	($ in millions)	
Net loss	$ (236.9)	$ (297.8)
Adjustments:		
Income tax expense	7.1	3.0
Depreciation and amortization	20.0	12.2
Stock-based compensation (1)	59.9	58.5
Transaction and integration costs from Metromile acquisition	—	8.4
Interest income and others	(3.2)	(0.8)
Net investment income	(24.7)	(8.4)
Change in fair value of warrants liability	(0.3)	(0.2)
Amortization of fair value adjustment on insurance contract intangible liability relating to the Metromile acquisition	(1.2)	—
Other adjustments (2)	6.7	—
Adjusted EBITDA	$ (172.6)	$ (225.1)

(1) Includes compensation expense related to warrant shares of $2.5 million for the year ended December 31, 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 December 31, 2023, we had $271.5 million in cash and cash equivalents, and $673.2 million in investments. From the date we commenced operations, we have generated negative cash flows from operations, and we have financed our operations primarily through private and public sales of equity securities. On January 14, 2021, we issued and sold 3,300,000 shares of common stock, and generated net proceeds to us of $525.7 million after deducting underwriting discounts and other offering costs. On February 1, 2021, the underwriters exercised their option to purchase additional shares, which resulted in the issuance and sale of an additional 718,647 shares of common stock by us, and generated additional net proceeds of $114.6 million. Excluding capital raises, our principal sources of funds are insurance premiums, investment income, reinsurance recoveries and proceeds from 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 December 31, 2023 will be sufficient to meet our working capital,liquidity and capital expenditures needs over at least the next 12 months and for the foreseeable future. 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 December 31, 2023, cash and investments held by these companies was $423.8 million, of which $181.6 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 December 31, 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:

	Year Ended December 31,	
	2023	2022
	($ in millions)	
Net cash used in operating activities	$ (119.1)	$ (163.0)
Net cash provided by investing activities	$ 88.7	$ 181.1
Net cash provided by financing activities	$ 15.4	$ 3.6

Operating Activities

Cash used in operating activities was $119.1 million for the year ended December 31, 2023, a decrease of $43.9 million from $163.0 million for the year ended December 31, 2022. This reflected the $60.9 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 year ended December 31, 2023 compared to year ended December 31, 2022 was primarily due to claims 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 $163.0 million for the year ended December 31, 2022, an increase of $18.4 million from $144.6 million for the year ended December 31, 2021. This reflected the $56.5 million increase in our net loss, primarily offset by increases in unearned premium, funds held, and unpaid loss and loss adjustment expense that exceeded the increase in prepaid reinsurance premium, premiums receivable and amounts expected to be recovered from our reinsurance partners.

Investing Activities

Cash provided by investing activities was $88.7 million for the year ended December 31, 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 year.

Cash provided by investing activities was $181.1 million for the year ended December 31, 2022 primarily due to cash from the Metromile Acquisition, sales and maturities of U.S. government obligations, corporate debt securities, asset-backed securities, short term investments, offset by purchases, and property and equipment purchased during the year.

Financing Activities

Cash provided by financing activities was $15.4 million for the year ended December 31, 2023 primarily due to borrowings under the financing agreement and proceeds from stock exercises.

Cash provided by financing activities was $3.6 million for the year ended December 31, 2022 primarily due to proceeds from stock exercises.

We do not have any current plans for material capital expenditures other than current operating requirements. We currently have a financing agreement with GC (see “Note 14 - Borrowings under financing agreement”). To the extent our future operating cash flows are insufficient to cover our net losses from catastrophic events, we had $937.7 million in cash and cash equivalents, and investments available at December 31, 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.

The following table summarizes the Company's contractual obligations and commitments as of December 31, 2023, and the effect of such obligations are expected to have on our liquidity and cash flows in the future periods.

	Payments Due by Period				
	Total	Less than 1 Year	1 to 3 Years	4 to 5 Years	More than 5 Years
	($ in millions)				
Unpaid losses and loss adjustment expense[(1)]	$ 262.3	$ 184.7	$ 63.2	$ 9.1	$ 5.3
Borrowings under financing agreement	14.9	14.9	—	—	—
Operating lease commitments	32.3	10.1	16.1	2.7	3.4
Total	$ 309.5	$ 209.7	$ 79.3	$ 11.8	$ 8.7

(1) The reserve for losses and loss adjustment expenses represent management's estimate of the ultimate cost of settling losses. As more fully discussed in "— Critical Accounting Policies and Estimates — Unpaid loss and loss adjustment expenses", the estimation of the unpaid losses and loss adjustment expenses is based on various complex and subjective judgments. Actual losses paid may differ, perhaps significantly, from the reserve estimates reflected in our consolidated financial statements. Similarly, the timing of payment of our estimated losses is not fixed and there may be significant changes in actual payment activity. The assumptions used in estimating the likely payments due by period are based on our historical claims payment experience and industry payment patterns, but due to the inherent uncertainty in the process of estimating the timing of such payments, there is a risk that the amounts paid can be significantly different from the amounts disclosed.

The amounts in the above table represent our gross estimates of known liabilities as of December 31, 2023 and do not include any allowance for claims for future events within the time period specified. Accordingly, we expect that the total amounts of obligations paid by us in the time periods shown will be greater than those indicated in the table.

We also have the ability to access additional capital through pursuing third-party borrowings, sales of our equity, issuance of debt securities or entrance into new reinsurance arrangements. 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 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, stock-based compensation, 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.

We believe that the accounting policies described below involve a significant degree of judgment and complexity. Accordingly, we believe these are the most critical to aid in fully understanding and evaluating our consolidated financial condition and results of operations. For further information, see “Note 4 — Summary of Significant Accounting Policies” in the Notes to Consolidated Financial Statements included in this Annual Report.

Unpaid loss and loss adjustment expense

The reserves for loss and LAE represent management's best estimate of the ultimate cost of all reported and unreported losses and LAE incurred through the balance sheet date. Unpaid losses and LAE are based on the assumption that past developments are an appropriate indicator of future events. The incurred but not reported portion of unpaid losses and LAE is based on past experience and other factors.

The estimate of the unpaid loss and loss adjustment expense relies on several key judgments:

- the determination of the actuarial models used as the basis for these estimates;
- the relative weights given to these models;
- the underlying assumptions used in these models; and
- the determination of the appropriate groupings of similar product lines and, in some cases, the disaggregation of dissimilar losses.

Because actual experience can differ from key assumptions used in establishing reserves, there is potential for significant variation in the development of loss reserves.

For property coverage, the nature of claims is generally a short reporting period with volatility arising from occasional severe events. The process for estimating and recording unpaid losses and LAE is dependent on historical reported claims, industry information, the frequency and latency of claims reported, and assumptions of current environmental factors.

The following tables summarize our gross and net reserves for unpaid loss and LAE as of December 31, 2023 and 2022, respectively:

	December 31, 2023			
	Gross	% of total	Net	% of Total
	($ in millions)			
Loss and loss adjustment reserves				
Case reserve	$ 93.3	36 %	$ 46.7	33 %
IBNR	169.0	64 %	95.4	67 %
Total reserves	$ 262.3	100 %	$ 142.1	100 %

	December 31, 2022			
	Gross	% of total	Net	% of Total
	($ in millions)			
Loss and loss adjustment reserves				
Case reserve	$ 89.0	35 %	$ 44.3	34 %
IBNR	167.2	65 %	87.3	66 %
Total reserves	$ 256.2	100 %	$ 131.6	100 %

We have assessed the impact of potential reserve deviations from our carried reserve at December 31, 2023. We applied sensitivity factors to incurred losses for the three most recent accident years and to the carried reserve for all prior accident years combined. Due to our contractual arrangements with our reinsurers, the sensitivity analysis results in no change to our previous income or stockholders' equity.

The amount by which estimated losses differ from those originally reported for a period is known as "Development."

Development is unfavorable when the losses ultimately settle for more than the amount reserved or subsequent estimates indicate a basis for reserve increases on unresolved claims. Development is favorable when losses ultimately settle for less than the amount reserved, or subsequent estimates indicate a basis for reducing loss reserves on unresolved claims. We reflect favorable or unfavorable development of loss reserves in the results of operations in the period the estimates are changed.

The following tables summarize our Gross Ultimate Losses and LAE, and Net Ultimate Losses and LAE as of December 31, 2023 and 2022, respectively.

Gross Ultimate Losses and LAE

	($ in millions)		
	Calendar Year		Development
Accident Year	2023 2.9	2022	2022 to 2023
2016	$ —	$ —	$ —
2017	4.5	5.1	(0.6)
2018	22.5	23.2	(0.7)
2019	61.5	59.9	1.6
2020	121.0	119.4	1.6
2021	264.1	263.6	0.5
2022	431.3	439.9	(8.6)
2023	578.3	N/A	N/A
			$ (6.2)

Net Ultimate Losses and LAE

	($ in millions)		
	Calendar Year		Development
Accident Year	2023	2022	2022 to 2023
2016	$ 2.3	$ 2.0	$ 0.3
2017	26.1	34.2	(8.1)
2018	39.6	47.3	(7.7)
2019	71.5	70.9	0.6
2020	72.1	64.3	7.8
2021	154.7	140.9	13.8
2022	209.9	207.0	2.9
2023	274.2	N/A	N/A
			$ 9.6

Reinsurance assets

The estimation of reinsurance recoverable involves a significant amount of judgment. Reinsurance assets include reinsurance recoverable on unpaid losses and loss adjustment expenses that are estimated as part of our loss reserving process and, consequently, are subject to similar judgments and uncertainties. This estimate requires significant judgment for which key considerations include:

- paid and unpaid amounts recoverable;
- whether the balance is in dispute or subject to legal collection;
- the financial condition of a reinsurer (i.e., liquidated, insolvent, in receivership or otherwise subject to formal or informal regulatory restriction); and
- the collectability of the reinsurance recovery for factors such as, amounts outstanding, length of collection periods, disputes, any collateral or letters of credit held and other relevant factors.

Income tax assets and liabilities, including recoverability of our net deferred tax asset

The evaluation of the recoverability of our deferred tax asset and the need for a valuation allowance requires us to weigh all positive and negative evidence to reach a conclusion that it is more likely than not that all or some portion of the deferred tax asset will not be realized. The weight given to the evidence is commensurate with the extent to which it can be objectively verified. The more negative evidence that exists, the more positive evidence is necessary and the more difficult it is to support a conclusion that a valuation allowance is not needed.

We consider a number of factors to reliably estimate future taxable income so we can determine the extent of our ability to realize NOLs, foreign tax credits, realized capital loss and other carryforwards. These factors include forecasts of future income for each of our businesses and actual and planned business and operational changes, both of which include assumptions about future macroeconomic and company-specific conditions and events. We subject the forecasts to stresses of key assumptions and evaluate the effect on tax attribute utilization.

Intangible Assets and Goodwill

Intangible assets are recorded at their acquisition date fair values which involves the use of valuation methodologies and various assumptions that are inherently subjective. Identifiable intangible assets consist of value of business acquired and technology, which are subject to amortization, and insurance licenses and trademark, and are not subject to amortization. These intangible assets were acquired as part of the Metromile Acquisition except for trademark associated with the Company’s name, which was acquired in 2019. Finite-lived intangible assets, which are amortized over their estimated economic lives, are reviewed for impairment only when events occur or there are changes in circumstances indicating that their carrying value may exceed fair value. Impairment exists when the carrying value of intangible assets exceeds fair value. Indefinite-lived intangible assets are not amortized but are rather reviewed for potential impairment on an annual basis, or whenever indications of potential impairment exist.

Goodwill represents the excess of purchase price over the fair value of net assets acquired from our acquisition. Goodwill is not amortized, but instead is reviewed for impairment at the reporting unit level on an annual basis, during the fourth quarter, or more frequently if indicators of impairment exist. The annual impairment test for goodwill is initially completed through a qualitative assessment to determine if it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If facts and circumstances determine that it is not more likely than not that a reporting unit fair value is less than its carrying amount, then additional testing of goodwill is not required. However, if we determine that it is more likely than not that the value of a reporting unit is less than the carrying amount, then we will perform a quantitative analysis. The quantitative analysis compares the estimated fair value of a reporting unit to its book value, including goodwill. If the fair value exceeds the book value, goodwill is considered not the be impaired. However, if the book value exceeds the fair value of a reporting unit, an impairment loss will be recognized in the amount of the excess book value over fair value limited by the total amount of goodwill for the reporting unit.

Stock-based compensation

We account for stock-based compensation in accordance with ASC Topic 718, "Compensation — Stock Compensation." Stock options are mainly awarded to employees and members of our board of directors and measured at fair value at each grant date. We calculate the fair value of share options on the date of grant using the Black-Scholes option-pricing model and the expense is recognized over the requisite service period for awards expected to vest using the straight-line method. The requisite service period for share options is generally four years. We recognize forfeitures as they occur.

See “Note 17 - Stock-based compensation” in the Notes to Consolidated Financial Statements included in this Annual Report for a complete description of the accounting for stock-based awards.

Recently Issued and Adopted Accounting Pronouncements

See "Note 4 — Summary of Significant Accounting Policies" in the Notes to Consolidated Financial Statements included in this Annual Report for a discussion of accounting pronouncements recently issued and pending adoption.

Item 7A. 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 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 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 December 31, 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 December 31, 2023 and 2022, none of our fixed maturity securities were 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 a majority of the reinsurers 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 8. Financial Statements and Supplementary Data

Index to the Consolidated Financial Statements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of Lemonade, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Lemonade, Inc. (the Company) as of December 31, 2023 and 2022, the related consolidated statements of operations and comprehensive loss, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2023, and the related notes and financial statement schedule listed in Item 15(a)(2) (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2023 and 2022, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2023, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2023, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 28, 2024 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing separate opinions on the critical audit matter or on the accounts or disclosures to which it relates.

	Valuation of Incurred But Not Reported
Description of the Matter	At December 31, 2023, the Company’s unpaid losses and loss adjustment expenses balance, net of reinsurance was $142.1 million, of which $95.4 million relates to incurred but not reported (“IBNR”) reserves. The carrying amount is management’s best estimate of the ultimate liability, which is composed of known reported losses and an estimate of incurred losses that have not been reported to the Company. As described in Note 4 of the consolidated financial statements, there is significant uncertainty inherent in determining management’s best estimate of the ultimate loss settlement cost which is used to determine the IBNR reserves. In particular, the estimate of IBNR reserves is subject to a number of variables, including historical trends involving claim payment patterns, changes in claims reporting and settlement practices, and current and future inflation levels. Auditing management’s best estimate of the IBNR reserves involved the use of actuarial specialists and a high degree of subjectivity in evaluating management’s assumptions which have a significant effect on the valuation of the IBNR reserves.
How We Addressed the Matter in Our Audit	We obtained an understanding, evaluated the design and tested the operating effectiveness of controls over the process to estimate the IBNR reserves, including, among others, the review and approval processes that management has in place for the methods and assumptions used in estimating the IBNR reserves. To test the IBNR reserves, our procedures included, among others, the involvement of actuarial specialists to assist with the evaluation of the Company’s selection of actuarial methods and assumptions used in their analysis and a comparison of those methods used in prior periods and those used in the industry. We also independently calculated a range of reasonable reserve estimates and performed independent projections for certain lines of business. We compared the range of reasonable reserve estimates to management’s recorded best estimate and performed a review of the historical results of the development of the estimate.

/s/ Ernst & Young LLP
We have served as the Company's auditor since 2015.

New York, New York

February 28, 2024

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of Lemonade, Inc.

Opinion on Internal Control over Financial Reporting

We have audited Lemonade, Inc.'s internal control over financial reporting as of December 31, 2023, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), (the COSO criteria). In our opinion, Lemonade, Inc. (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2023, based on the COSO criteria**.**

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2023 and 2022, the related consolidated statements of operations and comprehensive loss, changes in stockholder's equity and cash flows for each of the three years in the period ended December 31, 2023, and the related notes and schedule and our report dated February 28, 2024 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S.federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP

New York, New York

February 28, 2024

LEMONADE, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

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

	December 31, 2023	December 31, 2022
Assets		
Investments		
Fixed maturities available-for-sale, at fair value (amortized cost: $632.0 million and $673.5 million as of December 31, 2023 and 2022, respectively)	$ 627.4	$ 650.3
Short-term investments (cost: $45.8 million and $99.9 million as of December 31, 2023 and 2022, respectively)	45.8	99.8
Total investments	673.2	750.1
Cash, cash equivalents and restricted cash	271.5	286.5
Premium receivable, net of allowance for credit losses of $2.5 million and $2.7 million as of December 31, 2023 and 2022, respectively	222.0	179.6
Reinsurance recoverable	138.4	156.8
Prepaid reinsurance premium	196.3	164.5
Deferred acquisition costs	8.8	6.9
Property and equipment, net	17.4	19.6
Intangible assets	22.9	32.5
Goodwill	19.0	19.0
Other assets	63.8	75.2
Total assets	$ 1,633.3	$ 1,690.7
Liabilities and Stockholders' Equity		
Unpaid losses and loss adjustment expenses	$ 262.3	$ 256.2
Unearned premium	353.7	288.0
Trade payables	0.6	1.1
Funds held for reinsurance treaties	128.8	136.0
Deferred ceding commission	41.4	39.7
Ceded premium payable	23.2	18.4
Borrowings under financing agreement	14.9	—
Other liabilities and accrued expenses	99.5	84.5
Total liabilities	924.4	823.9
Commitments and contingencies (Note 21)		
Stockholders' equity		
Common stock, $0.00001 par value, 200,000,000 shares authorized as of December 31, 2023 and 2022; 70,163,703 shares and 69,275,030 shares issued and outstanding as of December 31, 2023 and 2022, respectively	—	—
Additional paid-in capital	1,814.5	1,754.1
Accumulated deficit	(1,096.6)	(859.7)
Accumulated other comprehensive loss	(9.0)	(27.6)
Total stockholders' equity	708.9	866.8
Total liabilities and stockholders' equity	$ 1,633.3	$ 1,690.7

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

LEMONADE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

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

	Year Ended December 31,		
	2023	2022	2021
Revenue			
Net earned premium	$ 315.2	$ 172.4	$ 77.0
Ceding commission income	69.8	64.1	44.9
Net investment income	24.7	8.4	1.9
Commission and other income	20.1	11.8	4.6
Total revenue	429.8	256.7	128.4
Expense			
Loss and loss adjustment expense, net	280.4	167.3	71.9
Other insurance expense	59.2	44.0	24.1
Sales and marketing	101.9	138.3	141.6
Technology development	88.8	79.6	51.8
General and administrative	129.3	122.3	72.6
Total expense	659.6	551.5	362.0
Loss before income taxes	(229.8)	(294.8)	(233.6)
Income tax expense	7.1	3.0	7.7
Net loss	$ (236.9)	$ (297.8)	$ (241.3)
Other comprehensive income (loss), net of tax			
Unrealized gain (loss) on investments in fixed maturities	18.6	(18.4)	(5.7)
Foreign currency translation adjustment	—	(5.8)	$ 0.5
Comprehensive loss	$ (218.3)	$ (322.0)	$ (246.5)
Per share data:			
Net loss per share attributable to common stockholders — basic and diluted	$ (3.40)	$ (4.59)	$ (3.94)
Weighted average common shares outstanding — basic and diluted	69,658,912	64,921,524	61,224,433

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

LEMONADE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

($ in millions, except share amounts)

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Amount				
Balance as of December 31, 2020	56,774,294	$ —	$ 859.8	$ (320.6)	$ 1.8	$ 541.0
Issuance of common stock upon closing of Follow-on Offering, net of underwriting discounts and commissions and offering costs of $22.8 million	4,018,647	—	640.3	—	—	640.3
Exercise of stock options and distribution of restricted stock units	868,055	—	9.3	—	—	9.3
Stock-based compensation	—	—	44.1	—	—	44.1
Net loss	—	—	—	(241.3)	—	(241.3)
Other comprehensive loss	—	—	—	—	(5.2)	(5.2)
Balance as of December 31, 2021	61,660,996	$ —	$ 1,553.5	$ (561.9)	$ (3.4)	$ 988.2
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	712,100	—	3.6	—	—	3.6
Stock-based compensation	—	—	59.3	—	—	59.3
Net loss	—	—	—	(297.8)	—	(297.8)
Other comprehensive loss	—	—	—	—	(24.2)	(24.2)
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	888,673	—	0.5	—	—	0.5
Stock-based compensation	—	—	59.9	—	—	59.9
Net loss	—	—	—	(236.9)	—	(236.9)
Other comprehensive income	—	—	—	—	18.6	18.6
Balance as of December 31, 2023	70,163,703	$ —	$ 1,814.5	$ (1,096.6)	$ (9.0)	$ 708.9

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

LEMONADE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

($ in millions)

	Year Ended December 31,		
	2023	2022	2021
Cash flows from operating activities:			
Net loss	$ (236.9)	$ (297.8)	$ (241.3)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	20.0	12.2	3.7
Stock-based compensation	59.9	59.3	44.1
Amortization of premium (discount) on bonds	(2.6)	6.7	(4.2)
Provision for bad debt	8.1	8.7	6.2
Asset impairment charge	3.7	—	—
Changes in operating assets and liabilities:			
Premium receivable	(50.5)	(43.8)	(47.2)
Reinsurance recoverable	18.4	(52.6)	(40.8)
Prepaid reinsurance premium	(31.8)	(14.9)	(58.3)
Deferred acquisition costs	(1.9)	(0.8)	(2.7)
Other assets	8.9	(7.0)	(38.6)
Unpaid losses and loss adjustment expenses	6.1	74.0	51.6
Unearned premium	65.7	65.1	83.9
Trade payables	(0.5)	(0.7)	(0.4)
Funds held for reinsurance treaties	(7.2)	32.9	41.0
Deferred ceding commission	1.7	3.2	14.1
Ceded premium payable	4.8	(12.4)	5.7
Other liabilities and accrued expenses	15.0	4.9	38.6
Net cash used in operating activities	(119.1)	(163.0)	(144.6)
Cash flows from investing activities:			
Acquisition of business, net of cash acquired	—	98.8	—
Proceeds from short-term investments sold or matured	143.5	224.5	20.2
Proceeds from bonds sold or matured	349.6	138.0	27.2
Cost of short-term investments acquired	(71.5)	(136.7)	(130.8)
Cost of bonds acquired	(323.7)	(133.4)	(712.0)
Purchases of property and equipment	(9.2)	(10.1)	(9.4)
Net cash provided by (used in) investing activities	88.7	181.1	(804.8)
Cash flows from financing activities:			
Proceeds from borrowings under financing agreement	19.1	—	—
Payment on borrowings under financing agreement	(4.2)	—	—
Proceeds from Initial Public Offering and Follow-on Offering, net of underwriting discounts and commissions and offering costs	—	—	640.3
Proceeds from stock exercises	0.5	3.6	9.3
Net cash provided by financing activities	15.4	3.6	649.6
Effect of exchange rate changes on cash, cash equivalents and restricted cash	—	(5.8)	(1.0)
Net increase (decrease) in cash, cash equivalents and restricted cash	(15.0)	15.9	(300.8)
Cash, cash equivalents and restricted cash at beginning of year	286.5	270.6	571.4
Cash, cash equivalents and restricted cash at end of year	$ 271.5	$ 286.5	$ 270.6
Supplemental disclosure of cash flow information:			
Cash paid for income taxes	$ 0.7	$ 3.4	$ 3.2
Cash paid for interest expense on borrowings under financing agreement	$ 0.3	$ —	$ —
Non-cash transactions:			
Warrants assumed from acquisition of Metromile	$ —	$ 0.3	$ —

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

LEMONADE, INC. AND SUBSIDIARIES

NOTES TO 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 property and casualty insurance subsidiaries and non-insurance subsidiaries (together with Lemonade, Inc., the "Company"), all of which are wholly-owned, directly or indirectly, by Lemonade, Inc.

The Company consists of the following entities, which support Lemonade, Inc.'s U.S., E.U. and UK. operations: (1) Lemonade Insurance Company ("LIC"), a licensed and regulated stock property and casualty insurance company in New York and in all other states where the Company's insurance products are available; (2) Lemonade Insurance Agency, LLC, a licensed insurance agent in New York and in all other states where the LIC's insurance products are available, and also acts as agent for other insurance companies in distributing their insurance products; (3) Lemonade Ltd., a company organized under the laws of Israel which provides technology, research and development, management, marketing and other services to the companies in the group; (4) Lemonade Insurance N.V., a Netherlands public limited company; (5) Lemonade Agency B.V., a Netherlands private limited liability company, (6) Lemonade B.V., a Netherlands private limited liability company; (7) Lemonade Life Insurance Agency, LLC, a limited liability company which acts as the distribution and marketing agent for the sale and servicing of life insurance products; (8) Lemonade E&S Insurance Agency, LLC, a limited liability company licensed as an excess and surplus lines insurance broker; (9) Metromile, LLC, a limited liability company, which is an intermediate holding company for other entities; (10) Metromile Operating Company, a corporation, which provides certain services for its subsidiaries; (11) Metromile Insurance Company ("MIC"), a stock property and casualty insurance company in Delaware and all other states where MIC's insurance products are available; (12) Metromile Insurance Services LLC, a limited liability company licensed as an insurance agent in California and in all other states where MIC's insurance products are available, and acts as an agent for other insurance companies in distributing their insurance products; (13) Metromile Enterprise Solutions, LLC, a California limited liability company; (14) Lemonade Tech B.V., a Netherlands private limited liability company which provides technology, research and development services to the companies in the group; and (15) Lemonade Re SPC, a Cayman Islands entity which is licensed to underwrite risks assumed from related parties through the set up of segregated portfolios.

2. Basis of Presentation

The Company presents its financial statements on a consolidated basis including all of its wholly-owned subsidiaries and a variable interest entity for which the Company is deemed to be the primary beneficiary. All intercompany balances and transactions have been eliminated. All foreign currency amounts in the consolidated statements of operations and comprehensive loss have been translated using an average rate for the reporting period. All foreign currency balances in the balance sheets have been translated using the spot rate at the end of the year. All figures expressed, except share amounts are represented in U.S. dollars in millions.

Risks and Uncertainties

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. The Company will continue to evaluate the extent to which this may impact the Company's business, financial condition, or results of operations.

3. Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. Generally Accepted Accounting Principles ("GAAP") requires management to make estimates and assumptions that affect the amounts reported in the 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 consolidated financial statements, and the reported amounts of expenses during the reporting period. Actual results could differ from those estimates. All revisions to accounting estimates are recognized in the period in which the estimates are revised. Significant estimates reflected in the Company's 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

Segment information

The Company's chief operating decision makers are the Chief Executive Officer and President. The chief operating decision makers manage operations, allocate resources, and evaluate financial performance on a company-wide basis. The Company operates in one reporting segment within the United States, Europe and UK, providing insurance products to customers through various sales channels.

Cash, cash equivalents and restricted cash

The following represents the Company's cash, cash equivalents and restricted cash as of December 31, 2023 and 2022, ($ in millions).

	December 31,	
	2023	2022
Cash and cash equivalents	$ 264.5	$ 282.5
Restricted cash	7.0	4.0
Total cash, cash equivalents and restricted cash	$ 271.5	$ 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 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.

Investments

Investments consist of fixed maturity securities and short-term investments. The Company considers all of its fixed maturity securities as available-for-sale and are carried at fair value. Fixed maturity securities consist of securities with an initial fixed maturity of more than one year. Unrealized gains and losses related to bonds are included in accumulated other comprehensive income as a separate component of stockholders' equity (deficit). The discount or premium on bonds is amortized using the effective yield method. Short-term investments, which may include commercial paper, certificates of deposit, and fixed maturity securities with an initial maturity of one year or less, are carried at amortized cost, which approximates fair value.

The fair value of bonds is principally derived from market price data for identical assets from exchange or dealer markets and from market observable inputs such as interest rates and yield curves that are observable at commonly quoted intervals. For certain bonds for which market prices are not readily available, market values are principally estimated using values obtained from independent pricing services, broker quotes and internal estimates.

Interest income, as well as prepayment fees and the amortization of the related premium or discount, is reported in net investment income. Realized gains or losses on the sale of investments are determined on the basis of specific identification.

The Company continuously monitors the difference between cost and the estimated fair value of its investments. Each reporting period, securities with unrealized losses are reviewed to determine whether the decline in fair value requires the recognition of an allowance for credit losses. Factors considered in the review include (i) current market interest rates, (ii) general financial condition of the issuer, (iii) issuers industry and future business prospects, (iv) issuers past defaults in principal and interest payments, and (v) the payment structure of the investment and the issuers ability to make contractual payments on the investment.

The Company also considers whether it intends to sell the security, or if it is more likely than not that it will be required to sell the security before recovery of its amortized cost. When assessing whether it intends to sell a fixed-maturity security or if it is likely to be required to sell a fixed-maturity security before recovery of its amortized cost, the Company evaluates certain relevant facts and circumstances which may include, but not limited to, business prospects, credit ratings and available information from asset managers and rating agencies for individual securities.

For fixed-maturity securities where a decline in fair value is below the amortized cost basis and the Company intends to sell the security, or it is more likely than not that the Company will be required to sell the security before recovery of its amortized cost, a credit-loss charge is recognized in net income based on the fair value of the security at the time of assessment. For fixed-maturity securities that the Company has the intent and ability to hold, the Company compares the estimated present value of the cash flows expected to be collected to the amortized cost of the security. The extent to which the estimated present value of the cash flows expected to be collected is less than the amortized cost of the security and represents the credit-related portion of the impairment, such is recognized in net income through an allowance for credit losses. Any remaining decline in fair value represents the noncredit portion of the impairment, which is recognized in other comprehensive income.

Accrued interest receivable is recorded as a component of accrued investment income on its consolidated balance sheet which is presented separately from available-for-sale securities. 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.

Fair value of financial instruments

Fair value is defined as the price that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between willing, able and knowledgeable market participants at the measurement date. Fair value measurements are not adjusted for transaction costs. In addition, a three-tiered hierarchy for inputs is used in management's determination of fair value of financial instruments that emphasizes the use of observable inputs over the use of unobservable inputs by requiring that the observable inputs be used when available. Observable inputs are market participant assumptions based on market data obtained from sources independent of the Company. Unobservable inputs are the reporting entity's own assumptions about market participant assumptions based on the best information available under the circumstances. In assessing the appropriateness of using observable inputs in making its fair value determinations, the Company considers whether the market for a particular security is "active" or not based on all the relevant facts and circumstances.

To determine the fair value of its investments, the Company utilizes third-party valuation service providers to gather, analyze and interpret market information and derive fair values based upon relevant methodologies and assumptions for individual instruments.

Valuation service providers typically obtain data about market transactions and other key valuation model inputs from multiple sources and, through the use of widely accepted valuation models, provide a single fair value measurement for individual securities for which a fair value has been requested under the terms of service agreements. The inputs used by the valuation service providers include, but are not limited to, market prices from recently completed transactions and transactions of comparable securities, interest rate yield curves, credit spreads, currency rates and other market observable information, as applicable. The valuation models consider, among other things, market observable information as of the measurement date as well as the specific attributes of the security being valued including its term, interest rate, credit rating, industry sector and, when applicable, collateral quality and other issue or issuer specific information. When market transactions or other market observable data is limited, the extent to which judgment is applied in determining fair value is greatly increased.

As a basis for considering such assumptions, a three-tier value hierarchy is used in management's determination of fair value based on the reliability and observability of inputs as follows:

Level 1 — Valuations are based on unadjusted quoted prices in active markets that the Company has the ability to access for identical, unrestricted assets and do not involve any meaningful degree of judgment. An active market is defined as a market where transactions for the financial instrument occur with sufficient frequency and volume to provide pricing information on an ongoing basis;

Level 2 — Valuations are based on direct and indirect observable inputs other than quoted market prices included in Level 1. Level 2 inputs include quoted prices for similar assets in active markets and inputs other than quoted prices that are observable for the asset, such as the terms of the security and market-based inputs;

Level 3 — Valuations are based on techniques that use significant inputs that are unobservable. The valuation of Level 3 assets and liabilities requires the greatest degree of judgment. These measurements may be made under circumstances in which there is little, if any, market activity for the asset or liability. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment. In making the assessment, the Company considers factors specific to the asset. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement is classified is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

The Company's fair value measurements include investments, intangible assets, warrants liability and stock options.

Concentrations of credit risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents, fixed maturity securities and reinsurance recoverables. Cash and cash equivalents are held with financial institutions of high credit quality, and fixed maturity securities primarily on U.S. government, U.S. government agencies, and high credit quality issuers of debt securities. Cash and cash equivalent balances may exceed the amount of insurance provided on such balances. The Company evaluates the financial condition of its reinsurers, and reinsures its business primarily with highly rated reinsurers, and may retain funds due to reinsurers or require letters of credit as security for those recoverable balances (Note 8).

Premium receivable

Premium receivable is reported net of an allowance for estimated uncollectible premium amounts. Premiums receivable are short-term in nature and due within a year. Allowance is based upon the ongoing review of amounts outstanding, length of collection periods, the creditworthiness of the insured and other relevant factors. Amounts deemed to be uncollectible are written off against the allowance. Allowance for credit losses amounted to $2.5 million as of December 31, 2023 and $2.7 million as of December 31, 2022.

Reinsurance

Reinsurance is used to mitigate the exposure to losses, manage capacity and protect capital resources. Reinsuring loss exposures does not relieve the Company from its obligations to policyholders. Reinsurance recoverable, including amounts related to incurred but not reported claims (“IBNR”) and prepaid reinsurance premium, is reported as an asset. To minimize exposure to losses related to a reinsurer's inability to pay, the financial condition of such reinsurer is evaluated initially upon placement of the reinsurance and periodically thereafter. In addition to considering the financial condition of a reinsurer, the collectability of the reinsurance recoverable is evaluated based upon a number of other factors. Such factors include the amounts outstanding, length of collection periods, disputes, any collateral or letters of credit held and other relevant factors. To the extent that an allowance for uncollectible reinsurance recoverable is established, amounts deemed to be uncollectible would be written off against the allowance for estimated uncollectible reinsurance recoverable. The Company has no historical experience on credit losses from reinsurance recoverables and has not recorded any allowance for uncollectible reinsurance recoverable as of December 31, 2023 and December 31, 2022.

Amounts recoverable from reinsurers are estimated in a manner consistent with the liability associated with the reinsured business and consistent with the terms of the underlying contract.

Ceded premium written is recorded in accordance with the applicable terms of the reinsurance contracts and ceded premium earned is charged against revenue over the period of the reinsurance contracts. Ceded losses incurred reduce net loss and loss adjustment expense incurred over the applicable periods of the reinsurance contracts with third-party reinsurers.

The ceding of insurance does not legally discharge the Company from its primary liability for the full amount of the policy coverage, and therefore the Company will be required to pay the loss and bear collection risk if the reinsurer fails to meet its obligations under the reinsurance agreement. To minimize exposure to significant losses from reinsurance insolvencies, the Company evaluates the financial condition of its reinsurers and monitors concentrations of credit risk.

Prepaid reinsurance premiums represents the unearned portion of premiums ceded to reinsurers. Funds held under reinsurance treaties represent amounts retained by the Company on behalf of the reinsurer based on terms of the reinsurance agreements.

Deferred acquisition costs

Direct acquisition costs, which primarily consist of commissions and premium taxes, related to each policy the Company successfully writes are deferred and amortized to expense in proportion to the premium earned, generally over a period of one year. Deferred acquisition costs are reviewed at least annually to determine their recoverability from future income. If any such costs are determined not to be recoverable they are charged to expense. Anticipated net loss and loss adjustment expense and estimated remaining costs of servicing contracts are considered when evaluating recoverability of deferred acquisition costs. The amount of deferred acquisition costs amortized to income was $21.8 million, $17.0 million, and $9.5 million for the years ended December 31, 2023, 2022, and 2021 respectively, and are included in “Other insurance expense” on the consolidated statements of operations and comprehensive loss.

Property and equipment, net

Property and equipment are stated at cost, net of accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful life of the assets at the following rates:

	Years
Computers and electronic equipment	3
Furniture and equipment	6
Leasehold improvements	Shorter of lease term or useful life

Capitalized internal use software

The Company defers certain costs related to the development of internal use software, which are incurred during the application development stage, and amortizes them over the software's estimated useful life. The amounts capitalized include employee payroll and payroll-related costs directly associated with the development activities. The Company's policy is to amortize capitalized costs using the straight-line method over the estimated useful life, which is currently two years, beginning when the software is substantially complete and ready for its intended use. Costs incurred in the preliminary and post-implementation stages of the Company's products are expensed as incurred.

Intangible assets

Intangible assets are recorded at their acquisition date fair values which involves the use of valuation methodologies appropriate for determining the market value of each asset. These valuation methodologies use various assumptions that are inherently subjective. Identifiable intangible assets consist of value of business acquired and technology, which are subject to amortization, and insurance licenses and trademark associated with the Company’s name acquired in 2019, which are not subject to amortization.

Indefinite-lived intangible assets are tested for impairment at least annually, or more frequently if events or such as a change in business circumstances that indicates the carrying value of the assets may not be recoverable. The annual impairment test for indefinite-lived intangible assets may be completed through a qualitative assessment to determine if the fair value of the indefinite-lived intangible assets is more likely than not greater than the carrying amount. The Company may elect to bypass the qualitative assessment, or if a qualitative assessment indicates it is more likely than not that the estimated carrying value exceeds the fair value, the Company will test for impairment using a quantitative process. If the Company determines that impairment of its intangible assets may exist, the amount of impairment loss is measured as the excess of carrying value over fair value. The estimates in the determination of the fair value of indefinite-lived intangible assets include the anticipated future revenues of the Company and the resulting cash flows. There were no circumstances that indicate that the carrying amount of intangible assets deemed to have an indefinite useful life may not be recoverable for the years ended December 31, 2023 and 2022.

Intangible assets subject to amortization are amortized over the estimated useful life and reviewed for impairment when indicators exists.

Goodwill

Goodwill is the excess of purchase price over the fair value of net assets acquired. Goodwill is not amortized, but instead is reviewed for impairment at the reporting unit level on an annual basis, during the fourth quarter, or more frequently if indicators of impairment exist. The annual impairment test for goodwill is initially completed through a qualitative assessment to determine if it is more likely than not that the fair value of a reporting unit is less than its carrying value. If facts and circumstances determine that it is not more likely than not that a reporting unit fair value is less than its carrying amount, then additional testing of goodwill is not required. However, if the Company determines that it is more likely than not that the fair value of a reporting unit is less than the carrying value, then the Company will perform a quantitative analysis. The quantitative analysis compares the estimated fair value of a reporting unit to its carrying value, including goodwill. If the fair value exceeds the carrying value, there is no impairment on recorded goodwill. However, if the carrying value exceeds the fair value of a reporting unit, an impairment loss will be recognized in the amount of the excess carrying value over fair value limited by the total amount of goodwill for the reporting unit. The Company elected to bypass the qualitative assessment allowed under the guidance and performed a quantitative goodwill impairment assessment during the fourth quarter of 2023, and estimated the fair value of the reporting unit using the income approach, based on the discounted cash flow valuation techniques, and the market valuation approach. Based on the quantitative analysis, the estimated fair value exceeded the carrying value of the reporting unit and concluded that there was no impairment of the recorded goodwill as of December 31, 2023.

Variable Interest

The Company accounts for its variable interest entity (“VIE”) in accordance with Accounting Standards Codification (“ASC”) Topic 810, *Consolidation,* which requires consolidation of VIEs by the primary beneficiary. A VIE is an entity where the investor lacks certain essential characteristics of a controlling financial interest, which may include a simple majority kick-out rights, or lacks sufficient funds to finance its own activities without financial support provided by other entities.The Company is deemed to have a controlling financial interest when it has both the ability to direct the activities that most significantly impact the economic performance of the VIE and the obligation to absorb losses or right to receive benefits from the VIE that could potentially be significant to the VIE. The Company consolidates the VIE in its consolidated financial statements when it is determined to be the primary beneficiary. The Company reassesses its determination of whether the Company is the primary beneficiary of a VIE, upon changes in facts and circumstances that could potentially alter the Company’s assessment.

The Company in 2023 established a captive cell facility at a Bermuda transformer vehicle that is authorized to write and purchase insurance and reinsurance to retain most of the Company’s windstorm exposure (Note 8). Through the Company’s participation interest in this arrangement which is considered a VIE, the Company determined that it is the primary beneficiary of the VIE since it has the power to direct and exercise control over the significant activities and has the obligation to absorb losses or the right to receive residual returns of the VIE. As a result, the Company included the VIE in the consolidated financial statements.

Unpaid loss and loss adjustment expense

The reserves for loss and loss adjustment expense represent management's best estimate of the ultimate cost of all reported and unreported loss incurred through the balance sheet date. Unpaid loss and loss adjustment are based upon the assumption that past developments are an appropriate indicator of future events. The Incurred But Not Reported ("IBNR") portion of unpaid loss and loss adjustment expense is based on past experience and other factors. The methods of making such estimates and for establishing the resulting reserves are periodically reviewed and updated. Any resulting adjustments are reflected in income. Unpaid loss and loss adjustment expense consists of the estimated ultimate cost of settling claims incurred within the reporting period (net of related reinsurance recoverable), including IBNR claims, plus changes in estimates of prior period losses. The Company reports its unpaid loss and loss adjustment expense on an undiscounted basis.

The estimation of the liability for unpaid loss and loss adjustment expense is inherently complex and subjective, especially in view of changes in the legal and economic environment, which impact the development of unpaid loss and loss adjustment expense, and therefore quantitative techniques frequently have to be supplemented by subjective considerations and managerial judgment. In addition, trends that have affected development of liabilities in the past may not necessarily occur or affect liability development to the same degree in the future. Therefore, there can be no assurance that the ultimate liability will not materially differ from amounts reserved with a resulting material effect on the operating results of the Company.

The unpaid loss and loss adjustment expense estimate is generally calculated by first projecting the ultimate cost of all claims that have been incurred and then subtracting reported losses and loss adjustment expenses. Reported losses include cumulative paid losses and loss adjustment expenses plus case reserves. Therefore, the IBNR also includes provision for expected development on reported claims.

The Company's actuarial analysis of the historical data provides the factors the Company uses in its actuarial analysis in estimating its loss and loss adjustment reserves. These factors are measures over time of claims reported, average case incurred amounts, case development, severity and payment patterns. However, these factors cannot be directly used as they do not take into consideration changes in business mix, claims management, regulatory issues, and other subjective factors. The Company uses multiple actuarial methods in determining its estimates of the ultimate unpaid claim liabilities. Each of these methods require judgment and assumptions. The methods can include, but are not limited to:

- Paid Development Method — uses historical, cumulative paid losses by accident year and develops those actual losses to estimated ultimate losses based upon the assumption that each accident year will develop to estimated ultimate cost in a manner that is analogous to prior years.
- Paid Bornhuetter-Ferguson Method — a combination of the Paid Development Method and the Expected Loss Method, the Paid Bornhuetter-Ferguson Method estimates ultimate losses by adding actual paid losses and projected future unpaid losses. The amounts produced are then added to cumulative paid losses to produce the final estimates of ultimate incurred losses.
- Incurred Development Method — uses historical, cumulative incurred losses by accident year and develops those actual losses to estimated ultimate losses based upon the assumption that each accident year will develop to estimated ultimate cost in a manner that is analogous to prior years.
- Incurred Bornhuetter — Ferguson Method — a combination of the Incurred Development Method and the Expected Loss Method, the Incurred Bornhuetter-Ferguson Method estimates ultimate losses by adding actual incurred losses and projected future unreported losses. The amounts produced are then added to cumulative incurred losses to produce an estimate of ultimate incurred losses.
- Expected Loss Method — utilizes an expected ultimate loss ratio based on historical experience adjusted for trends multiplied by earned premium to project ultimate losses.

For each method, losses are projected to the ultimate amount to be paid. The Company then analyzes the results and may emphasize or de-emphasize some or all of the outcomes to reflect actuarial judgment regarding their reasonableness in relation to supplementary information and operational and industry changes. These outcomes are then aggregated to produce a single selected point estimate that is the basis for the actuary's point estimate for loss reserves.

Contingent liabilities

The Company accounts for its contingent liabilities in accordance with ASC Topic 450, *Contingencies*. A provision is recorded when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. With respect to legal matters, provisions are reviewed and adjusted to reflect the impact of negotiations, estimated settlements, legal rulings, advice of legal counsel and other information and events pertaining to a particular matter.

Comprehensive loss

Comprehensive loss includes net loss as well as other changes in stockholders' equity that result from transactions and economic events other than those with stockholders.

Employee related obligations

The Company established a defined contribution savings plan under Section 401(k) of the Internal Revenue Code for employees based in the United States. This plan covers substantially all employees who meet minimum age and service requirements and allows participants to defer a portion of their annual compensation on a pre-tax basis. Company contributions to the plan may be made at the discretion of the Company's board of directors. The matching contributions made by the Company amounted to $2.6 million, $2.2 million and $0.9 million for the years ended December 31, 2023, 2022 and 2021, respectively.

Revenue

Premium is earned on a pro-rata basis over the term of the related insurance coverage. Unearned premium and prepaid reinsurance premium represent the portion of gross premium written and ceded premium written, respectively, related to the unexpired terms of related policies. Premium ceded to third party reinsurers is reported as a reduction of earned premium.

A premium deficiency is recognized if the sum of expected loss and loss adjustment expense, unamortized acquisition costs, and policy maintenance costs exceeds the remaining unearned premium. A premium deficiency would first be recognized by charging any unamortized acquisition costs to expense to the extent required to eliminate the deficiency. If the premium deficiency were greater than unamortized acquisition costs, a liability would be accrued for the excess deficiency. The Company does not consider anticipated investment income when determining if a premium deficiency exists. There was no premium deficiency as of December 31, 2023 and 2022.

Ceding commission income represents commission received based on premium ceded to third-party reinsurers to reimburse us for acquisition and underwriting expenses. Commissions on reinsurance premium ceded is recorded as earned consistent with the recognition of 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 represents interest earned from fixed maturity securities, short term securities and other investments, and gains or losses from sale of investments. Investment income is recorded as earned. Investment income consists primarily of interest income which is recognized on an accrual basis. Net investment income represents investment income, net of investment fees paid to the Company’s investment manager and other investment expenses.

Commission income consists of commissions earned on policies written on behalf of third-party insurance companies where the Company has 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 consists of fees collected from policyholders relating to installment premiums, and are recognized at the time each policy installment is billed.

Other insurance expense

Other insurance expense consists of the amortization of deferred acquisition costs and premium taxes incurred on the successful acquisition of business written on a direct basis, and merchant processing fees. Other insurance expense also includes employee compensation, including stock-based compensation and benefits, of the Company's underwriting teams, as well as allocated occupancy costs and related overhead costs based on headcount.

Sales and marketing

Sales and marketing includes third-party marketing, advertising, branding, public relations and sales expenses. Sales and marketing also includes associated employee compensation, including stock-based compensation and benefits, as well as allocated occupancy costs and related overhead based on headcount. Sales and marketing costs are expensed as incurred. Advertising expenses totaled $55.2 million, $88.5 million and $104.6 million for the years ended December 31, 2023, 2022 and 2021, respectively.

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 the Company's websites and products. Technology development also includes allocated occupancy costs and related overhead costs based on headcount. Technology development costs are expensed as incurred, except for costs that are capitalized related to internal-use software development projects which are subsequently depreciated over the expected useful life of the developed software.

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 legal, tax and accounting services, non-income based taxes, insurance, charitable donations, and allocated occupancy costs and related overhead costs based on headcount.

Leases

The Company determines whether an arrangement is, or includes, a lease at its inception. Operating lease liabilities are recognized at the lease commencement date based on the estimated present value of lease payments over the lease term. Right-of-Use (“RoU”) assets are equal to the operating lease liabilities with certain adjustments made for prepaid rent, lease incentives, or initial direct costs, as applicable. Operating lease RoU assets are presented under “Other assets” (Note 12) and Operating lease liabilities are presented under “Other Liabilities and Accrued Expenses” (Note 15). To determine the present value of lease payments, the Company uses an estimated incremental borrowing rate for leases of office spaces, as the rate implicit in the leases is not determinable, which is derived from information available at the lease commencement date. For certain leases that contain options to extend, the options are included in operating lease liabilities only if the Company is reasonably certain that the option will be exercised. Variable lease costs are recorded as expense when the events determining the amount of variable consideration have to be paid have occurred and are not included in the Company’s operating lease liabilities. The Company accounts for the lease and non-lease components as a single lease component for leases for real estate. Operating lease expense is recognized on a straight-line basis over the lease term.

Income from operating subleases where the Company is the sublessor is recognized on a straight-line basis over the lease term.

Operating lease RoU assets are evaluated for impairment at the asset group level whenever events or changes in circumstances indicate that the carrying amount of the asset group may not be recoverable. The carrying amount of an asset group, which includes the operating lease RoU asset is not recoverable if the carrying amount exceeds the sum of the undiscounted cash flows expected to result from the use of the asset group over the life of the primary asset in the asset group. The assessment is based on the carrying amount of the asset group, including the operating lease RoU asset and the related operating lease liability, at the date it is tested for recoverability and an impairment loss is measured and recognized as the amount by which the carrying amount of the asset group exceeds its fair value. Any impairment loss is allocated to each asset in the asset group, including the operating RoU asset, on a ratable basis.

Accounting for stock-based compensation

The Company accounts for stock-based compensation in accordance with ASC Topic 718, *Compensation — Stock Compensation* (“ASC Topic 718’). Stock options are mainly awarded to employees and members of the Company's board of directors and measured at fair value at each grant date. The Company calculates the fair value of share options on the date of grant using the Black-Scholes option-pricing model and the expense is recognized over the requisite service period for awards expected to vest using the straight-line method. The requisite service period for share options is generally four years. The Company recognizes forfeitures as they occur.

The Black-Scholes option-pricing model requires the Company to make a number of assumptions, including the value of the Company's common stock, expected volatility, expected term, risk-free interest rate and expected dividends. The Company evaluates the assumptions used to value option awards upon each grant of stock options. The expected option term was calculated based on the simplified method, which uses the midpoint between the vesting date and the contractual term, in accordance with ASC Topic 718. 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 history. The Company has not paid dividends and has no foreseeable plans to pay dividends. For restricted stock awards, the Company utilizes the fair value of the Company’s common stock on the date of grant to establish the fair value of the award.

Non-employee stock-based compensation transactions in which the Company receives goods or services as consideration for its own equity instruments are accounted for as stock-based compensation transactions. The Company establishes and measures the fair value of these equity instruments at grant date, and is not remeasured. The fair value of a non-employee award is estimated using the Black-Scholes option pricing model, which uses various inputs including the fair value of the Company’s common stock at grant date, contractual term, estimated volatility, risk-free interest rate and expected dividend yields of the common stock. The Company recognizes compensation expense over the vesting period subject to certain vesting events and thresholds, for each of the installment for a period of five years. The Company does not apply forfeiture for these awards given the nature of the vesting events and thresholds under the agreement (Notes 16 and 17).

Foreign currency

Financial statement accounts expressed in foreign currencies are translated into U.S. dollars. Functional currency assets and liabilities are translated into U.S. dollars generally using rates of exchange prevailing at the balance sheet date of each respective subsidiaries, and the related translation adjustments are recorded as a separate component of accumulated other comprehensive income, net of any related taxes.

Income taxes

The Company accounts for income taxes in accordance with the liability method whereby deferred tax assets and liability account balances are determined based on the differences between financial reporting and the tax basis for assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company provides a valuation allowance, if necessary, to reduce deferred tax assets to the amounts that are more-likely-than-not to be realized. As of December 31, 2023 and 2022, sufficient doubt existed over the Company's ability to generate sufficient taxable income to realize its deferred income tax assets, and accordingly, the Company has provided a full valuation allowance against its deferred tax assets.

ASC Topic 740, *Income Taxes*, ("ASC 740") clarifies the accounting for uncertainties in income taxes by establishing minimum standards for the recognition and measurement of tax positions taken or expected to be taken in a tax return. Under the requirements of ASC 740, the Company reviews all of its tax positions and makes a determination as to whether its position is more-likely-than-not to be sustained upon examination by regulatory authorities. If a tax position meets the more-likely-than-not standard, then the related tax benefit is measured based on a cumulative probability analysis of the amount that is more-likely-than-not to be realized upon ultimate settlement or disposition of the underlying issue.

The Company classifies all interest and penalties related to uncertain tax positions as income tax expense.

Net loss per share

Basic net loss per share attributable to common stockholders is computed by dividing the net loss attributable to common stockholders by the weighted average number of common shares outstanding for the period. Diluted net loss attributable to common stockholders is computed by adjusting net loss attributable to common stockholders to reallocate undistributed earnings based on the potential impact of dilutive securities. Diluted net loss per share attributable to common stockholders is computed by dividing the diluted net loss attributable to common stockholders by the weighted average number of common shares outstanding for the period, including potential dilutive common shares. For purpose of this calculation, outstanding stock options and assumed warrants to purchase common shares of the Company are considered potential dilutive common shares.

In periods in which the Company reports a net loss attributable to common stockholders, diluted net loss per share attributable to common stockholders is the same as basic net loss per share attributable to common stockholders, since dilutive common shares are not assumed to have been issued if their effect is anti-dilutive. The Company reported a net loss attributable to common stockholders for the years ended December 31, 2023, 2022 and 2021.

Accounting Pronouncements

Recently Issued Accounting Pronouncement Pending Adoption

In November 2023, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update ("ASU") 2023-07, *Segment Reporting - Improvements to Reportable Segment Disclosures,* requiring disclosure of significant expenses for each reportable segment and amount regularly provided to the CODM and included in the reported measure(s) of the segment profit or loss. This ASU also clarifies that single reportable segment entities are subject to the required disclosures in its entirety under ASC Topic 280. The ASU does not change the identification and determination of its operating segments, aggregation of operating segment or application of quantitative thresholds to determine its reportable segments. This ASU is effective for fiscal years beginning after December 15, 2023. Amendments in the ASU apply retrospectively to all period presented in the financial statements unless impracticable to do so. The Company is currently evaluating the impact of the adoption of this standard.

In December 2023, the FASB issued ASU 2023-09, *Income Taxes - Improvement to Income Tax Disclosures,* requiring enhancements and further transparency to certain income tax disclosures, most notably the tax rate reconciliation and income taxes paid. This ASU is effective for fiscal years beginning after December 15, 2024 on a prospective basis and retrospective application is permitted. The Company is currently evaluating the impact of the adoption of this standard.

There are no other new accounting standards identified and 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 car 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 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.

This 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
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 the Company obtains 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 were 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 Company also performed a quantitative goodwill impairment assessment during the fourth quarter of 2023, primarily using projections of discounted cash flows to estimate the fair value of the reporting unit. The estimated fair value exceeded the carrying value of the reporting unit and concluded that goodwill was not impaired as of and for the year ended December 31, 2023.

The results of operations for Metromile of $69.9 million of revenue and $27.2 million of net loss for the year ended December 31, 2023, and $35.0 million of revenue and $36.4 million of net loss from the Acquisition Date to the year ended December 31, 2022, have been included within the accompanying consolidated statements of operations and comprehensive loss.

The Company incurred transaction and integration costs of approximately $8.4 million for the year ended December 31, 2022. These expenses were included in “General and administrative expenses” within the Company’s consolidated statements of operations and comprehensive loss for the year ended December 31, 2022.

The following unaudited supplemental pro forma combined financial information presents the Company’s results of operations for the year ended December 31, 2022 and 2021 as if the Metromile Acquisition had occurred on January 1, 2021. 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, 2021. 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 acquisition, or any estimated costs that have been or will be incurred by the Company to integrate the assets and operations of Metromile.

Unaudited Pro Forma:

	December 31,	
	2022	2021
Total Revenue	$ 309.3	$ 228.4
Net loss	$ (383.0)	$ (458.1)

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

- a net decrease in amortization expense of $2.0 million that would have been recognized due to acquired intangible assets;
- an increase of $10.0 million for acquisition-related transaction costs;
- a decrease in operating revenues of $4.9 million due to the elimination of deferred revenues and assigned no value at the Acquisition Date;
- a decrease to amortization expense of $1.3 million due to the elimination of unamortized deferred acquisition costs;
- an increase to income of $0.6 million due to the adjustment of the loss and loss adjustment expense reserves at fair value; and
- an increase in income of $2.0 million due to the depreciation of RoU 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 investments in fixed maturities at December 31, 2023 and 2022, respectively ($ in millions):

	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2023				
Corporate debt securities	$ 453.6	$ 1.3	$ (5.0)	$ 449.9
U.S. Government obligations	176.8	0.4	(1.3)	175.9
Asset-backed securities	1.6	—	—	1.6
Total	$ 632.0	$ 1.7	$ (6.3)	$ 627.4
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 investments in fixed maturities was $6.3 million and $23.3 million as of December 31, 2023 and 2022. Gross unrealized gains and losses were recorded as a component of accumulated other comprehensive income.

Contractual maturities of bonds

The following table presents the cost or amortized cost and estimated fair value of investments in fixed maturities as of December 31, 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.

	December 31, 2023	
	Cost or Amortized Cost	Fair Value
Due in one year or less	$ 258.7	$ 255.5
Due after one year through five years	373.3	371.9
Due after five years through ten years	—	—
Due after ten years	—	—
Total	$ 632.0	$ 627.4

Aging of gross unrealized losses

The following tables present 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 December 31, 2023 and 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
December 31, 2023						
Corporate debt securities	$ 89.0	$ (1.2)	$ 178.3	$ (4.0)	$ 267.3	$ (5.2)
U.S. Government obligations	79.6	(0.2)	57.7	(0.9)	137.3	(1.1)
Asset-backed securities	—	—	0.2	—	0.2	—
Total	$ 168.6	$ (1.4)	$ 236.2	$ (4.9)	$ 404.8	$ (6.3)
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 December 31, 2023, 175 of the securities held were in an unrealized loss position. Investments in fixed maturities with gross unrealized losses for twelve months or more was $4.9 million and $21.0 million for the years ended December 31, 2023 and 2022, respectively. The Company determined that unrealized losses on investment in 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 investments in fixed maturities, and it is not more likely than not that that the Company will be required to sell these investments in fixed maturities before the recovery of the amortized cost basis. No allowance for credit losses related to any of these securities was recorded for the years ended December 31, 2023 and 2022.

Net investment income

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

	December 31,		
	2023	2022	2021
Interest on cash and cash equivalents	$ 4.2	$ 1.2	$ 0.4
Fixed maturities	17.0	5.7	1.5
Short-term investments	3.8	1.9	0.1
Total	25.0	8.8	2.0
Investment expense	0.3	0.4	0.1
Net investment income	$ 24.7	$ 8.4	$ 1.9

Investment gains and losses

The Company had pre-tax realized capital losses of $0.6 million and $0.4 million for the years ended December 31, 2023 and 2022, respectively. There were no pre-tax realized capital gains and losses for the year ended December 31, 2021.

Special deposits

Bonds with a total carrying value of $11.7 million and $11.8 million at December 31, 2023 and 2022, respectively, which are included in fixed maturities available-for-sale on the consolidated balance sheets, were deposited with various state insurance departments, as required, to comply with state insurance laws. The carrying value of bonds deposited with each respective state is as follows ($ in millions):

	December 31,	
U.S. State	2023	2022
New York	$ 2.9	$ 2.8
Delaware	2.8	2.8
Washington	1.2	1.2
Colorado	1.1	1.1
Virginia	0.8	0.8
New Mexico	0.7	0.6
New Jersey	0.6	0.6
North Carolina	0.6	0.6
Nevada	0.2	0.4
Florida	0.2	0.2
Massachusetts	0.2	0.2
Kansas	0.2	0.1
Arkansas	0.1	0.3
Kentucky	0.1	0.1
Total	$ 11.7	$ 11.8

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 $82.2 million as of December 31, 2023.

7. Fair Value Measurements

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

	December 31, 2023			
	Level 1	Level 2	Level 3	Total
Financial Assets:				
Corporate debt securities	$ —	$ 449.9	$ —	$ 449.9
U.S. Government obligations	—	175.9	—	175.9
Asset-backed securities	—	1.6	—	1.6
Fixed maturities	—	627.4	—	627.4
Short term investments	—	45.8	—	45.8
Total	$ —	$ 673.2	$ —	$ 673.2
Financial Liabilities:				
Warrant liability (1)	$ —	$ —	$ —	$ —

(1) Fair value of Public and Private warrant liability amounted to less than $0.1 million as of December 31, 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 our 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 year ended December 31, 2023, other than the public and private warrants previously reported as Level 3 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 statement of operations and comprehensive loss. The Company utilized the binomial Monte-Carlo simulation to estimate the fair value of these warrants which were not actively traded as of December 31, 2022, and are determined based on the following assumptions:

	December 31, 2022
Weighted average expected term (years)	3.11
Risk-free interest rate	4.2%
Volatility	80%
Expected dividend yield	—%

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 ($ in millions):

	December 31,	
	2023	2022
Balance as of January 1	$ 0.3	$ —
Initial measurement of warrants liability as of July 31, 2022	—	0.5
Change in fair value	(0.3)	(0.2)
Balance as of December 31	$ —	$ 0.3

8. Reinsurance

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 IBNR, loss adjustment expenses, and unearned premium with any individual reinsurer.

The Company maintains 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 $80,000,000 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 through June 30, 2024. Under the PPR Contract, claims in excess of $750,000 are 100% ceded up to a maximum recovery of $2,250,000, subject to certain limitations. Under the Automatic Facultative PPR Contract, claims in excess of $3,000,000 are 100% ceded with a potential recovery of at least $10,000,000, 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 $50,000,000 limit for each loss occurrence, which is further subject to a limit of $80,000,000 for each loss occurrence and in aggregate, primarily on property and car business underwritten by LIC. This XOL reinsurance contract became effective July 1, 2023 and will expire on June 30, 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, the Company is 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.

Reinsurance recoverable

Amounts recoverable from reinsurers are recognized in a manner consistent with the claims liabilities associated with the reinsurance placement and presented on the balance sheet as reinsurance recoverable. Such balance as of December 31, 2023 and 2022 are presented in the table below ($ in millions).

	December 31,	
	2023	2022
Reinsurance recoverable on paid losses	$ 18.2	$ 32.2
Ceded unpaid loss and LAE	120.2	124.6
Total reinsurance recoverable	$ 138.4	$ 156.8

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 has the following unsecured reinsurance recoverable balances from reinsurers at December 31, 2023 and 2022 with a majority of the reinsurers having A.M. Best rating of A (Excellent) or better ($ in millions):

AM Best Rating	Reinsurer	December 31, 2023	2022
A+	Hannover Rueck SE	$ 126.6	$ 100.1
A	MAPFRE Re, Compania De Reaseguros S.A.	27.2	23.8
A+	Swiss Reinsurance America Corporation	20.1	27.6
NR	Lloyd's Underwriter Syndicate no. 2791 MAP	1.7	1.0
NR	Lloyd's Underwriter Syndicate No. 1084 CSL	1.6	4.3
A+	Aviva Insurance Limited	0.9	—
NR	Lloyd's Underwriter Syndicate no. 2001 AML	0.4	0.5
A++	The Travellers Indemnity Company	0.4	—
A+	Munich Reinsurance America Inc	0.2	0.4
NR	Lloyd's Underwriter Syndicate No. 2987 BRT	0.2	—
		$ 179.3	$ 157.7
	Other reinsurers	1.1	1.9
		$ 180.4	$ 159.6

Premium written, earned and losses and LAE incurred

The impact of reinsurance treaties on the Company's consolidated statements of operations and comprehensive income is as follows ($ in millions):

	December 31, 2023	December 31, 2022	December 31, 2021
Premium written:			
Direct	$ 730.9	$ 555.6	$ 375.7
Assumed	7.5	0.1	—
Ceded	(389.1)	(333.1)	(273.4)
Net premium written	$ 349.3	$ 222.6	$ 102.3
Premium earned:			
Direct	$ 667.2	$ 490.5	$ 292.0
Assumed	5.1	—	—
Ceded	(357.1)	(318.1)	(215.0)
Net premium earned	$ 315.2	$ 172.4	$ 77.0
Loss and LAE incurred:			
Direct	$ 563.4	$ 441.0	$ 264.1
Assumed	6.0	—	—
Ceded	(289.0)	(273.7)	(192.2)
Net loss and LAE incurred	$ 280.4	$ 167.3	$ 71.9

9. Deferred Acquisition Costs

Deferred acquisition costs consist primarily of commissions and premium taxes incurred that are directly related to the successful acquisition of insurance policies written on a direct basis. The amortization of deferred acquisition costs is included in other insurance expense in the consolidated statements of operations and comprehensive loss. The following table presents the policy acquisition costs deferred and amortized ($ in millions):

	December 31, 2023	December 31, 2022
Deferred Acquisition Costs:		
Balance, January 1	$ 6.9	$ 6.2
Add:		
Premium taxes	16.1	14.1
Direct commissions	7.6	3.6
Less:		
Amortization of net deferred acquisition costs	(21.8)	(17.0)
Balance, December 31	$ 8.8	$ 6.9
Other Insurance Expense:		
Amortization of net deferred acquisition costs	$ 21.8	$ 17.0
Period costs	37.4	27.0
Total other insurance expense	$ 59.2	$ 44.0

10. Property and Equipment, net

Property and equipment, net consists of the following ($ in millions):

	December 31, 2023	December 31, 2022
Computer equipment and software	$ 28.6	$ 20.7
Leasehold improvements	13.0	13.4
Furniture and equipment	4.2	3.7
	45.8	37.8
Accumulated depreciation	(28.4)	(18.2)
Property and equipment, net	$ 17.4	$ 19.6

Depreciation expense was $10.2 million, $6.9 million and $3.7 million for the years ended December 31, 2023, 2022 and 2021, respectively, and included in “General and administrative expenses” on the consolidated statements of operations and comprehensive loss.

The Company capitalized costs related to the development of internal-use software of $23.9 million and $16.0 million for the years ended December 31, 2023 and 2022, respectively. Capitalized amounts are included as a component of “Property and equipment” under “Computer equipment and software”.

11. Intangible Assets

Identifiable intangible assets consist of the following ($ in millions):

		December 31, 2023			December 31, 2022		
	Weighted Average Useful Life	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Insurance licenses	Indefinite	$ 7.5	$ —	$ 7.5	$ 7.5	$ —	$ 7.5
Trademark	Indefinite	0.6	—	0.6	0.6	—	0.6
Technology	3	28.0	13.2	14.8	28.0	3.9	24.1
VOBA	0.5	1.7	1.7	—	1.7	1.4	0.3
		$ 37.8	$ 14.9	$ 22.9	$ 37.8	$ 5.3	$ 32.5

Intangible assets noted in the above table were acquired as part of the Metromile acquisition except for trademark associated with the Company’s name which was acquired in 2019. The Company intends to maintain the trademark and renewals will take place as needed.

Amortization expense amounted to $9.6 million and $5.3 million for the year ended December 31, 2023 and 2022, respectively, and is included in “General and administrative expense” in the consolidated statement of operations and comprehensive loss.

As of December 31, 2023, the estimated aggregate amortization expense for the Company’s intangible assets for the next five years is as follows ($ in millions):

2024	$ 9.3
2025	5.5
2026	—
2027	—
2028	—
Thereafter	—
	$ 14.8

12. Other Assets

Other assets consists of the following ($ in millions):

	December 31, 2023	December 31, 2022
Ceding commission receivable	$ 19.4	$ 21.0
Right-of-use assets (Note 22)	17.4	26.4
Prepaid expenses	12.0	14.0
Investment income due and accrued	5.5	3.7
Income tax receivable	1.5	5.0
Other	8.0	5.1
Total other assets	$ 63.8	75.2

13. Unpaid Loss and Loss Adjustment Expense

The following table presents the activities in the liability for unpaid loss and loss adjustment expense (“LAE”) as of December 31, 2023 and 2022 ($ in millions):

	December 31, 2023	December 31, 2022
Unpaid loss and LAE as of January 1	$ 256.2	$ 97.9
Less: Reinsurance recoverable(1)	124.6	72.7
Net unpaid loss and LAE as of January 1	131.6	25.2
Add: Incurred losses and LAE, net of reinsurance, related to:		
Current year	286.2	170.5
Prior years	(5.8)	(3.2)
Total incurred	280.4	167.3
Deduct: Paid losses and LAE, net of reinsurance, related to:		
Current year	189.4	106.9
Prior years	80.5	30.1
Total paid	269.9	137.0
Unpaid loss and LAE, net of reinsurance recoverable acquired from Metromile	—	76.2
Unpaid loss and LAE, net of reinsurance recoverable, as of December 31	142.1	131.6
Reinsurance recoverable as of December 31(1)	120.2	124.6
Unpaid loss and LAE, gross of reinsurance recoverable, as of December 31	$ 262.3	$ 256.2

(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. The Company had favorable development on net loss and LAE reserves of $5.8 million and $3.2 million as of December 31, 2023 and December 31, 2022, respectively. No additional premium or returned premium have been accrued as a result of prior year effects.

For the year ended December 31, 2023, current accident year incurred loss and LAE included $10.4 million from winter storm Elliott and $4.2 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 December 31, 2023 represents the Company's best estimates based upon information currently available.

For the year ended December 31, 2022, current accident year incurred loss and LAE included $0.4 million of net incurred loss and LAE from Hurricane Ian and $7.6 million from winter storm Elliott. The net incurred loss and LAE from Hurricane Ian and winter storm Elliott as of December 31, 2023 represents the Company’s best estimates based upon information currently available.

The Company compiles and aggregates its claims data by grouping the claims according to the year in which the claim occurred (Accident Year) when analyzing claim payment and emergence patterns and trends over time. For the purpose of defining claims frequency, the number of reported claims is by loss occurrence and includes claims that do not result in a liability or payment associated with these claims.

The following is information about incurred and paid loss development as of December 31, 2023, net of reinsurance, as well as cumulative claim frequency and the total of IBNR liabilities included within the net incurred loss amounts. The Company separates home and renters claim experience from its pet claim experience when analyzing incurred and paid loss and allocated loss adjustment expenses, as there are distinct differences in the development and claim count emergence patterns. The information about incurred and paid claims development for the years ended prior to December 31, 2023 is presented as unaudited supplementary information.

Home and Renters Incurred loss and allocated loss adjustment expense ("ALAE"), net of reinsurance

The following table presents incurred loss and ALAE, net of reinsurance, as well as IBNR loss reserves, net of reinsurance, and the number of reported claims ($ in millions, except for number of claims):

	December 31,								December 31, 2023	
	2016	2017	2018	2019	2020	2021	2022	2023	IBNR (2)	Cumulative Number of Reported Claims
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)			
Accident Year										
2016 (1)	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	8
2017	—	1.7	1.7	1.7	1.7	1.7	1.7	1.7	—	1,756
2018	—	—	15.0	13.5	13.4	13.4	13.4	13.4	—	10,527
2019	—	—	—	46.0	46.1	46.3	46.3	46.1	—	19,498
2020	—	—	—	—	53.0	51.5	51.5	52.4	0.1	30,336
2021	—	—	—	—	—	59.4	55.9	58.4	0.6	53,442
2022	—	—	—	—	—	—	96.5	92.6	3.5	55,758
2023	—	—	—	—	—	—	—	143.2	22.1	56,901
Total incurred losses and ALAE, net								$ 407.8	$ 26.3	228,226

(1) Amounts in accident year 2016 for the years ended December 31, 2016, 2017, 2018, 2019, 2020, 2021, 2022 and 2023 were less than $0.1 million, respectively.
(2) IBNR, net of reinsurance as of December 31, 2023 for accident years 2016, 2017, 2018, and 2019 was less than $0.1 million.

Home and Renters Cumulative paid loss and ALAE, net of reinsurance

The following table presents cumulative paid loss and ALAE, net of reinsurance ($ in millions):

	December 31,							
	2016	2017	2018	2019	2020	2021	2022	2023
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	
Accident Year								
2016 (1)	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
2017	—	1.6	1.7	1.7	1.7	1.7	1.7	1.7
2018	—	—	13.2	13.3	13.4	13.4	13.4	13.4
2019	—	—	—	36.4	46.1	46.3	46.3	46.2
2020	—	—	—	—	43.1	50.2	51.3	52.0
2021	—	—	—	—	—	37.8	53.4	56.7
2022	—	—	—	—	—	—	52.7	85.5
2023	—	—	—	—	—	—	—	88.9
Total paid losses and ALAE, net								$ 344.4
Total unpaid loss and ALAE reserves, net								$ 63.4
Ceded unpaid loss and LAE								$ 92.9
Gross unpaid loss and LAE								$ 156.3

(1) Cumulative paid loss and ALAE, net of reinsurance related to accident year 2016 was less than $0.1 million during the years ended December 31, 2016, 2017, 2018, 2019 , 2020, 2021, 2022, and 2023, respectively.

Average annual percentage payout of accident year incurred claims by age, net of reinsurance (unaudited supplementary information)

	Year 1	Year 2	Year 3
Home and renters	78 %	15 %	7 %

Pet Incurred loss and allocated loss adjustment expense, net of reinsurance

The following table presents incurred loss and ALAE, net of reinsurance, as well as IBNR loss reserves, net of reinsurance, and the number of reported claims ($ in millions, except for number of claims):

	December 31,				December 31, 2023	
	2020	2021	2022	2023	IBNR	Cumulative Number of Reported Claims
	(unaudited)	(unaudited)	(unaudited)			
Accident Year						
2020	$ 0.7	$ 0.6	$ 1.0	$ 0.6	$ —	20,873
2021	—	10.0	9.7	9.5	—	196,773
2022	—	—	27.4	25.3	0.1	375,550
2023	—	—	—	51.9	5.1	488,943
Total incurred losses and ALAE, net				$ 87.3	$ 5.2	1,082,139

Pet Cumulative paid loss and ALAE, net of reinsurance

The following table presents cumulative paid loss and ALAE, net of reinsurance ($ in millions):

	December 31,			
	2020	2021	2022	2023
	(unaudited)	(unaudited)	(unaudited)	
Accident Year				
2020	$ 0.4	$ 0.6	$ 0.7	$ 0.7
2021	—	7.6	9.4	9.5
2022	—	—	21.8	25.1
2023	—	—	—	45.8
Total paid losses and ALAE, net				$ 81.1
Total unpaid loss and ALAE reserves, net				$ 6.2
Ceded unpaid loss and LAE				7.8
Gross unpaid loss and LAE				$ 14.0

Average annual percentage payout of accident year incurred claims by age, net of reinsurance (unaudited supplementary information)

	Year 1	Year 2	Year 3
Pet	100 %	— %	— %

Car Incurred loss and allocated loss adjustment expense ("ALAE"), net of reinsurance [(1)]

The following table presents incurred loss and ALAE, net of reinsurance, as well as IBNR loss reserves, net of reinsurance, and the number of reported claims ($ in millions, except for number of claims):

									December 31, 2023	
	2016	2017	2018	2019	2020	2021	2022	2023	IBNR	Cumulative Number of Reported Claims
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)			
Accident Year										
2016	$ 1.6	$ 2.0	$ 1.7	$ 1.7	$ 1.7	$ 1.8	$ 2.0	$ 2.3	$ —	1,640
2017	—	28.6	30.0	30.2	31.4	32.3	32.5	24.4	(0.1)	29,057
2018	—	—	31.4	29.7	31.9	31.8	33.9	26.2	0.7	44,102
2019	—	—	—	24.2	24.9	23.2	24.6	25.4	2.3	51,132
2020	—	—	—	—	10.8	12.0	11.8	19.1	3.0	37,320
2021	—	—	—	—	—	75.3	75.3	86.8	6.3	43,091
2022	—	—	—	—	—	—	83.1	92.0	11.2	46,623
2023	—	—	—	—	—	—	—	79.1	16.9	36,965
Total incurred losses and ALAE, net								$ 355.3	$ 40.3	289,930

(1) Table above retrospectively includes Metromile's historical incurred accident year claim information for periods presented.

Car Cumulative paid loss and ALAE, net of reinsurance [1]

The following table presents cumulative paid loss and ALAE, net of reinsurance ($ in millions):

	December 31,							
	2016	2017	2018	2019	2020	2021	2022	2023
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	
Accident Year								
2016	$ 0.2	$ 1.2	$ 1.5	$ 1.6	$ 1.6	$ 1.7	$ 1.9	$ 2.2
2017	—	17.3	24.3	28.1	30.1	30.8	31.7	24.6
2018	—	—	16.8	24.4	28.2	27.6	30.2	25.1
2019	—	—	—	13.5	18.7	14.5	18.8	22.3
2020	—	—	—	—	5.2	(0.9)	5.6	15.0
2021	—	—	—	—	—	38.4	58.9	77.1
2022	—	—	—	—	—	—	45.4	74.0
2023	—	—	—	—	—	—	—	43.2
Total paid losses and ALAE, net								$ 283.5
Total unpaid loss and ALAE reserves, net [2]								$ 71.8
Ceded unpaid loss and LAE								$ 19.5
Gross unpaid loss and LAE								$ 91.3

(1) Table above retrospectively includes Metromile's historical paid accident year claim information for periods presented.
(2) Includes the fair value adjustment on insurance contract intangible liability of $1.2 million.

Average annual percentage payout of accident year incurred claims by age, net of reinsurance (unaudited supplementary information)

	Year 1	Year 2	Year 3
Car	53 %	22 %	25 %

The reconciliation of the net incurred and paid loss information in the loss reserve rollforward table and development tables with respect to the current accident year is as follows ($ in millions):

	December 31, 2023
Unpaid Loss and ALAE, net	
Home and renters	$ 63.4
Pet	6.2
Car	71.8
	141.4
Reinsurance recoverable on Unpaid Loss and ALAE, net	
Home and renters	92.9
Pet	7.8
Car	19.5
	120.2
Unallocated LAE	0.7
Gross Unpaid Loss and Loss Adjustment Expenses	$ 262.3

14. 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 which expires on December 31, 2024 (“Original Commitment End Date”). 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.

On January 8, 2024, the Company entered into an Amended and Restated Customer Investment Agreement (“Amended Agreement”) under which GC will provide up to an additional $140 million of financing to the Company from the Original Commitment End Date through December 31, 2025 for sales and marketing growth efforts. All other material terms and condition from the Agreement remain unchanged. The Agreement contains standard customary representations, warranties and covenants by the parties, and will continue in effect unless terminated by any party pursuant to its terms.

As of December 31, 2023, the Company had $14.9 million of outstanding borrowings under the financing agreement. The Company incurred interest expense of $0.4 million for the year ended December 31, 2023, and such interest is included in “General and administrative expense” in the consolidated statements of operations and comprehensive income.

15. Other Liabilities and Accrued Expenses

Other liabilities and accrued expenses consists of the following ($ in millions):

	December 31,	
	2023	2022
Lease liabilities (Note 22)	$ 28.2	$ 35.2
Ceding commission payable	13.9	—
Uncertain tax position	13.3	8.1
Employee compensation	8.4	12.8
Accrued advertising costs	6.2	6.8
Premium taxes payable	5.9	6.2
Accrued professional fees	5.0	5.5
Advance premium	3.4	2.1
Accrued hosting and software	1.8	2.0
Income taxes payable	1.2	0.6
Warrant liability	—	0.3
Other payables	12.2	4.9
Total	$ 99.5	$ 84.5

16. Stockholders' Equity

Common stock

Upon closing of the IPO, 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 us 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 December 31, 2023 and 2022, the Company was authorized to issue 200,000,000 shares with par value of $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 as set forth above.

Common stock confers upon its holders the following rights:

i. The right to participate and vote in the Company's general meetings, whether regular or extraordinary. Each share will entitle its holder, when attending and participating in the voting in person or via agent or letter, to one vote;
ii. The right to a share in the distribution of dividends, whether in cash or in the form of bonus stock, the distribution of assets or any other distribution pro rata to the par value of the stock held by them;
iii. The right to a share in the distribution of the Company's excess assets upon liquidation pro rata to the par value of the stock held by them.

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 20). In connection with the Follow-on Offering noted above, Lemonade Foundation sold 100,000 of the contributed shares of the Company in 2021.

Undesignated Preferred Stock

The Company's certificate of incorporation, as amended and restated in 2020, authorized the Company to issue up to 10,000,000 shares of undesignated preferred stock, par value $0.00001 per share. As of December 31, 2023 and 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 issued to the Warrantholder a warrant to purchase up to 3,352,025 shares of the Company’s common stock 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.

17. Stock-based Compensation

Share option plan

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, is 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. As of December 31, 2023, there were 4,037,812 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 annually increased on January 1 of each calendar year beginning on January 1, 2021 and ending on and including January 1, 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. There were no shares issued under the 2020 ESPP as of December 31, 2023.

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 December 31, 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 were 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 and will be settled in the Company’s common stock (see Note 5). The remaining unallocated shares reserved under both the 2011 and 2021 Plan were cancelled and no new awards will be granted under these Assumed Plans.

Share-pool increase in 2020 Incentive Compensation Plan and 2020 Employee Stock Purchase Plan

On January 1, 2024, the 2020 Plan share pool was increased by 3,508,185 shares, equal to 5% of the aggregate number of outstanding common stock as of December 31, 2023. There was no increase in the 2020 ESPP share pool as of January 1, 2024.

Options granted to employees and non-employees

The fair value of each option granted during the year ended December 31, 2023 and 2022 is estimated on the date of grant using the Black-Scholes model with the following assumptions:

	December 31,	
	2023	2022
Weighted average expected term (years)	6.00	6.10
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 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 (“RSU’s”) ($ in millions, except for option 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	1,056,332	15.77		
Exercised	(103,350)	5.30		
Canceled/forfeited	(1,118,382)	38.44		
Outstanding as of December 31, 2023	9,595,257	$ 37.26	7.21	$ 10.30
Options exercisable as of December 31, 2023	4,686,527	$ 30.07	6.12	$ 9.41
Options unvested as of December 31, 2023	4,908,730	$ 44.12	8.26	$ 0.89

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

On July 28, 2021, the Board of Directors of the Company approved the reduction in exercise price of certain options granted to employees in the beginning of 2021, with original exercise price ranging from $142.64 to $159.02 and were each repriced at an exercise price of $90.70 per share. Incremental compensation expense resulting from the repricing was $3.0 million, and compensation expense amounted to $0.7 million and $0.7 million for the years ended December 31, 2023 and 2022. There were no changes in the vesting schedule or maturity term of the options.

Restricted Stock Units

	Number of shares	Grant Date Fair Value
Outstanding as of December 31, 2022 (1)	1,651,243	$ 27.92
Granted	3,396,302	16.24
Vested	(785,323)	24.40
Canceled/forfeited	(693,487)	21.73
Outstanding as of December 31, 2023	3,568,735	18.76

(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 consolidated statements of operations and comprehensive loss, including assumed awards from the Metromile Acquisition is as follows ($ in millions):

	December 31,		
	2023	2022	2021
Loss and loss adjustment expense, net	$ 2.8	$ 2.7	$ 1.5
Other insurance expense	2.2	1.6	1.0
Sales and marketing (1)	6.4	6.6	5.1
Technology development	25.7	24.4	18.2
General and administrative	22.8	24.0	18.3
Total stock-based compensation expense	$ 59.9	$ 59.3	$ 44.1

(1) Includes compensation expense related to warrant shares of $2.5 million for the year ended December 31, 2023.

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

	December 31,		
	2023	2022	2021
Stock options	$ 37.6	$ 47.8	$ 40.1
RSUs	19.8	11.5	4.0
Warrant shares	2.5	—	—
Total stock-based compensation expense	$ 59.9	$ 59.3	$ 44.1

The total unrecognized expense granted to employees and non-employees outstanding as of December 31, 2023 was $55.4 million for stock options and $62.3 million for RSUs, with a remaining weighted average vesting period of 1.1 years for stock options and 1.6 years for RSUs.

Warrants

In connection with the Warrant Agreement as discussed in Note 16, the Company is authorized to issue 3,352,025 warrant shares with a grant date fair value of $20.37 which will vest in installments in increasing amounts over a period of 5 years. The Company recognized $2.5 million in compensation expense related to these equity-classified warrants for the year ended December 31, 2023. 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 $65.8 million as of December 31, 2023. There are no vested warrant shares as of December 31, 2023.

18. Income Taxes

Corporate tax rates

Lemonade, Inc., together with its U.S. subsidiaries, is taxed under the tax laws of the United States and the statutory enacted corporate income tax rate for the years ended December 31, 2023 and 2022 is approximately 21%.

The Israeli Parliament approved the Economic Efficiency Law (Legislative Amendments for Applying the Economic Policy for the 2017 and 2018 Budget Years), which reduced the corporate income tax rate to 23%.

The Dutch Parliament adopted elements of the 2022 Tax Plan package, which increased the top corporate income tax rate to 25.8% effective January 1, 2022.

The statutory enacted corporate tax rate in the United Kingdom is approximately 25%.

Deferred taxes

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The Company's deferred tax assets are comprised of operating loss carryforwards and other temporary differences.

The components of the net deferred tax assets are as follows ($ in millions):

	December 31,	
	2023	2022
Deferred tax assets:		
Net operating loss carryforwards	$ 299.5	$ 262.2
Deferred ceding commission	8.5	8.6
Net unearned premium	6.6	5.3
Stock-based compensation	5.3	3.7
Lease liabilities	4.7	5.6
Charitable contributions	2.0	1.6
Depreciation and amortization	1.4	—
Unrealized loss on investments	0.9	5.5
Startup costs	0.5	0.5
Other	—	—
Total gross deferred tax assets	329.4	293.0
Deferred tax liabilities:		
Right-of-use assets	(2.4)	(3.8)
Deferred acquisition costs	(1.8)	(1.4)
Depreciation and amortization	—	(1.0)
Other	(2.8)	(3.8)
Total gross deferred tax liabilities	(7.0)	(10.0)
Valuation allowance	(322.4)	(283.0)
Total deferred tax assets, net	$ —	$ —

Income tax expense

Loss before tax consists of the following ($ in millions):

	December 31,		
	2023	2022	2021
United States	$ (208.5)	$ (225.5)	$ (240.3)
Foreign	(21.3)	(69.3)	6.7
Total	$ (229.8)	$ (294.8)	$ (233.6)

Income tax expense consists of the following ($ in millions):

	December 31,		
	2023	2022	2021
Current:			
Federal	$ —	$ —	$ —
State	—	—	—
Foreign	7.1	3.0	7.7
Total current	7.1	3.0	7.7
Deferred:			
Federal	$ —	$ —	$ —
State	—	—	—
Foreign	—	—	—
Total deferred	—	—	—
Total income tax expense	$ 7.1	$ 3.0	$ 7.7

As of December 31, 2023 and 2022 respectively, $13.3 million and $8.0 million of unrealized tax benefits, if recognized, would decrease the effective tax rate.

The Company recognizes interest and penalties related to unrecognized tax benefits on the income tax expense line in the accompanying consolidated statement of operations. The Company accrued and recognized interest expense related to uncertain tax positions of $0.4 million for the year ended December 31, 2023, and there was none for the year ended December 31, 2022. There are no penalties related to the uncertain tax positions for the years ended December 31, 2023 and 2022.

The Company believes it is reasonably possible that our unrecognized tax benefits could increase or decrease within the next 12 months.

Balance at December 31, 2022	$ 8.0
Increase (decrease) on tax positions for prior years	0.4
Increase (decrease) on tax positions for current year	4.9
Settlements with taxing authorities	—
Reduction due to lapse of the applicable statute of limitations	—
Balance at December 31, 2023	$ 13.3

The provision for federal and foreign income taxes incurred is different from that which would be obtained by applying the statutory federal income tax rate to income before income taxes.

A reconciliation of the Company's statutory income tax rate to the Company's effective income tax rate is as follows:

	December 31,		
	2023	2022	2021
Income at US statutory rate	21.0 %	21.0 %	21.0 %
State taxes, net of federal benefit	2.0 %	2.5 %	(8.4)%
Permanent differences	(5.0)%	(3.7)%	(1.7)%
Return to provision	— %	— %	(0.9)%
Foreign rate differential	0.3 %	0.2 %	0.6 %
Valuation allowance	(19.1)%	(18.1)%	(13.7)%
Uncertain tax position	(2.3)%	(2.7)%	— %
Other	— %	(0.2)%	(0.2)%
Total income taxes	(3.1)%	(1.0)%	(3.3)%

Tax reform in the U.S.

The Company selected to apply the "period cost method" to account for the Global Intangible Low-Taxed Income, and treated it as a current-period expense for December 31, 2023, 2022 and 2021, and had a gross inclusion of $4.1 million, $0.0 million and $14.0 million respectively, in its taxable income.

Net operating loss carryforward

As of December 31, 2023, the Company has federal losses for tax purposes of $269.9 million, which can be offset against future taxable income. Of this federal loss carryforward, $21.4 million in losses will begin to expire in 2035 and $248.5 million in losses can be carried forward indefinitely. As of December 31, 2023, the Company has state and local losses for tax purposes of $29.6 million which will begin to expire in 2029.

The Company's income tax returns for 2020 through 2022 remain subject to examination by the U.S. tax authorities.

Inflation Reduction Act

The Inflation Reduction Act, which created a new corporate alternative minimum tax (CAMT) effective for calendar year taxpayers January 1, 2023, was enacted on August 16, 2022. Based upon projected adjusted financial statement income for 2023, the reporting entity (or the controlled group of corporations of which the reporting entity is a member) has determined that average "adjusted financial statement income" is below the thresholds for the 2023 tax year such that it does not expect to be required to perform the CAMT calculations, nor be liable for any CAMT.

382 Limitation

On March 12, 2018, the Company underwent a change of control under Section 382 of the Internal Revenue Code by the purchase of interest by additional investors. Accordingly, a portion of the Company’s deferred tax assets are subject to an annual limitation under Section 382. The annual deduction limitations apply to approximately $43.0 million of net operating losses. The Company is not expected to write off any deferred tax assets as a result of these limitations. The Company may experience ownership changes in the future as a result of subsequent shifts in our stock ownership.

Bermuda Corporate Income Tax Regime

On December 18, 2023, Bermuda enacted a 15% corporate income tax regime (the “Bermuda CIT”) that applies to Bermuda businesses that are part of multinational enterprise groups with annual revenue of €750 million or more and is effective for tax years beginning on or after January 1, 2025. The Company does not expect that this will impact income tax provision until the Company meets the required annual revenue threshold.

19. Net Loss per Share

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

	Year Ended December 31,		
	2023	2022	2021
Numerator:			
Net loss attributable to common stockholders (in millions)	$ (236.9)	$ (297.8)	$ (241.3)
Denominator:			
Weighted average common shares outstanding — basic and diluted	69,658,912	64,921,524	61,224,433
Net loss per share attributable to common stockholders — basic and diluted	$ (3.40)	$ (4.59)	$ (3.94)

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 to 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.

	December 31,		
	2023	2022	2021
Options to purchase common stock	9,595,257	9,760,657	6,573,744
Unvested restricted stock	3,568,735	1,651,243	335,814
Warrants for common stock (1)	412,969	412,969	—
	13,576,961	11,824,869	6,909,558

(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.

20. 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 $0.1 million, $0.2 million and $0.1 million for the year ended December 31, 2023, 2022 and 2021, respectively. There were no outstanding amounts due from or to related parties as of December 31, 2023 and 2022.

The Company's Chief Executive Officer and President, 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 16). There were no outstanding amounts due from or to the Lemonade Foundation as of December 31, 2023 and 2022.

21. 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 loss can be reasonably estimated. The Company has been made a party to class action litigation alleging that certain of our business practices are or were improper. The Company accrued a liability for this matter in accordance with ASC 450, Contingencies (“ASC 450”), and was settled in October 2022.

Metromile Shareholder Litigation Matter

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

Charges and guarantees

The Company provided guarantees in an aggregate amount of $2.7 million and $2.7 million as of December 31, 2023 and 2022, with respect to certain office leases. There were no guarantees as of December 31, 2021.

22. Leases

The Company and its subsidiaries lease their facilities under various operating lease agreements. The Company's headquarters in New York operates under a lease agreement that expires in November 2025. The Company's Israel based operations occupy offices with lease expiration dates that extend through July 2026. The Company also entered into a lease agreement to lease an office space in Scottsdale, Arizona that expires in November 2024. The Company also occupies an office space in Amsterdam, Netherlands with lease that expires in February 2027. As part of the Metromile Acquisition (Note 5), the Company acquired two lease agreements for an office space in San Francisco, California that expires in November 2030 and an office space in Tempe, Arizona that expires in October 2024.

The Company subleased two floors of its New York office space beginning September 2023 through November 2025, and are classified as operating leases. As of December 31, 2023, the Company recognized $0.4 million of sublease income which is presented under “Commission and other income” in the consolidated statements of operations. As a result of the sublease, the Company evaluated our RoU asset associated with the original lease for impairment, using the undiscounted cash flows from the sublease. There were no impairment recognized related to the New York office sublease for the year ended December 31, 2023.

The Company subleased its San Francisco office space to third parties beginning November 2023 through November 2026, and is classified as an operating lease. As of December 31, 2023, the Company recognized $0.2 million of sublease income which is presented under “Commission and other income” in the consolidated statements of operations. The Company also recorded an impairment charge related to this sublease in San Francisco in the amount of $3.7 million which reduced the carrying value of RoU assets and the related leasehold improvements. 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 during the sublease term.

Operating lease expense under ASC 842 for leased facilities is presented below:

	December 31,	
	2023	2022
Operating lease expense	$ 8.1	$ 7.0
Short term lease expense	0.1	0.2
Variable lease cost	0.7	0.2
	$ 8.9	$ 7.4

Operating lease expense is included within continuing operations in the consolidated statements of operations and comprehensive loss.

Supplemental cash flow information related to operating leases is as follows ($ in millions):

	December 31,	
	2023	2022
Operating cash outflow from operating leases	$ 8.7	$ 6.5
Operating cash inflow from operating subleases	$ 0.4	$ —
RoU assets obtained in exchange for lease liabilities for operating leases	$ —	$ 11.0

Weighted-average remaining lease term and discount rate are as follows:

	December 31,	
	2023	2022
Weighted-average remaining lease term (in years)	4.0	4.7
Weighted-average discount rate	6.09 %	4.62 %

Maturities of operating lease liabilities as of December 31, 2023 is as follows ($ in millions):

2024	$ 10.1
2025	9.0
2026	4.5
2027	2.6
2028	2.7
Thereafter	3.4
Total	$ 32.3

23. Statutory Financial Information

U.S. state insurance laws and regulations prescribe accounting practices for determining statutory net income and capital and surplus for insurance companies. In addition, state regulators may permit statutory accounting practices that differ from prescribed practices. Statutory accounting practices ("SAP") prescribed or permitted by regulatory authorities for statements of the Company's insurance subsidiaries are (a) policy acquisition costs are expensed as incurred under SAP, whereas they are deferred and amortized under GAAP, (b) certain assets are not admitted for purposes of determining surplus under SAP, (c) investments in fixed income securities are carried at amortized cost under SAP, whereas such securities are carried at fair value under GAAP, and (d) the criteria for recognizing net deferred tax assets ("DTAs") and the methodologies used to determine such amounts are different under SAP and GAAP.

Risk-based capital (“RBC”) requirements promulgated by the National Association of Insurance Commissioners require property/casualty insurers to maintain minimum capitalization levels determined based on formulas incorporating various business risks of the insurance subsidiaries.

LIC’s statutory capital and surplus amounted to $135.3 million and $105.9 million as of December 31, 2023 and 2022, respectively. LIC’s capital and surplus exceeded its authorized control level RBC of $32.5 million and $28.2 million as of December 31, 2023 and 2022, respectively.

MIC’s statutory capital and surplus amounted to $30.0 million and $38.5 million as of December 31, 2023 and 2022. MIC’s capital and surplus exceeded its authorized control level RBC of $6.3 million and $8.7 million as of December 31, 2023 and 2022.

Statutory Dividend Restriction

The payment of dividends by LIC is restricted by state insurance regulations. Under New York insurance law, LIC may pay cash dividends only out of its statutory earned surplus. Generally, the maximum amount of dividends that LIC may pay without regulatory approval in any twelve-month period is the lesser of adjusted net investment income or 10% of statutory policyholders' surplus as of the end of the most recently reported quarter unless the NYS Department of Financial Services, upon prior application, approves a greater dividend distribution. Adjusted net investment income is defined for this purpose to include net investment income for the thirty-six months immediately preceding the declaration or distribution of the current dividend less any dividends declared or distributed during the period commencing thirty-six months prior to the declaration or distribution of the current dividend and ending twelve months prior thereto. As of December 31, 2023 and 2022, LIC was not eligible to make dividend payments.

The payment of dividends by MIC is restricted by the laws of the State of Delaware. The maximum amount that can be paid without prior notice or approval is the greater of 10% of surplus as regards policyholders as of the preceding December 31, or net income not including realized capital gains for the twelve-month period ending the preceding December 31. Because the Company has an unassigned deficit at December 31, 2023 and 2022, MIC’s dividend policy is governed by Section 5005(B) of the Delaware insurance code whereby a domestic insurer may not declare or pay a dividend or other distribution from any source other than earned surplus without the commissioner’s prior approval. MIC paid no dividends to the Company in 2023 and 2022.

24. Geographical Breakdown of Gross Written Premium

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

	Years ended December 31,					
	2023		2022		2021	
Jurisdiction	Amount	% of GWP	Amount	% of GWP	Amount	% of GWP
California	$ 191.6	25.9 %	$ 142.0	25.6 %	$ 93.9	25.0 %
Texas	117.5	15.9 %	91.3	16.4 %	72.5	19.3 %
New York	80.8	10.9 %	66.0	11.9 %	47.3	12.6 %
New Jersey	37.6	5.1 %	28.3	5.1 %	16.7	4.4 %
Illinois	35.3	4.8 %	26.3	4.7 %	15.7	4.2 %
Washington	25.9	3.5 %	15.8	2.8 %	5.4	1.4 %
Georgia	22.6	3.1 %	19.8	3.6 %	16.5	4.4 %
Colorado	22.0	3.0 %	15.8	2.8 %	9.2	2.4 %
Pennsylvania	19.7	2.7 %	14.4	2.6 %	9.7	2.6 %
Oregon	18.8	2.5 %	13.0	2.3 %	6.9	1.8 %
All others	166.6	22.6 %	123.0	22.2 %	81.9	21.8 %
	$ 738.4	100.0 %	$ 555.7	100.0 %	$ 375.7	100.0 %

Schedule V

LEMONADE, INC. AND SUBSIDIARIES

VALUATION AND QUALIFYING ACCOUNTS

($ in millions)	Balance at beginning of period	Additions: Charged to costs and expenses	Additions: Charge to other accounts	(Deductions)	Balance at end of period
Year Ended December 31, 2023					
Valuation allowance for deferred tax assets	$ 283.0	$ 39.4	$ —	$ —	$ 322.4
Allowance for premium receivables	$ 2.7	$ —	$ —	$ (0.2)	$ 2.5
Year Ended December 31, 2022					
Valuation allowance for deferred tax assets	$ 139.0	$ 144.0	$ —	$ —	$ 283.0
Allowance for premium receivables	$ 1.6	$ 1.1	$ —	$ —	$ 2.7

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. 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 principal executive officer and principal financial officer, evaluated, as of the end of the period covered by this Annual 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 principal executive officer and principal financial officer concluded that, as of December 31, 2023, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15(d)-15(f) under the Exchange Act) during the quarter ended December 31, 2023 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Internal Control over Financial Reporting is a process designed by, or under the supervision of, a company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. It includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management, including our principal executive officer and principal financial officer conducted an assessment of the effectiveness of our internal control over financial reporting based on the criteria set forth in "Internal Control-Integrated Framework (2013)" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management concluded that, as of December 31, 2023, our internal control over financial reporting was effective.

The effectiveness of our internal control over financial reporting as of December 31, 2023, has been audited by Ernst & Young LLP, an independent registered public accounting firm. See Report of Independent Registered Public Accounting Firm elsewhere in this Annual Report.

Item 9B. Other Information

(a) None.

(b) On December 14, 2023, Shai Wininger adopted a Rule 10b5-1 trading arrangement that is intended to satisfy the affirmative defense of Rule 10b5-1(c) for the sale of up to 900,000 shares of the Company’s common stock until December 31, 2025. During the fourth quarter of 2023, no director or officer terminated a Rule 10b5-1 trading arrangement or a non-Rule 10b5-1 trading arrangement, as each term is defined in Item 408(a) of Regulation S-K.

Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections

Not Applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Code of Ethics

Our board of directors has adopted a written Code of Business Conduct and Ethics applicable to all officers, directors and employees, including our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. We have posted a current copy of our Code of Business Conduct and Ethics on our website at www.lemonade.com in the “Investors Relations” section under “Governance.” We intend to satisfy the disclosure requirement under Item 5.05 of Form 8-K regarding amendment to, or waiver from, a provision of our Code of Business Conduct and Ethics, as well as NYSE’s requirement to disclose waivers with respect to directors and executive officers, by posting such information on our website at the address and location specified above. The information contained on our website is not incorporated by reference into this Annual Report.

Executive Officers and Directors

The information concerning our executive officers and directors required by this Item 10 is contained under the caption “Information about our Executive Officers and Directors” at the end of Part I of this Annual Report. The remainder of the response to this Item 10 will be included in our definitive Proxy Statement for the 2024 Annual Meeting of Stockholders under the headings “Delinquent Section 16(a) Reports” (if applicable) and “Committees of the Board” and is incorporated herein by reference.

Item 11. Executive Compensation

The information required by this Item 11 will be included in our definitive Proxy Statement for the 2024 Annual Meeting of Stockholders under the headings “Executive and Director Compensation” and “Compensation Committee Interlocks and Insider Participation” (if applicable) and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Securities Authorized for Issuance under Equity Compensation Plans

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, RSUs, Warrants, and Rights	Weighted-Average Exercise Price of Outstanding Options, RSUs, Warrants, and Rights (2)(3)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (4)
Equity compensation plans approved by security holders (1)	13,163,992	$37.26	7,606,547
Equity compensation plans not approved by security holders	—	—	—
Total	13,163,992	$37.26	7,606,547

(1) Consists of Lemonade, Inc.’s 2020 Plan, 2020 ESPP, the 2011 Plan and the 2021 Plan.

(2) Includes 4,686,527 shares of common stock issuable upon exercise of stock options under the 2020 Plan, inclusive of available shares previously reserved for issuance under the 2015 Plan. Includes 72,410 shares of common stock issuable upon exercise of stock options under the 2011 Plan. Includes 331,797 shares of common stock issuable upon exercise of stock options under the 2021 Plan.

(3) As of December 31, 2023, the weighted average exercise price of outstanding options under the 2020 Plan, the 2011 Plan and 2021 Plan, inclusive of available shares previously reserved for issuance under the 2015 Plan, was $37.26.

(4) Includes 7,606,547 shares available for future issuance under the 2020 Plan. The 2020 Plan provides for an annual increase on the first day of each calendar year beginning January 1, 2021 and ending on and including January 1, 2030, equal to the lesser of (A) 5% of the aggregate number of shares of common stock outstanding on the final day of the immediately preceding calendar year and (B) such smaller number of shares as is determined by the board of directors, provided that no more than 3,650,000 shares be available for issuance pursuant to the exercise of incentive stock options. On January 1, 2024, the 2020 Plan was increased by 3,508,185 shares, equal to the lesser of 5% of the aggregate number of outstanding common stock as of December 31, 2023. On January 1, 2023, the Board took action such that no shares were added to the 2020 ESPP. The number of shares available for issuance under the 2020 ESPP will be annually increased on January 1 of each calendar year beginning January 1, 2021 and ending on and including January 1, 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. On January 1, 2024, the Board took action such that no shares were added to the 2020 ESPP.

The remaining information required by this Item 12 will be included in our definitive Proxy Statement for the 2024 Annual Meeting of Stockholders under the heading “Security Ownership of Certain Beneficial Owners and Management” and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions and Director Independence

The information required by this Item 13 will be included in our definitive Proxy Statement for the 2024 Annual Meeting of Stockholders under the headings “Corporate Governance” and “Certain Relationships and Related Person Transactions” and is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

The information required by this Item 14 will be included in our definitive Proxy Statement for the 2024 Annual Meeting of Stockholders under the heading “Independent Registered Public Accounting Firm Fees and Other Matters” and is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a)(1) Financial Statements.

The financial statements required by this item are listed in Part II, Item 8 “Financial Statements and Supplementary Data” herein.

(a)(2) Financial Statement Schedules.

Other than Schedule V included in Part II, Item 8 “Financial Statements and Supplemental Data”, all financial statement schedules have been omitted because they are not applicable, not required or the information required is shown in the financial statements or the notes thereto.

(a)(3) Exhibits.

The following is a list of exhibits filed as part of this Annual Report.

INDEX TO EXHIBITS

Exhibit No.	Exhibit Description	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 Bylaws of Lemonade, Inc.	8-K	001-39367	3.1	12/20/2023
4.1	Specimen Common Stock Certificate of Lemonade, Inc.	S-1/A	333-239007	4.1	6/23/2020
4.2	Amended and Restated Investors' Rights Agreement by and between Lemonade, Inc. and certain security holders of Lemonade, Inc., dated October 14, 2022.	10-K	001-39367	4.2	3/3/2023
4.3*	Description of Securities				
4.4	Warrant Agreement to Purchase Commons Stock, dated as of October 14, 2022 by and among Lemonade and Chewy Insurance Services LLC.	8-K	001-39367	10.2	10/20/2022
4.5	Warrant Agreement, dated September 2, 2020, between INSU Acquisitions Corp II and Continental Stock Transfer and Trust Company, as warrant agent	8-K	001-39484	4.1	9/9/2020
4.6	Amendment No. 1 to Warrant Agreement, dated June 17, 2022 between Metromile, Inc., Continental Stock Transfer & Trust Company, as warrant agent, an American Stock Transfer & Trust Company, as successor warrant agent	10-Q	001-39367	4.4	11/9/2022
4.7	Form of Warrant Certificate of Metromile, Inc.	S-1	333-253-055	4.2	2/12/2021
10.1	Form of Indemnification Agreement between Lemonade, Inc. and each of its directors and executive officers.	S-1	333-239007	10.2	6/8/2020
10.2#	Lemonade, Inc. 2020 Incentive Award Plan.	S-1/A	333-239007	10.9	6/23/2020
10.3#	Form of Option Agreement under the 2020 Incentive Award Plan.	S-1	333-252017	10.9	1/11/2021
10.4#	Non-Employee Director Compensation Policy.	S-1/A	333-239007	10.19	6/23/2020
10.5#	Lemonade, Inc. 2020 Employee Stock Purchase Plan.	S-1/A	333-239007	10.20	6/23/2020
10.6#	Severance Agreement by and between Tim Bixby and Lemonade, Inc., dated July 7, 2020.	10-Q	001-39367	10.11	8/12/2020
10.7#	Amended and Restated Employment Agreement, by and between Daniel Schreiber and Lemonade Ltd., dated July 7, 2020.	10-Q	001-39367	10.12	8/12/2020
10.8#	Amended and Restated Employment Agreement by and between Shai Wininger and Lemonade Ltd., dated July 7, 2020.	10-Q	001-39367	10.13	8/12/2020
10.9#	Amended and Restated Employment Agreement by and between John Peters and Lemonade, Inc., dated July 7, 2020	10-Q	001-39367	10.14	8/12/2020
10.10#	Offer Letter, by and between Tim Bixby and Lemonade, Inc., dated May 25, 2017.	S-1	333-239007	10.6	6/8/2020
10.11#	Amended and Restated 2015 Incentive Share Option Plan.	S-1	333-239007	10.8	6/8/2020
10.12#	Form of Option Agreement under the Amended and Restated 2015 Incentive Share Option Plan (Israel).	S-1	333-252017	10.6	1/11/2021
10.13#	Form of Option Agreement under the Amended and Restated 2015 Incentive Share Option Plan (U.S.).	S-1	333-252017	10.7	1/11/2021
10.14	Stock Purchase Agreement, by and between Tim Bixby and Lemonade, Inc., dated June 1, 2017.	S-1	333-239007	10.10	6/8/2020
10.15	Stock Purchase Agreement, by and between John Peters and Lemonade, Inc., dated March 8, 2017.	S-1	333-239007	10.11	6/8/2020
10.16	Stock Purchase Agreement, by and between John Peters and Lemonade, Inc., dated October 3, 2016.	S-1	333-239007	10.12	6/8/2020
10.17	AWS Customer Agreement, by and between Amazon Web Services, Inc. and Lemonade, Inc.	S-1	333-239007	10.13	6/8/2020
10.18	Severance Agreement by and between Adina Eckstein and Lemonade, Inc. dated August 5, 2021	10-Q	001-39367	10.1	8/11/2021
10.19	Form of Voting and Support Agreement	10-Q	001-39367	10.2	11/9/2021
10.20	Form of Restricted Stock Unit Agreement under the 2020 Incentive Award Plan (Israel)	10-Q	001-39367	10.2	8/11/2021
10.21	Form of Option Agreement under the 2020 Incentive Award Plan (Israel)	10-Q	001-39367	10.1	5/12/2021

Exhibit No.	Exhibit Description	Form	File No.	Exhibit	Filing Date
10.22 †	Omnibus Agreement, dated as of October 14, 2022, by and between Lemonade, Inc. and Chewy Insurance Services, LLC	8-K	001-39367	10.1	10/20/2022
10.23#	Metromile, Inc. 2021 Equity Incentive Plan	S-8	333-266362	99.2	7/28/2022
10.24#	Metromile, Inc. Amended and Restated 2011 Equity Incentive Plan, as amended	S-8	333-266362	99.3	7/28/2022
10.25#	Transition Letter Agreement by and between John Peters and Lemonade, Inc. dated November 1, 2023	10-Q	001-39367	10.1	11/3/2023
10.26†*	Amended and Restated Customer Investment Agreement dated January 8, 2024, between Lemonade, Inc. and GC Customer Value Arranger LLC, as Arranger on behalf of the Investors				
10.27 †	Property Per Risk Excess of Loss Reinsurance Contract issued to Lemonade Insurance Company and Lemonade Insurance N.V. by the Subscribing Reinsurers, dated July 1, 2023	10-Q	001-39367	10.2	8/4/2023
10.28 †	Automatic Facultative Property Per Risk Excess of Loss Reinsurance Contract issued to Lemonade Insurance Company by the Subscribing Reinsurer Arch Reinsurance Company, dated July 1, 2023	10-Q	001-39367	10.3	8/4/2023
10.29 †	Whole Account Quota Share Reinsurance Contract issued to Lemonade Insurance Company and Lemonade Insurance N.V. by the Subscribing Reinsurer Hannover Ruck SE, dated July 1, 2023	10-Q	001-39367	10.4	8/4/2023
10.30 †	Whole Account Quota Share Reinsurance Contract issued to Lemonade Insurance Company and Lemonade Insurance N.V. by the Subscribing Reinsurer MAPFRE Re (Spain), dated July 1, 2023	10-Q	001-39367	10.5	8/4/2023
10.31 †	Whole Account Quota Share Reinsurance Contract issued to Lemonade Insurance Company and Lemonade Insurance N.V. by the Subscribing Reinsurer Swiss Re, dated July 1, 2023	10-Q	001-39367	10.6	8/4/2023
10.32#*	Severance Agreement by and between Maya Prosor and Lemonade, Inc. dated February 12, 2024				
21.1*	List of Subsidiaries of Lemonade, Inc.				
23.1*	Consent of Ernst & Young LLP				
31.1*	Certification of Chief Executive Officer pursuant to Exchange Act Rule 13a-14(a)				
31.2*	Certification of Chief Financial Officer pursuant to Exchange Act Rule 13a-14(a)				
32.1**	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350				
32.2**	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350				
97.1*	Policy Relating to Recovery of Erroneously Awarded Compensation				
101.INS*	Inline XBRL Instance Document - the instance document appear in the Interactive Data File because its 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.				
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)				

* Filed herewith.
** Furnished herewith.
# Indicates management contract or compensatory plan.
† Portions of this exhibit have been redacted in compliance with Regulation S-K Item 601(b)(10)(iv).

Item 16. Form 10-K Summary

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Act of 1934, as amended, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

Lemonade, Inc.

By: /s/ Daniel Schreiber
Name: Daniel Schreiber
Title: Chief Executive Officer

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

Pursuant to the requirements of the Securities Exchange Act of 1934 (as amended), this Report has been signed below by the following persons on behalf of the Registrant in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Daniel Schreiber Daniel Schreiber	Chief Executive Officer (Principal Executive Officer) and Chairman of the Board of Directors	February 28, 2024
/s/ Tim Bixby Tim Bixby	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	February 28, 2024
/s/ Shai Wininger Shai Wininger	President and Director	February 28, 2024
/s/ Michael Eisenberg Michael Eisenberg	Director	February 28, 2024
/s/ Dr. Samer Haj-Yehia Dr. Samer Haj-Yehia	Director	February 28, 2024
/s/ Mwashuma Nyatta Mwashuma Nyatta	Director	February 28, 2024
/s/ Debra Schwartz Debra Schwartz	Director	February 28, 2024

Exhibit 4.3

**DESCRIPTION OF THE REGISTRANT'S SECURITIES
REGISTERED PURSUANT TO SECTION 12 OF THE
SECURITIES EXCHANGE ACT OF 1934, AS AMENDED**

Lemonade, Inc. has one class of securities registered under Section 12 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"): our common stock, par value $0.00001 per share. References herein to, "we," "us," "our", and "our company" refer to Lemonade, Inc. and not to any of its subsidiaries.

The following description of our capital stock and certain provisions of our amended and restated certificate of incorporation, amended and restated bylaws, and the Warrant Agreement, dated September 2, 2020, by and among INSU Acquisition Corp. II and each of the signatories thereto ("the Warrant Agreement") are summaries and are qualified in their entirety by reference to the full text of our amended and restated certificate of incorporation ("Amended Charter"), our amended and restated bylaws ("Amended Bylaws") and the Warrant Agreement, each of which have been publicly filed with the Securities and Exchange Commission (the "SEC"). We encourage you to read the full text of our Amended Charter and our Amended Bylaws and the applicable provisions of the Delaware General Corporation Law (the "DGCL") for additional information.

Authorized Capital Stock

Our authorized capital stock consists of 200,000,000 shares of common stock, par value $0.00001 per share, and 10,000,000 shares of preferred stock, par value $0.00001 per share, the rights and preferences of which the board of directors may establish from time to time.

Common Stock

Dividend Rights

Holders of shares of our common stock are entitled to receive dividends when, as and if declared by our board of directors out of funds legally available therefor, subject to any statutory or contractual restrictions on the payment of dividends and to any restrictions on the payment of dividends imposed by the terms of any outstanding stock. Under Delaware law, we can only pay dividends either out of "surplus" or out of the current or the immediately preceding year's net profits. Surplus is defined as the excess, if any, at any given time, of the total assets of a corporation over its total liabilities and statutory capital. The value of a corporation's assets can be measured in a number of ways and may not necessarily equal their book value.

Applicable insurance laws restrict the ability of our insurance subsidiary to declare stockholder dividends and require insurance companies to maintain specified levels of statutory capital and surplus. Insurance regulators have broad powers to prevent reduction of statutory surplus to inadequate levels, and there is no assurance that dividends of the maximum amounts calculated under any applicable formula would be permitted. State insurance regulatory authorities that have jurisdiction over the payment of dividends by our insurance subsidiary may in the future adopt statutory provisions more restrictive than those currently in effect.

Voting Rights

Holders of our common stock are entitled to one vote for each share held on all matters submitted to a vote of stockholders. The holders of our common stock vote together as a single class, unless otherwise required by law. The holders of our common stock do not have cumulative voting rights in the election of directors.

Our Amended Bylaws provide for a classified board of directors consisting of three classes of approximately equal size, each serving staggered three-year terms. If the number of directors is changed, any increase or decrease shall be apportioned among the classes by the board of directors so as to maintain the number of directors in each class as nearly equal as possible, and any additional director of any class elected to fill a vacancy resulting from an increase in such class shall hold office for a term that shall coincide with the remaining term of that class. In no case will a decrease in the number of directors shorten the term of any incumbent director.

Our Amended Charter further provides that no holder of common stock and/or preferred stock (collectively, the “Capital Stock”) shall be permitted to vote more than 9.90% of the then outstanding Capital Stock without first obtaining approval from the New York Department of Financial Services, as provided in all applicable regulations. In the event that such approval does not permit the holder to vote more than 9.90%, the positive excess of voting rights shall be distributed pro rata among the stockholders not subject to this restriction.

No Preemptive or Similar Rights

Our common stock is not entitled to preemptive rights, and is not subject to conversion, redemption, or sinking fund provisions.

Right to Receive Liquidation Distributions

If we become subject to a liquidation, dissolution, or winding-up, the assets legally available for distribution to our stockholders would be distributable ratably among the holders of our common stock and any participating preferred stock outstanding at that time, subject to prior satisfaction of all outstanding debt and liabilities and the preferential rights of and the payment of liquidation preferences, if any, on any outstanding shares of preferred stock.

Preferred Stock

No shares of preferred stock are outstanding. Our Amended Charter authorizes our board of directors to establish one or more series of preferred stock. Unless required by law or any stock exchange, the authorized shares of preferred stock will be available for issuance without further action by the holders of our common stock. Our board of directors is able to determine, without stockholder approval and with respect to any series of preferred stock, the powers (including voting powers), preferences and relative, participating, optional, or other special rights, and the qualifications, limitations, or restrictions thereof.

We could issue a series of preferred stock that could, depending on the terms of the series, impede or discourage an acquisition attempt or other transaction that some, or a majority, of the holders of our common stock might believe to be in their best interests or in which the holders of our common stock might receive a premium over the market price of the shares of our common stock. Additionally, the issuance of preferred stock may adversely affect the rights of holders of our common stock by restricting dividends on the common stock, diluting the voting power of the common stock or subordinating the liquidation rights of the common stock. As a result of these or other factors, the issuance of preferred stock could have an adverse impact on the market price of our common stock. We have no current plan for the issuance of any shares of preferred stock.

Investors' Rights Agreement

We are party to an Amended and Restated Investors' Rights Agreement (the "Investors' Rights Agreement"), dated October 14, 2022 with certain holders of our capital stock. Under our Investors' Rights Agreement, certain holders of our capital stock have the right to demand that we file a registration statement or request that their shares of our capital stock be covered by a registration statement that we are otherwise filing. Pursuant to the Investors' Rights Agreement, certain holders of our common stock and warrants are entitled to rights with respect to the registration of their shares under the Securities Act of 1933, as amended (the "Securities Act").

The registration rights set forth in the Investors' Rights Agreement expires (a) on October 14, 2029 or (b) with respect to any particular stockholder, when such stockholder is able to sell all of its shares pursuant to Rule 144 of the Securities Act or holds 1% or less of the Company's outstanding common stock and all Registrable Securities (as such term is defined in the Investors' Rights Agreement) held by such holder can be sold in any three month period, in compliance with Rule 144.

We will pay the registration expenses (other than underwriting discounts and commissions) of the holders of the shares registered pursuant to the registrations described below. In an underwritten offering, the managing underwriter, if any, has the right, subject to specified conditions, to limit the number of shares such holders may include.

Demand Registration Rights

Certain holders under the Investors' Rights Agreement are entitled to certain demand registration rights. The holders of at least a majority of these shares then outstanding can request that we register the offer and sale of their shares. Such request for registration must cover securities, the anticipated aggregate public offering price of which is at least $15 million. We are obligated to effect only two such registrations that have been declared or ordered effective. If we determine in good faith that it would be seriously detrimental to us and our stockholders to effect such a demand registration, we have the right to defer such registration, not more than once in any 12-month period, for a period of up to 90 days.

Piggyback Registration Rights

If we propose to register the offer and sale of shares of our common stock under the Securities Act, in connection with the public offering of such common stock certain holders will be entitled to certain "piggyback" registration rights allowing such holders to include their shares in such registration, subject to certain marketing and other limitations. As a result, whenever we propose to file a registration statement under the Securities Act, other than with respect to (i) a registration pursuant to the demand registration rights described above, (ii) a registration in which the only common stock being registered is common stock issuable upon conversion of debt securities that are also being registered, (iii) a registration related to any stock plan, (iv) a corporate reorganization or other transaction covered by Rule 145 promulgated under the Securities Act, or (v) a registration on any registration form which does not include substantially the same information as would be required to be included in a registration statement covering the public offering of our common stock, the holders of these shares are entitled to notice of the registration and have the right, subject to certain limitations, to include their shares in the registration.

S-3 Registration Rights

Under the Investors' Rights Agreement, holders of at least 20% of the registrable securities may make a written request that we register the offer and sale of their shares on a registration statement on Form S-3. The Company will not be obligated to effect any such registration if (i) Form S-3 is not available for such offering by the holders, (ii) the holders, together with the holders of any other securities of the company entitled to inclusion in such registration, propose to sell securities at an aggregate price to the public of less than $10 million, net of any underwriters' discounts or commissions, (iii) the Company has effected two registrations on Form S-3 within the 12-month period preceding the date of the request, and (iv) the Company determines in good faith that it would be seriously detrimental to us and our stockholders to effect such a registration, in which case we have the right to defer such registration, not more than once in any 12-month period, for a period of up to 90 days.

Anti-Takeover Effects of Provisions of our Amended Charter and Amended Bylaws

Our Amended Charter and our Amended Bylaws also contain provisions that may delay, defer or discourage another party from acquiring control of us. We expect that these provisions, which are summarized below, will discourage coercive takeover practices or inadequate takeover bids. These provisions are also designed to encourage persons seeking to acquire control of us to first negotiate with our board of directors, which we believe may result in an improvement of the terms of any such acquisition in favor of our stockholders. However, they also give our board of directors the power to discourage acquisitions that some stockholders may favor.

Public Warrants

Each whole warrant entitles the registered holder to purchase .05263 shares of our common stock at a price of $218.51 per share, subject to adjustment as discussed below, at any time commencing on July 28, 2022. Pursuant to the Warrant Agreement, a warrantholder may exercise his, her or its warrants only for a whole number of shares of common stock. The warrants will expire five years after the closing of Metromile's initial business combination on February 9, 2021 (the "Business Combination"), at 5:00 p.m., New York time, or earlier upon redemption or liquidation.

We are not be obligated to deliver any shares of common stock pursuant to the exercise for cash of a warrant and have no obligation to settle such warrant exercise unless a registration statement under the Securities Act, with respect to the shares of common stock underlying the warrants is then effective and a prospectus relating thereto is current, subject to our satisfying our obligations with respect to registration. No warrant is exercisable and are not obligated to issue shares of common stock upon exercise of a warrant unless common stock issuable upon such warrant exercise has been registered, qualified or deemed to be exempt from the registration or qualifications requirements of the securities laws of the state of residence of the registered holder of the warrants.

Warrantholders may, during any period when we have failed to maintain an effective registration statement, exercise warrants on a cashless basis pursuant to the exemption provided by Section 3(a)(9) of the Securities Act or another available exemption. Notwithstanding the above, if our common stock is at the time of any exercise of a warrant not listed on a national securities exchange such that it satisfies the definition of a "covered security" under Section 18(b)(1) of the Securities Act, we may, at our option, require holders of warrants who exercise their warrants to do so on a "cashless basis" in accordance with Section 3(a)(9) of the Securities Act and, in the event we so elect, we will not be required to file or maintain in effect a registration statement, and in the event we do not so elect, we will use our best efforts to register or qualify the shares under applicable blue sky laws to the extent an exemption is not available.

Once the warrants become exercisable, we may, except as otherwise provided in the Warrant Agreement, call the warrants for redemption:

- in whole and not in part;
- at a price of $0.01 per warrant;
- upon not less than 30 days' prior written notice of redemption to each warrantholder; and
- if, and only if, the reported last sale price of the common stock (or the closing bid price of our common stock in the event shares of our common stock are not traded on any specific day) equals or exceeds $342.01 per share (as adjusted for stock splits, stock dividends, reorganizations and the like) for any 20 trading days within a 30 trading-day period ending on the third business day prior to the date on which we send proper notice of such redemption to the warrantholders.

If and when the warrants become redeemable by us, we may exercise our redemption right even if we are unable to register or qualify the underlying securities for sale under all applicable state securities laws.

We have established the last of the redemption criterion discussed above to prevent a redemption call unless there is at the time of the call a significant premium to the warrant exercise price. If the foregoing conditions are satisfied and we issue a notice of redemption of the warrants, each warrantholder will be entitled to exercise his, her or its warrant prior to the scheduled redemption date. However, the price of the common stock may fall below the $342.01 redemption trigger price (as adjusted for stock splits, stock dividends, reorganizations, recapitalizations and the like) as well as the $218.51 (for whole shares) warrant exercise price after the redemption notice is issued.

If we call the warrants for redemption as described above, our management will have the option to require any holder that wishes to exercise its warrant to do so on a "cashless basis." In determining whether to require all holders to exercise their warrants on a "cashless basis," our management will consider, among other factors, our cash position, the number of warrants that are outstanding and the dilutive effect on our stockholders of issuing the maximum number of shares of common stock issuable upon the exercise of our warrants. If our management takes advantage of this option, all holders of warrants would pay the exercise price by surrendering their warrants for that number of shares of common stock equal to the quotient obtained by dividing (x) the product of the number of shares of common stock underlying the warrants, multiplied by the difference between the exercise price of the warrants and the "fair market value" (defined below) by (y) the fair market value. The "fair market value" shall mean the average last reported sale price of the common stock for the 10 trading days ending on the third trading day prior to the date on which the notice of redemption is sent to the holders of the warrants. If our management takes advantage of this option, the notice of redemption will contain the information necessary to calculate the number of shares of common stock to be received upon exercise of the warrants, including the "fair market value" in such case. Requiring a cashless exercise in this manner will reduce the number of shares to be issued and thereby lessen the dilutive effect of a warrant redemption.

A holder of a warrant may notify us in writing if it elects to be subject to a requirement that such holder will not have the right to exercise such warrant, to the extent that after giving effect to such exercise, such person (together with such person's affiliates), to the warrant agent's actual knowledge, would beneficially own in excess of 4.9% or 9.8% (or such other amount as a holder may specify) of the shares of common stock outstanding immediately after giving effect to such exercise.

If the number of outstanding shares of common stock is increased by a stock dividend payable in shares of common stock, or by a split-up of shares of common stock or other similar event, then, on the effective date of such stock dividend, split-up or similar event, the number of shares of common stock issuable on exercise of each warrant will be increased in proportion to such increase in the outstanding shares of common stock. A rights offering to holders of common stock entitling holders to purchase shares of common stock at a price less than the fair market value will be deemed a stock dividend of a number of shares of common stock equal to the product of (i) the number of shares of common stock actually sold in such rights offering (or issuable under any other equity securities sold in such rights offering that are convertible into or exercisable for common stock) and (ii) one (1) minus the quotient of (x) the price per share of common stock paid in such rights offering divided by (y) the fair market value. For these purposes (i) if the rights offering is for securities convertible into or exercisable for common stock, in determining the price payable for common stock, there will be taken into account any consideration received for such rights, as well as any additional amount payable upon exercise or conversion and (ii) fair market value means the volume weighted average price of common stock as reported during the ten (10) trading day period ending on the trading day prior to the first date on which the shares of common stock trade on the applicable exchange or in the applicable market, regular way, without the right to receive such rights.

In addition, if we, at any time while the warrants are outstanding and unexpired, pay a dividend or make a distribution in cash, securities or other assets to the holders of common stock on account of such shares of common stock (or other shares of our capital stock into which the warrants are convertible), other than (a) as described above or (b) by certain ordinary cash dividends, then the warrant exercise price will be decreased, effective immediately after the effective date of such event, by the amount of cash and/or the fair market value of any securities or other assets paid on each share of common stock in respect of such event.

If the number of outstanding shares of our common stock is decreased by a consolidation, combination, reverse stock split or reclassification of shares of common stock or other similar event, then, on the effective date of such consolidation, combination, reverse stock split, reclassification or similar event, the number of shares of common stock issuable on exercise of each warrant will be decreased in proportion to such decrease in outstanding shares of common stock.

Whenever the number of shares of common stock purchasable upon the exercise of the warrants is adjusted, as described above, the warrant exercise price will be adjusted by multiplying the warrant exercise price immediately prior to such adjustment by a fraction (x) the numerator of which will be the number of shares of common stock purchasable upon the exercise of the warrants immediately prior to such adjustment, and (y) the denominator of which will be the number of shares of common stock so purchasable immediately thereafter.

In case of any reclassification or reorganization of the outstanding shares of common stock (other than those described above or that solely affects the par value of such shares of common stock), or in the case of any merger or consolidation of us with or into another corporation (other than a consolidation or merger in which we are the continuing corporation and that does not result in any reclassification or reorganization of our outstanding shares of common stock), or in the case of any sale or conveyance to another corporation or entity of the assets or other property of us as an entirety or substantially as an entirety in connection with which we are dissolved, the holders of the warrants will thereafter have the right to purchase and receive, upon the basis and upon the terms and conditions specified in the warrants and in lieu of the shares of our common stock immediately theretofore purchasable and receivable upon the exercise of the rights represented thereby, the kind and amount of shares of stock or other securities or property (including cash) receivable upon such event, that the holder of the warrants would have received if such holder had exercised his, her or its warrants immediately before the event. If less than 70% of the consideration receivable by the holders of common stock in such a transaction is payable in the form of common stock in the successor entity that is listed for trading on a national securities exchange or is quoted in an established over-the-counter market, or is to be so listed for trading or quoted immediately following such event, and if the registered holder of the warrant properly exercises the warrant within thirty (30) days following public disclosure of such transaction, the warrant exercise price will be reduced as specified in the Warrant Agreement based on the Black-Scholes value (as defined in the Warrant Agreement) of the warrant.

The Warrant Agreement provides that the terms of the warrants may be amended without the consent of any holder to cure any ambiguity or correct any defective provision, but requires the approval by the holders of at least 65% of the then outstanding warrants to make any change that adversely affects the interests of the registered holders of warrants.

The warrants may be exercised upon surrender of the warrant certificate on or prior to the expiration date at the offices of the warrant agent, with the exercise form on the reverse side of the warrant certificate completed and executed as indicated, accompanied by full payment of the exercise price (or on a cashless basis, if applicable), by certified or official bank check payable to us, for the number of warrants being exercised. The warrantholders do not have the rights or privileges of holders of common stock and any voting rights until they exercise their warrants and receive shares of common stock. After the issuance of shares of common stock upon exercise of the warrants, each holder will be entitled to one vote for each share held of record on all matters to be voted on by stockholders.

The warrants may be exercised only for a whole number of shares of common stock. No fractional shares will be issued upon exercise of the warrants. If, upon exercise of the warrants, a holder would be entitled to receive a fractional interest in a share, we will, upon exercise, round down to the nearest whole number of shares of common stock to be issued to the warrantholder.

Placement Warrants

The placement warrants are identical to the public warrants, except that if held by the initial holders or their permitted transferees, they (a) may be exercised for cash or on a cashless basis, (b) are not subject to being called for redemption and (c) they (including our common stock issuable upon exercise of these warrants) may not, subject to certain limited exceptions, be transferred, assigned or sold by the holders until 30 days after the consummation of the Business Combination. In addition, for as long as the placement warrants are held by Cantor Fitzgerald & Co. and/or its designees or affiliates, such placement warrants may not be exercised after September 2, 2025.

Amended Charter and Amended Bylaw Provisions

Our Amended Charter and our Amended Bylaws include a number of provisions that could deter hostile takeovers or delay or prevent changes in control of our board of directors or management team, including the following:

Classified Board of Directors

Our Amended Bylaws provide that our board of directors is classified into three classes of directors, each of which will hold office for a three-year term. In addition, directors may only be removed from the board of directors for cause. The existence of a classified board could delay a potential acquirer from obtaining majority control of our board of directors, and the prospect of that delay might deter a potential acquirer.

Authorized but Unissued Shares

The authorized but unissued shares of common stock and preferred stock are available for future issuance without stockholder approval, subject to any limitations imposed by the listing standards of the New York Stock Exchange (the “NYSE”). These additional shares may be used for a variety of corporate finance transactions, acquisitions and employee benefit plans. The existence of authorized but unissued and unreserved common stock and preferred stock could make more difficult or discourage an attempt to obtain control of us by means of a proxy contest, tender offer, merger or otherwise.

Requirements for Advance Notification of Stockholder Meetings, Nominations and Proposals

Our Amended Bylaws provide advance notice procedures for stockholders seeking to bring business before our annual meeting of stockholders or to nominate candidates for election as directors at our annual meeting of stockholders. Our Amended Bylaws also specify certain requirements regarding the form and content of a stockholder’s notice. These provisions might preclude our stockholders from bringing matters before our annual meeting of stockholders or from making nominations for directors at our annual meeting of stockholders if the proper procedures are not followed. We expect that these provisions may also discourage or deter a potential acquirer from conducting a solicitation of proxies to elect the acquirer’s own slate of directors or otherwise attempting to obtain control of our company.

Stockholder Action by Written Consent; Special Meeting of Stockholders

Pursuant to Section 228 of the DGCL, any action required to be taken at any annual or special meeting of the stockholders may be taken without a meeting, without prior notice, and without a vote if a consent or consents in writing, setting forth the action so taken, is signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares of our stock entitled to vote thereon were present and voted, unless the company’s certificate of incorporation provides otherwise. Our Amended Charter provides that our stockholders may not take action by written consent, but may only take action at annual or special meetings of our stockholders. As a result, a holder controlling a majority of our capital stock would not be able to amend our Amended Bylaws or remove directors without holding a meeting of our stockholders called in accordance with our Amended Bylaws. Our Amended Bylaws further provide that special meetings of our stockholders may be called only by our board of directors, the chairperson of our board of directors, our Chief Executive Officer, or our President (in the absence of a chief executive officer), thus prohibiting a stockholder from calling a special meeting. These provisions might delay the ability of our stockholders to force consideration of a proposal or for stockholders controlling a majority of our capital stock to take any action, including the removal of directors.

No Cumulative Voting

The DGCL provides that stockholders are not entitled to cumulate votes in the election of directors unless a corporation’s certificate of incorporation provides otherwise. Our Amended Charter does not provide for cumulative voting.

Amendment of Amended Charter or Amended Bylaws

Our Amended Charter requires the approval of the holders of at least two-thirds in the voting power of the outstanding shares of our capital stock in order to amend certain provisions including those relating to removal of directors, rights and privileges of the common stock, indemnification, exclusive forum, and the prohibition on stockholder action by written consent. Our Amended Bylaws provide that the approval of the holders of at least two-thirds in voting power of the outstanding shares of our capital stock entitled to vote thereon is required for stockholders to amend or adopt any provision of our Amended Bylaws.

The foregoing provisions of our Amended Charter and Amended Bylaws could discourage potential acquisition proposals and could delay or prevent a change in control. These provisions are intended to enhance the likelihood of continuity and stability in the composition of our board of directors and in the policies formulated by our board of directors and to discourage certain types of transactions that may involve an actual or threatened change of control. These provisions are designed to reduce our vulnerability to an unsolicited acquisition proposal. The provisions also are intended to discourage certain tactics that may be used in proxy fights. However, such provisions could have the effect of discouraging others from making tender offers for our shares and, as a consequence, they also may inhibit fluctuations in the market price of our shares of common stock that could result from actual or rumored takeover attempts. Such provisions also may have the effect of preventing changes in our management or delaying or preventing a transaction that might benefit you or other minority stockholders.

Issuance of Undesignated Preferred Stock

Our board of directors has the authority, without further action by our stockholders, to issue up to 10,000,000 shares of undesignated preferred stock with rights and preferences, including voting rights, designated from time to time by our board of directors. The existence of authorized but unissued shares of preferred stock would enable our board of directors to render more difficult or to discourage an attempt to obtain control of us by means of a merger, tender offer, proxy contest or other means.

Exclusive Venue

Our Amended Charter requires, to the fullest extent permitted by law, that (i) any derivative action or proceeding brought on our behalf, (ii) any action asserting a claim of breach of a fiduciary duty owed by any of our directors, officers, or other employees to us or our stockholders, (iii) any action asserting a claim against us arising pursuant to any provision of the DGCL or our Amended Charter or Amended Bylaws, or (iv) any action asserting a claim against us governed by the internal affairs doctrine will have to be brought only in the Court of Chancery in the State of Delaware; provided that, the exclusive forum provision will not apply to suits brought to enforce any liability or duty created by the Exchange Act, or to any claim for which the federal courts have exclusive jurisdiction. Our Amended Charter also provides that unless we consent in writing to the selection of an alternative forum, the U.S. federal district courts shall be the exclusive forum for the resolution of any claims arising under the Securities Act. Any person or entity purchasing or otherwise acquiring any interest in our securities shall be deemed to have notice of and consented to this provision. Although we believe this provision benefits us by providing increased consistency in the application of Delaware law in the types of lawsuits to which it applies, the provision may have the effect of discouraging lawsuits against our directors and officers.

Delaware Anti-Takeover Statute

Pursuant to Article XIII of the Amended Charter, we have opted out of Section 203 of the DGCL until immediately following the time at which both the following conditions exist (a) Section 203 by its terms would, but for Article XIII of the Amended Charter, apply to the Company; and (b) Daniel Schreiber and Shai Wininger do not beneficially own shares of capital stock of the Company representing at least fifteen percent (15%) of the voting power of all the then outstanding shares of capital stock of the Company, and the Company shall thereafter be governed by Section 203 if and for so long as Section 203 by its terms shall apply to the Company.

Section 203 of the DGCL prohibits persons deemed to be “interested stockholders” from engaging in a “business combination” with a publicly held Delaware corporation for three years following the date these persons become interested stockholders unless the business combination is, or the transaction in which the person became an interested stockholder was, approved in a prescribed manner or another prescribed exception applies. Generally, an “interested stockholder” is a person who, together with affiliates and associates, owns, or within three years prior to the determination of interested stockholder status did own, 15% or more of a corporation's voting stock. Generally, a "business combination" includes a merger, asset or stock sale, or other transaction resulting in a financial benefit to the interested stockholder. If applicable, the existence of this provision may have an anti-takeover effect with respect to transactions not approved in advance by the board of directors.

Limitations on Liability and Indemnification of Officers and Directors

The DGCL authorizes corporations to limit or eliminate the personal liability of directors to corporations and their stockholders for monetary damages for breaches of directors' fiduciary duties, subject to certain exceptions. Our Amended Charter includes a provision that eliminates the personal liability of directors for monetary damages to the corporation or its stockholders for any breach of fiduciary duty as a director, except to the extent such exemption from liability or limitation thereof is not permitted under the DGCL. The effect of these provisions is to eliminate the rights of us and our stockholders, through stockholders' derivative suits on our behalf, to recover monetary damages from a director for breach of fiduciary duty as a director, including breaches resulting from grossly negligent behavior. However, exculpation does not apply to any breaches of the director's duty of loyalty, any acts or omissions not in good faith or that involve intentional misconduct or knowing violation of law, any authorization of dividends or stock redemptions or repurchases paid or made in violation of the DGCL, or for any transaction from which the director derived an improper personal benefit.

Our Amended Bylaws generally provide that we must indemnify and advance expenses to our directors and officers to the fullest extent authorized by the DGCL. We also are expressly authorized to carry directors' and officers' liability insurance providing indemnification for our directors, officers, and certain employees for some liabilities. We believe that these indemnification and advancement provisions and insurance are useful to attract and retain qualified directors and executive officers.

The limitation of liability, indemnification, and advancement provisions in our Amended Charter and Amended Bylaws may discourage stockholders from bringing a lawsuit against directors for breach of their fiduciary duty. These provisions also may have the effect of reducing the likelihood of derivative litigation against directors and officers, even though such an action, if successful, might otherwise benefit us and our stockholders. In addition, your investment may be adversely affected to the extent we pay the costs of settlement and damage awards against directors and officers pursuant to these indemnification provisions.

Corporate Opportunities

Our Amended Charter provides that, to the fullest extent permitted by law, we have renounced any interest or expectancy in, or in being offered an opportunity to participate in, an Excluded Opportunity. An "Excluded Opportunity" is any matter, transaction or interest that is presented to, or acquired, created or developed by, or which otherwise comes into the possession of, (i) any director who is not an employee of Lemonade or any of its subsidiaries, or (ii) any holder of preferred stock or any partner, member, director, stockholder, employee or agent of any such holder, other than someone who is an employee of Lemonade or any of its subsidiaries (collectively, "Covered Persons"), unless such matter, transaction or interest is presented to, or acquired, created or developed by, or otherwise comes into the possession of, a Covered Person expressly and solely in such Covered Person's capacity as a director.

Dissenters' Rights of Appraisal and Payment

Under the DGCL, with certain exceptions, our stockholders have appraisal rights in connection with a merger or consolidation of Lemonade. Pursuant to the DGCL, stockholders who properly request and perfect appraisal rights in connection with such merger or consolidation will have the right to receive payment of the fair value of their shares as determined by the Court of Chancery in the State of Delaware.

Stockholders' Derivative Actions

Under the DGCL, any of our stockholders may bring an action in our name to procure a judgment in our favor, also known as a derivative action, provided that the stockholder bringing the action is a holder of our shares at the time of the transaction to which the action relates or such stockholder's shares thereafter devolved by operation of law and such suit is brought in the Court of Chancery in the State of Delaware. See "- Exclusive Venue" above.

Stock Exchange Listing

Our common stock is listed on the NYSE under the symbol "LMND." Our warrants to purchase common stock are listed on the NYSE American under the trading symbol "LMND-WS."

Transfer Agent and Registrar

The transfer agent and registrar for our common stock is Equiniti Trust Company LLC. The transfer agent and registrar's address is 6201 15th Avenue, Brooklyn, New York, 11219, and its telephone number is (800) 937-5449.

Public Benefit Corporation Status

We are incorporated in Delaware as a public benefit corporation as a demonstration of our long-term commitment to make insurance a public good. Our public benefit, as provided in our certificate of incorporation, is: to harness novel business models, technologies, and private-nonprofit partnerships to deliver insurance products where charitable giving is a core feature, for the benefit of communities and their common causes.

We must have approval of two-thirds of the outstanding stock of the company entitled to vote to:

- amend our certificate of incorporation to delete or amend the requirements of our public benefit purpose;
- or merge or consolidate with an entity that would result in the company losing its status as a public benefit corporation or with an entity that does not contain identical provisions identifying the public benefits of the company.

Stockholders of the company owning individually or collectively, as of the date of instituting a derivative suit, at least 2% of the company's outstanding shares may maintain a derivative lawsuit to enforce the requirements that the board of directors will manage or direct the business and affairs of the company in a manner that balances the pecuniary interests of the stockholders, the best interests of those materially affected by the company's conduct, and the specific public benefits identified in our certificate of incorporation.

[***] Certain information in this document has been excluded pursuant to Regulation S-K, Item (601)(b)(10) because it is both not material and the type of information that the registrant treats as private or confidential.

Dated as of January 8, 2024

LEMONADE, INC.,
as Company

and

GC CUSTOMER VALUE ARRANGER, LLC,
as Arranger, on behalf of the Investors

AMENDED AND RESTATED CUSTOMER INVESTMENT AGREEMENT

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AMENDED AND RESTATED CUSTOMER INVESTMENT AGREEMENT

This AMENDED AND RESTATED CUSTOMER INVESTMENT AGREEMENT (this "**Agreement**") is entered into as of January 8, 2024, by and between Lemonade, Inc., a Delaware public benefit corporation (together with its affiliates, successors and assigns, "**Company**") and GC CUSTOMER VALUE ARRANGER, LLC, a Delaware limited liability company, as arranger (in such capacity, together with its successors and assigns in such capacity, the "**Arranger**"), on behalf of certain funds and accounts specified as "Investors" in acceptance herewith (the "**Investors**").

RECITALS

Company and Arranger entered into that certain customer investment agreement, dated as of June 28, 2023 (the "**Original Agreement**") facilitating funding to Company by Arranger on the terms contained therein.

Company and Arranger have agreed to amend and restate the Original Agreement in its entirety, for good and valuable consideration, the receipt and sufficiency of which are hereby recognized, and the mutual agreements herein contained and in reliance thereon, and execute this Agreement which shall facilitate funding to Company pursuant to the terms of this Agreement and as further set forth in each Investment Request, to fund the acquisition of Reference Cohorts during a given Growth Period through advertising, marketing, or other related expenses designed to attract new Customers.

As further outlined herein (including the Specified Commercial Terms in Schedule A hereto), Arranger shall, pursuant to the terms hereof and of any such agreed and countersigned Investment Request, facilitate funding by Investors of the Investment Amount, and the related Investors shall be entitled to certain Reference Income from Company based on such Reference Cohorts.

The parties hereto agree that the Original Agreement is hereby amended and restated as follows:

AGREEMENT

The parties agree as follows:

1. **Definitions and Construction.**

1.1 **Definitions**. As used in this Agreement, the following terms shall have the following definitions:

"**Actual Growth Spend**" means, with respect to any Growth Period, the actual amount of Growth Spend by Company during such period.

"**Affiliate**" means, with respect to any Person, any Person that Controls such Person, any Person that Controls or is Controlled by or is under common Control with such Person, and each of such Person's senior executive officers, directors, and partners.

"**Anti-Corruption Laws**" means (a) The U.S. Foreign Corrupt Practices Act of 1977, as amended; (b) the U.K. Bribery Act 2010, as amended; and (c) any other applicable anti-bribery or anti-corruption Laws, regulations or ordinances of any jurisdiction in which Company is located or doing business.

"**Anti-Money Laundering Laws**" means all applicable Laws in any jurisdiction in which Arranger or Company is located, incorporated, established, organized, resident or domiciled or doing business that relates to money laundering or terrorism financing, any predicate crime to money laundering, or any financial record keeping and reporting requirements related thereto, including the Money Laundering Control Act, 18 U.S.C. §§ 1956 and 1957, as amended, and the Bank Secrecy Act, 31 U.S.C. §§ 5311 *et seq.*, as amended by the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (Title III of Pub. L. 107-56), the Anti-Money Laundering Act of 2020, and its implementing regulations (collectively, the "**Bank Secrecy Act**"), and any applicable related or similar rules, regulations or guidelines, which in each case are issued, administered or enforced by any Governmental Authority from time to time.

"**Arranger**" has the meaning assigned thereto in the introductory paragraph of this Agreement.

"**Availability Period**" means the period of time from the Effective Date through and including the last day of the Commitment Period (as may be extended). Upon the date that is thirty (30) days prior to the end of the Availability Period (such end of the Availability Period, the "**Roll Date**"), the Availability Period shall automatically be modified to end on the date that is the one (1) year anniversary of the Roll Date provided neither Company nor Arranger provide notice in writing to the other party indicating its desire to not extend the Availability Period at least thirty (30) days before the Roll Date.

"**Borderline Cohort**" has the meaning specified in the definition of Funding Threshold Breach below.

"**Borderline Funding Threshold Test**" has the meaning set forth in the Specified Commercial Terms.

"**Business Day**" means any day that is not a Saturday, Sunday, or other day on which banks in New York City are authorized or required to close.

"**Cancellation Event**" means the occurrence of (i) a Sale of Company about which Arranger has not been notified, (ii) an Insolvency Proceeding with respect to Company, (iii) any representation or warranty by Company hereunder is incorrect when made and such inaccuracy has resulted or is reasonably likely to result in a Material Adverse Change, or (iv) a breach by Company of any covenants set forth in Section 5 or of any other term of this Agreement that has resulted or is reasonably likely to result in a Material Adverse Change.

"**Cash**" means cash and Cash Equivalents.

"**Cash Equivalents**" means (a) marketable direct obligations issued or unconditionally guaranteed by the United States or any agency or any State thereof having maturities of not more

than one (1) year from the date of acquisition; (b) commercial paper maturing no more than one (1) year after its creation and having the highest rating from either Standard & Poor's Ratings Group or Moody's Investors Service, Inc.; and (c) certificates of deposit issued maturing no more than one (1) year after issue.

"**Cohort Threshold Breach**" means, with respect to any Tested Cohort, the failure to satisfy on any day the Cohort Threshold Test set forth in the Specified Commercial Terms.

"**Cohort Threshold Test**" has the meaning set forth in the Specified Commercial Terms.

"**Commitment Period**" has the meaning set forth in the Specified Commercial Terms.

"**Control**" of any Person means the possession, directly or indirectly, of either (a) the power to vote, or the beneficial ownership of, 50.1% or more of the equity interests having ordinary voting power for the election of directors of such Person or (b) the power to direct or cause the direction of the management and policies of such Person, whether through the ability to exercise voting power, by contract or otherwise.

"**Controlled Investment Affiliate**" of any Person means any fund or investment vehicle that (a) is organized or managed by such Person for the purpose of making equity or debt investments or (b) is Controlled by such Person or an Affiliate of such Person.

"**Customer**" means each Person who entered into a Customer Agreement with Company or any Affiliate of Company.

"**Customer Agreement**" means, with respect to any Customer, each of the agreements and other documents entered into between such Customer and Company (whether by the execution of a single contract or through the acceptance of generally available terms of service) governing their commercial relationship.

"**Data Protection Law**" means any law, rule or regulation applicable from time to time governing the protection, privacy, security, or processing of data in any jurisdiction applicable to Company or data processed by Company, including (without limitation) the General Data Protection Regulation (EU) 2016/679 (the "**GDPR**"), the Data Protection Act 2018 ("**DPA 2018**"), the UK GDPR (as defined in section 3(10) (as supplemented by section 205(4)) of the Data Protection Act 2018), the Privacy and Electronic Communications (EC Directive) Regulations 2003 (and any applicable implementing legislation), the California Consumer Privacy Act ("**CCPA**"), the California Privacy Rights Act ("**CPRA**") and the Massachusetts Data Security Regulation, in each case as the same may be re-enacted, applied, amended, superseded, repealed or consolidated.

"**Default Rate**" shall be a rate equal to 16.00% per annum.

"**Disbursement Date**" means fourteen (14) days after the date that any Disbursement Date Report is required to be delivered hereunder.

"**Disbursement Date Report**" has the meaning assigned thereto in Section 2.2(b).

"**Early Termination Event**" means (a) it has been determined by a court of competent jurisdiction in a final and nonappealable judgment or by a regulatory authority with jurisdiction over the Company or any of its Affiliates that the Company and/or any of its Affiliates committed and/or engaged in fraud, embezzlement, gross malfeasance or any other form of willful misconduct, or (b) the Company and/or any of its Affiliates violated any applicable state or national insurance capital requirements or any term of any reinsurance contract, and such violation could be reasonably expected to have a material adverse effect on the collectability of the Invested Receivables or Investor's ability to receive its investment return.

"**Effective Date**" means June 28, 2023.

"**ERISA**" means the Employee Retirement Income Security Act of 1974, as amended, and the regulations thereunder.

"**Excluded Taxes**" means any of the following taxes imposed on or with respect to Arranger or any Investor (or any assignee) or required to be withheld or deducted from a payment to Arranger, on behalf of the related Investors (or any assignee) (a) any taxes imposed on or measured by net income (however denominated), franchise taxes, and branch profits taxes, in each case, (x) imposed as a result of Arranger or any Investor being organized under the laws of, or having its principal office or its applicable transacting office located in, the jurisdiction imposing such tax, or in any political subdivision thereof or (y)imposed as a result of a present or former connection between Arranger or any Investor and the jurisdiction imposing such tax (other than connections arising from such Investor having executed, delivered, become a party to, performed its obligations under, received payments under, received or perfected a security interest under, engaged in any other transaction pursuant to or enforced this Agreement, or sold or assigned an interest in any Invested Receivable), (b) any U.S. federal withholding taxes imposed on amounts payable to or for the account of Arranger or any Investor pursuant to a law in effect on the date on which (i) Investor acquires such interest in the applicable Invested Receivable or (ii) Investor changes its transacting office, (c) taxes attributable to Arranger's failure to comply with Section 10 hereof, and (d) any U.S. backup withholding taxes.

"**Expected Growth Spend**" means, with respect to any Growth Period, the amount of Growth Spend that Company expects in good faith to spend during such Growth Period, as indicated on Schedule B (as amended from time to time), which is expected to be sales and marketing spend as shown on the face of the Company's statement of profit and loss, less all employee related costs, general overhead and non-cash expenses.

"**Funding Adjustment**" shall mean an update to the Schedule of Investments attached hereto as Annex I to account for a Spend Reconciliation in the form attached hereto as Exhibit B.

"**Funding Threshold Breach**" means, with respect to any Tested Cohort, the failure to satisfy on any day the Funding Threshold Test set forth in the Specified Commercial Terms; **provided, however, that** if only one (1) Tested Cohort (such Tested Cohort, a "**Borderline Cohort**") does not satisfy the Funding Threshold Test but such Borderline Cohort does satisfy the Borderline Funding Threshold Test, then such Borderline Cohort will be deemed to have satisfied the Funding Threshold Test and no Funding Threshold Breach will have occurred. For the avoidance of doubt, a Funding Threshold Breach will occur if at any time there is more than one

(1) Tested Cohort which does not satisfy the Funding Threshold Test or if there is only one (1) Borderline Cohort, but the Borderline Cohort does not satisfy the Borderline Funding Threshold Test.

"**Funding Threshold Test**" has the meaning set forth in the Specified Commercial Terms.

"**GAAP**" means generally accepted accounting principles in the United States as in effect from time to time.

"**Government Entity**" means (a) a Governmental Authority; (b) a government-owned/government-run/government-controlled association, organization, business, or enterprise; or (c) a political party.

"**Government Official**" means (a) an employee, officer, or representative of, or any person otherwise acting in an official capacity for or on behalf of a Government Entity; (b) a legislative, administrative, or judicial official; (c) a candidate for political office; or (d) an individual who holds any other official, ceremonial, or other appointed or inherited position with a government or any of its agencies.

"**Governmental Authority**" means the government of the United States or any other nation, or of any political subdivision thereof, whether state or local, and any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government (including, without limitation, any supra-national bodies such as the European Union or the European Central Bank).

"**Indebtedness**" of any Person at any date means, without duplication, (a) all obligations of such Person for borrowed money, (b) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments, (c) all obligations of such Person to pay the deferred purchase price of property or services, except trade accounts payable arising in the ordinary course of business, (d) all obligations of such Person under leases which are or should be, in accordance with GAAP, recorded as capital leases in respect of which such Person is liable, (e) all obligations of such Person to purchase securities (or other property) which arise out of or in connection with the sale of the same or substantially similar securities (or property), (f) all deferred obligations of such Person to reimburse any bank or other Person in respect of amounts paid or advanced under a letter of credit or other instrument, (g) all debt of others of the type set forth in (a) through (f) above secured by a Lien on any asset of such Person, whether or not such debt is assumed by such Person, (h) all debt of others of the type set forth in (a) through (f) above guaranteed directly or indirectly by such Person or as to which such Person has an obligation substantially the economic equivalent of a guaranty, and (i) interests of a vendor or lessor under any conditional sale agreement, capital lease or other title retention agreement relating to property of Company (excluding accounts payable arising in the ordinary course of business).

"**Insolvency Proceeding**" means any proceeding commenced by or against any person or entity under any provision of the United States Bankruptcy Code, the equivalent bankruptcy, insolvency, liquidation, conservatorship, winding up, reorganization or restructuring Law under any other jurisdiction, in each case as amended, or under any other bankruptcy, liquidation,

conservatorship or insolvency law, including assignments for the benefit of creditors, formal or informal moratoria, receivership, compositions, extension generally with its creditors, proceedings seeking reorganization, arrangement, or other relief or similar laws affecting the rights of creditors generally.

"**Investment Amount**" shall mean, with respect to any Invested Receivable, the investment amount set forth in the Investment Request for the Growth Period associated with such Reference Cohort that has been requested by Company and funded by the applicable Investors upon the acceptance by Arranger of such Investment Request, subject to adjustment outlined in Section 2.1(d).

"**Investment Company Act**" means the Investment Company Act of 1940, as amended or otherwise modified from time to time.

"**Investment Funding Date**" means the date Investors actually fund the requested Investment Amount in response to any applicable Investment Request.

"**Investment Request**" means a request from Company to Arranger for the funding of an Investment Amount in the form attached hereto as Exhibit A.

"**Investment Request Date**" means the date of the applicable Investment Request.

"**Investor**" means the Persons listed on Schedule C, as such Schedule may be amended, restated or otherwise revised by Arranger in accordance with this Agreement.

"**Investor Cap Amount**" has the meaning set forth in the Specified Commercial Terms.

"**Investor Cap Percentage**" has the meaning set forth in the Specified Commercial Terms.

"**Investor Funding Percentage**" has the meaning set forth in the Specified Commercial Terms.

"**Investor Sharing Percentage**" has the meaning set forth in the Specified Commercial Terms.

"**Laws**" means, collectively, all international, foreign, federal, state and local statutes, treaties, rules, guidelines, regulations, ordinances, codes and administrative or judicial precedents or authorities, including the interpretation or administration thereof by any Governmental Authority charged with the enforcement, interpretation or administration thereof, and all applicable administrative orders, directed duties, requests, licenses, authorizations and permits of, and agreements with, any Governmental Authority, in each case whether or not having the force of law.

"**Lien**" means any mortgage, lien (statutory or otherwise), deed of trust, charge, pledge, hypothecation, assignment, deposit arrangement, security interest or other encumbrance or preferential arrangement of any kind, in each case, in the nature of security. For the avoidance of doubt, other agreements similar in nature to this Agreement made by Company that pledge income

associated with an Invested Receivable (or similar) shall also constitute a "Lien" on such Invested Receivable.

"**Material Adverse Change**" means an event that results or is reasonably likely to result in (a) a material adverse effect or the ability of Company to fulfill its obligations hereunder, (b) a material deterioration in the Company's ability to collect upon or receive value from Invested Receivables in a timely manner or (c) the impairment of the validity or enforceability of, or a material adverse effect on the rights or remedies available to, Arranger under this Agreement.

"**OFAC**" means the Office of Foreign Assets Control of the U.S. Department of the Treasury.

"**Open Reference Cohort**" means any Reference Cohort during the period from the Investment Request Date related thereto until the earlier of (i) the date that the Outstanding Investor Share attributable to such Reference Cohort is equal to $0.00 and (ii) the date that is ten (10) years following the last day of the Growth Period in which such Reference Cohort was originated.

"**Outstanding Investor Share**" means, with respect to any Reference Cohort on any date of determination, the greater of (x) zero (0) and (y) the difference between (i) the Investor Cap Amount for such Reference Cohort, *minus* (ii) the aggregate amount of Reference Income for such Reference Cohort remitted to the applicable Investors by Company on or before such date; **provided that** on and after the date that is ten (10) years following the last day of the Growth Period in which such Reference Cohort was originated, the "**Outstanding Investor Share**" with respect to such Reference Cohort shall be zero ($0.00).

"**Percentage Interest**" means, with respect to any Periodic Funding Amount and any related individual Investor, the percentage obtained by dividing (a) the aggregate payments advanced by such Investor in relation to such Periodic Funding Amount by (b) the total amount of such Periodic Funding Amount.

"**Periodic Funding Amount**" has the meaning set forth in the Specified Commercial aTerms.

"**Permitted Liens**" means the following: (a) Liens for taxes, fees, assessments or other governmental charges or levies that are not delinquent and (b) Liens arising by applicable Law or deposits to secure the performance of bids, tenders, trade contracts (other than for borrowed money), leases, government contracts, statutory obligations, surety, stay, customs and appeal bonds, performance and return of money bonds and other obligations of a like nature incurred in the ordinary course of business (other than for indebtedness or any Liens arising under ERISA).

"**Person**" means any individual, sole proprietorship, partnership, limited liability company, joint venture, trust, unincorporated organization, association, corporation, institution, public benefit corporation, firm, joint stock company, estate, entity or governmental agency.

"**Product Wind-Down Event**" means Company has ceased offering or renewing/continuing policies and such termination of policies is for reasons other than a decision by Customers to not renew such policies. For the avoidance of doubt, any decision of Company

to terminate or not renew the policies of individual policyholders for reasons specific to those policyholders shall not constitute a Product Wind-Down Event.

"**Product Wind-Down Event Makewhole Amount**" means, following the occurrence of a Product Wind-Down Event, for each Open Reference Cohort with at least one (1) Customer subject to a Product Wind-Down Event, as of any date of calculation, the product of (i) the Outstanding Investor Share as of such date for such Open Reference Cohort and (ii) the Wind-Down Event Percentage for such Open Reference Cohort.

"**Program Document**" means this Agreement and any other agreement or instrument executed and/or delivered in connection herewith.

"**Reference Cohort**" has the meaning set forth in the Specified Commercial Terms.

"**Reference Income**" has the meaning set forth in the Specified Commercial Terms.

"**Responsible Officer**" of any Person means the chief executive officer, the president, any executive vice president, any senior vice president, any vice president, chief operating officer or any financial officer of such Person and any other individual or similar official thereof responsible for the administration of the obligations of such Person in respect of this Agreement, and, as to any document delivered on the Effective Date, shall include any secretary or assistant secretary or any other individual or similar official thereof with substantially equivalent responsibilities. Any document delivered hereunder that is signed by a Responsible Officer of Company shall be conclusively presumed to have been authorized by all necessary corporate, partnership and/or other action on the part of Company and such Responsible Officer shall be conclusively presumed to have acted on behalf of Company.

"**Growth Excess Spend**" has the meaning set forth in Section 2.1(d)(i).

"**Growth Period**" has the meaning set forth in the Specified Commercial Terms (each commencing on the first day of the relevant month and ending on the last day of such month).

"**Growth Spend**" has the meaning set forth in the Specified Commercial Terms.

"**Growth Underspend**" has the meaning set forth in Section 2.1(d)(ii).

"**Sale of Company**" means any of the following: (a) any liquidation or winding up of Company, (b) a merger, consolidation or transfer of equity securities (pursuant to a single transaction or series of related transactions) of Company, with or to any independent third party, which, in any case, results in the equity holders of Company immediately prior to such transaction possessing less than a majority of the beneficial voting power or ownership interests of Company's or any successor entity's issued and outstanding equity securities immediately after such transaction or series of such transactions; or (c) a sale, lease or exclusive license, in a single transaction or series of related transactions, to an independent third party of all or substantially all of Company's assets; **provided, that**, the introduction of one (1) or more holding companies above Company shall not constitute a Sale of Company hereunder.

"**Sanction**" or "**Sanctions**" means individually and collectively, respectively, economic or financial sanctions, sectoral sanctions, secondary sanctions, or trade embargoes or restrictive measures and anti-terrorism Laws, including but not limited to those imposed, administered or enforced from time to time by (a) the U.S. government, including those administered by OFAC, or the U.S. Department of State, the U.S. Department of Commerce, the U.S. Department of the Treasury, or through any existing or future Executive Order, (b) the United Nations Security Council, (c) the European Union or any Member State of the European Union, (d) the United Kingdom or (e) any other Governmental Authority with jurisdiction over Company, except to the extent inconsistent with U.S. law.

"**Sanctioned Country**" means a country or territory that is the target of comprehensive Sanctions (which comprise, as of the date of this Agreement, Cuba, Iran, North Korea, Syria, the Crimea region of Ukraine, the so-called Donetsk People's Republic of Ukraine and the so-called Luhansk People's Republic regions of Ukraine).

"**Sanctioned Entity**" means any Person that is the target of any Sanctions, including without limitation, (a) any Person listed in any Sanctions-related list of designated Persons maintained by OFAC, the U.S. Department of State or the U.S. Department of Commerce, the United Nations Security Council, the European Union, any Member State of the European Union or the United Kingdom; (b) any Person organized under the laws of a Sanctioned Country or ordinarily resident in a Sanctioned Country; (c) the government of a Sanctioned Country or the Government of Venezuela; or (d) any Person 50% or more owned, individually or in the aggregate, directly or indirectly, or controlled by any Person or Persons identified in (a) – (c) or acting for or on behalf of such Person or Persons.

"**Specified Commercial Terms**" means the commercial terms contained in Schedule A appended hereto.

"**Spend Reconciliation**" has the meaning set forth in Section 2.1(d).

"**Subsidiary**": of a Person means a corporation, partnership, joint venture, limited liability company or other business entity of which a majority of the shares of securities or other interests having ordinary voting power for the election of directors or other governing body (other than securities or interests having such power only by reason of the happening of a contingency) are at the time beneficially owned, or the management of which is otherwise controlled, directly, or indirectly through one (1) or more intermediaries, or both, by such Person. Unless otherwise specified, all references herein to a "Subsidiary" or to "Subsidiaries" shall refer to a Subsidiary or Subsidiaries of Company.

"**Termination Date**" means the later of (x) the date that is thirty (30) days following the date on which the Outstanding Investor Share for each Reference Cohort is equal to zero ($0.00) and (y) the end of the Availability Period.

"**Wind-Down Event Percentage**" means, for any Open Reference Cohort and as of any date of calculation, the quotient of (i) the Reference Income attributable to such Open Reference Cohort over the prior three (3) full Growth Periods that have occurred immediately prior to the date of calculation, which Reference Income is associated with Customers within such Open

Reference Cohort who were subsequently subject to a Product Wind-Down Event, over (ii) the total Reference Income attributable to such Open Reference Cohort over the prior three (3) full Growth Periods that have occurred immediately prior to the date of calculation.

1.2 **General Interpretive Provisions**. The definitions of terms herein shall apply equally to the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The words "include," "includes" and "including" shall be deemed to be followed by the phrase "without limitation." The word "will" shall be construed to have the same meaning and effect as the word "shall." Unless the context requires otherwise, (i) any definition of or reference to any agreement, instrument or other document (including the Program Documents and any organization document) shall be construed as referring to such agreement, instrument or other document as from time to time amended, modified, extended, restated, replaced or supplemented from time to time (subject to any restrictions on such amendments, supplements or modifications set forth herein or in any other Program Document), (ii) any reference herein to any Person shall be construed to include such Person's successors and assigns, (iii) the words "hereto," "herein," "hereof" and "hereunder," and words of similar import when used in any Program Document, shall be construed to refer to such Program Document in its entirety and not to any particular provision thereof, (iv) all references in a Program Document to Articles, Sections, Preliminary Statements, Exhibits and Schedules shall be construed to refer to Articles and Sections of, and Preliminary Statements, Exhibits and Schedules to, the Program Document in which such references appear, (v) any reference to any Law shall include all statutory and regulatory rules, regulations, orders and provisions consolidating, amending, replacing or interpreting such Law and any reference to any Law or regulation shall, unless otherwise specified, refer to such Law or regulation as amended, modified, extended, restated, replaced or supplemented from time to time, and (vi) the words "asset" and "property" shall be construed to have the same meaning and effect and to refer to any and all tangible and intangible assets and properties, including Cash, securities, accounts and contract rights.

1.3 **Accounting Terms**. All accounting terms not specifically defined herein shall be construed in accordance with GAAP and all calculations made hereunder shall be made in accordance with GAAP as in effect from time to time. When used herein, the terms "financial statements" shall include the notes and schedules thereto.

1.4 **Times of Day**. Unless otherwise specified, all references herein to times of day shall be references to New York time (daylight or standard, as applicable).

1.5 **Business Days**. In the event that any amount or other item is due on a day that is not a Business Day, that amount or other item shall be deemed to be due on the immediately preceding Business Day.

2. **Investment**.

2.1 **Investments**.

(a) **Investment Request**. Commencing on the Effective Date and ending upon the expiration of the Availability Period, Company may from time to time make an

offer for Investors to invest in a Reference Cohort for the subsequent Growth Period by delivering to Arranger a request substantially in the form of Exhibit A attached hereto (each, an "**Investment Request**").

(b) **Obligation of Arranger to Facilitate Advances**. Subject to Company meeting each of the conditions outlined in the Specified Commercial Terms contained in Section 2.1 of Schedule A attached hereto, during the Commitment Period, Arranger shall accept an offer for investment in a Reference Cohort set forth in an Investment Request by execution thereof and delivery of the related countersigned Investment Request to Company within five (5) Business Days of its receipt thereof. Upon any such acceptance of an Investment Request by Arranger, subject to the satisfaction (or waiver, at Arranger's sole discretion) of the conditions precedent set forth in Section 3.2 hereof, on the related Investment Funding Date, Arranger shall facilitate the funding by one (1) or more Investors of the related Investment Amount to Company by wire transfer to the account designated by Company within five (5) Business Days of the date of acceptance and shall thereafter be entitled to payment from Company of an amount up to the Investor Cap Amount with respect to the Invested Receivables. Except for the indemnification obligations of Company under Section 7, and Company's other express payment obligations hereunder, each investment in the Invested Receivables shall entitle the related Investors solely to the investment return, if any, until the date that the Outstanding Investor Share attributable to the Reference Cohort corresponding to such investment is equal to $0.00. Subject to Section 2.1(d), the Investment Amount for each Growth Period shall be adjusted to account for any Growth Excess Spend or Growth Underspend, as applicable. Any such adjustment or any additional adjustment required to account for any applicable Spend Reconciliation shall be evidenced by a Funding Adjustment. Notwithstanding the foregoing, any failure by Arranger to facilitate a Funding Adjustment for any Growth Excess Spend, Growth Underspend or other applicable Spend Reconciliation shall not constitute a waiver of amounts due to related Investors of Reference Income. Notwithstanding anything herein to the contrary, Arranger shall be required to accept no more than one (1) Investment Request per Growth Period. As of the Effective Date, Arranger expects that the Investors for future Investment Requests will be as set forth on Schedule D; provided, that the actual Investors for an Investment Amount will in all cases be as reflected on the executed Investment Request delivered by Arranger in connection therewith. Arranger also may deliver an updated Schedule D at any time to reflect changes in expectations regarding the Investors that will fund future Investment Amounts.

(c) **Sharing of Reference Income**. Upon funding an Investment Amount during any Growth Period, the related Investors will be entitled to, and Company hereby agrees to remit to Arranger, on behalf of such Investors, in accordance with the terms hereof, the applicable Investor Sharing Percentage of all Reference Income from the Reference Cohort associated with such Growth Period until such Investors have received Reference Income from such Reference Cohort equal to the Investor Cap Amount. For any given Growth Period, Arranger may reduce the Investment Request amount by the portion of the Reference Income owed to Investors from the prior Growth Period or Company may remit only the portion of the Reference Income owed to Investors in excess of the Investment Request for the following Growth Period, as applicable.

(d) **Reconciliation of Growth Spend**. Company shall use commercially reasonable best efforts to fully utilize the Expected Growth Spend for each Growth

Period, **provided that**, for any Growth Period, if the Actual Growth Spend is greater than [***]% of *or* less than [***]% of the Expected Growth Spend indicated on Schedule B (as amended from time to time), the Company shall notify the Arranger as soon as reasonably practicable after obtaining actual knowledge thereof. Following the end of each Growth Period for which Investors funded an Investment Amount, Company shall promptly (and, in any event, no later than the first Disbursement Date for the Reference Cohort associated with such Growth Period) notify Arranger in writing of the Actual Growth Spend for such Growth Period and any deviation from the Expected Growth Spend for such period and any updates to be made with respect to the applicable Investment Request (each, a "**Spend Reconciliation**").

(x) In the event that the Actual Growth Spend for any Growth Period for which Investors advanced a Periodic Funding Amount exceeds the Expected Growth Spend for such period (a "**Growth Excess Spend**"), Arranger may elect, in its sole discretion, to either (1) increase the Periodic Funding Amount for such period by causing Investors to advance additional amounts to Company equal to the product of: (i) the Investor Funding Percentage and (y) the difference between the Actual Growth Spend for such period and the Expected Growth Spend for such period, or (2) reduce its Investor Funding Percentage to the product of the Investor Funding Percentage and quotient of (x) the Expected Growth Spend for such period *divided by* (z) the Actual Growth Spend for such period. For the avoidance of doubt, Arranger may elect to engage in a ratable combination of the foregoing clauses (1) and (2) as described in the applicable related Funding Adjustment.

(ii) In the event that the Actual Growth Spend for any Growth Period for which Investors advanced a Periodic Funding Amount is less than the Expected Growth Spend for such period (a "**Growth Underspend**"), such Growth Underspend will, at Arranger's discretion, (x) roll over to the next period for which no Periodic Funding Amount has yet been advanced and be netted against such period's Investment Request or (y) be refunded to the related Investors based on their respective Percentage Interests. As used herein, a Growth Underspend shall equal the product of: (i) the Investor Funding Percentage and (ii) the difference between the Actual Growth Spend for such period and the Expected Growth Spend for such period. For the avoidance of doubt, Arranger may elect to engage in a ratable combination of the foregoing clauses (1) and (2) as described in the applicable related Funding Adjustment.

2.2 **Sharing of Reference Income; Term; Termination**.

(a) **Application of Reference Income**. On each Disbursement Date during the term of this Agreement, Company shall, and hereby agrees to, remit to Arranger, on behalf of the applicable Investors, the Investor Sharing Percentage of Reference Income generated during the Growth Period corresponding to such Disbursement Date for each Reference Cohort, in each case in immediately available funds in accordance with payment instructions provided to Company by Arranger from time to time; **provided**, **that**, in no event will Company be required to remit Reference Income to Arranger for any Reference Cohort in an aggregate amount greater than the amount necessary to reduce the Outstanding Investor Share for such Reference Cohort to $0.00.

(b) **Calculation of Reference Income**. No later than fourteen (14) days following the end of each Growth Period, Company will provide Arranger with a calculation of

Actual Growth Spend, Reference Income and the Investor Sharing Percentage of Reference Income for each Open Reference Cohort along with such backup information reasonably requested by Arranger in connection therewith (such calculation, a "**Disbursement Date Report**"). In the event that Arranger disagrees with any information set forth in a Disbursement Date Report or the payments made under Section 2.2(a), Company agrees to make itself available to discuss the calculations and the basis for such disagreement.

(c) **Early Termination**. In the event that Arranger on behalf of the Investors elects to terminate the commitment to make further investments under this Agreement following the occurrence of a Cancellation Event, Company shall continue to remit Reference Income to Arranger, on behalf of the applicable Investors, in accordance with Section 2.2(a) above until the Outstanding Investor Share for each Reference Cohort is equal to $0.00. Upon the occurrence of an Early Termination Event, Arranger may demand payment in full of the applicable Investors' Outstanding Investor Share as of such time, and such amount shall be due, (x) with respect to an Early Termination Event falling within limb (a) of the definition thereof, within ten (10) Business Days, and (y) with respect to an Early Termination Event falling within limb (b) of the definition thereof, within twenty-five (25) Business Days of Arranger's written demand, **provided that** in the event an Early Termination Event is reasonably curable, Arranger may, in its sole discretion, reverse such demand.

(d) **Term; Termination**. This Agreement shall become effective on the Effective Date and shall continue in full force and effect until the Termination Date.

(e) **Product Wind-Down Event**. In the event a Cohort Threshold Breach occurs which the Arranger concludes in its reasonable judgement is attributable to a Product Wind-Down Event, the Arranger may demand the Product Wind-Down Event Makewhole Amount, and such amounts shall be due within ten (10) Business Days of Arranger's written demand.

3. **Conditions of Advances**.

3.1 **Conditions to the Effectiveness of Agreement**. The effectiveness of this Agreement is subject to the receipt by Arranger, on behalf of the Investors, on or prior to the Effective Date of the following documents (a) through (d), each in form and substance satisfactory to Arranger on behalf of the Investors:

(a) an executed copy of this Agreement signed by all parties hereto;

(b) a good standing certificate for Company from the Secretary of State (or similar official) of the state of Company's organization;

(c) a certificate of Responsible Officer certifying the names and true signatures of the incumbent officers authorized on behalf of Company to execute and deliver this Agreement and any other documents to be executed or delivered by it hereunder, together with its organizational documents and board resolutions, evidencing corporate action necessary for Company to execute, deliver and perform its obligations under this Agreement; and

(d) all documents and other evidence that Arranger requires for its know-your-customer and other compliance checks on Company.

3.2 **Conditions to Each Investment**. Arranger's obligation to cause the advance the Periodic Funding Amount to Company on any Investment Funding Date is subject to the satisfaction or waiver by Arranger of the following conditions:

(a) The conditions set forth in Schedule A hereto shall have been satisfied;

(b) solely in the case of the first Investment Funding Date, receipt by Arranger, on behalf of the Investors of an opinion of counsel to Company with respect to corporate matters of Company reasonably acceptable to Arranger;

(c) there exists no event which has or is reasonably likely to result in a Material Adverse Change;

(d) Arranger shall have received (i) an Investment Request with respect to such Periodic Funding Amount satisfying the requirements set forth in Section 2.1(a) and (ii) if applicable, an amended copy of Schedule B hereto;

(e) Arranger shall have received, in form and substance satisfactory to Arranger, any additional documents and other evidence that Arranger requires for its know-your-customer and other compliance checks on Company;

(f) as of the related Investment Request Date:

(i) the representations and warranties of Company contained in this Agreement shall be true and correct in all material respects;

(ii) Company shall be in compliance with each term, covenant and other provision of this Agreement applicable to it in all material respects;

(iii) no Cancellation Event shall have occurred and be continuing;

(iv) Arranger continues to have a favorable assessment of the continued viability of Company as a going concern, as of the Investment Funding Date;

(v) to the best of Company's knowledge, the Expected Growth Spend for such Growth Period and all prior Growth Periods is accurate, or if not, a Funding Adjustment has been submitted for all relevant Growth Periods for which an adjustment is required;

(vi) Company shall have demonstrated to Arranger that all Funding Threshold Tests have been satisfied;

(vii) Arranger, on behalf of the applicable Investors, shall have received all payments then due that Company are obligated to pay to Arranger under this Agreement as of the applicable Investment Funding Date; and

(viii) upon satisfaction of the conditions in this Section 3.2 with respect to a Periodic Funding Amount, Arranger shall execute the Investment Request, which Investment Request shall supplement Schedule C by identifying the Investors and their respective Percentage Interests.

4. **Representations and Warranties of Company**.

Company represents and warrants as follows:

4.1 **Existence; Good Standing**. Company is a duly formed corporation, validly existing and in good standing under the laws of its state of formation and is duly qualified to do business, and is in good standing, in every jurisdiction where the nature of its business requires it to be so qualified. Company is not subject to any Insolvency Proceeding.

4.2 **No Conflict, etc**. The execution, delivery and performance by Company of this Agreement and each other document to be delivered by Company hereunder, (i) are within Company's corporate or other organizational powers, (ii) have been duly authorized by all necessary corporate or other organizational action, and (iii) do not contravene (A) Company's organizational documents, (B) any contractual restriction binding on or affecting Company or its property, or (C) any order, writ, judgment, award, injunction or decree binding on or affecting Company or its property. This Agreement has been duly executed and delivered by Company. No competing notice of assignment or payment instruction or other notice inconsistent with the transactions contemplated in this Agreement is in effect with respect to any Invested Receivable.

4.3 **Authorizations; Filings**. No authorization, approval, permit, license or other action by, and no notice to or filing with, any governmental entity is required for the due execution, delivery and performance by Company of this Agreement or any other Program Document.

4.4 **Enforceability**. This Agreement constitutes the legal, valid and binding obligation of Company, enforceable against Company, in accordance with its terms, except as limited by bankruptcy, insolvency, moratorium, fraudulent conveyance or other Laws relating to the enforcement of creditors' rights generally and general principles of equity (regardless of whether enforcement is sought at equity or Law).

4.5 **Sale of Company**. There is no executed agreement for a Sale of Company about which Arranger has not been notified.

4.6 **Litigation Matters**. There is no pending (or, to its knowledge, threatened in writing) action, proceeding, investigation or injunction, writ or restraining order affecting Company or any of its Affiliates before any court, governmental entity or arbitrator which could reasonably be expected to materially adversely affect the value of Invested Receivables, and Company is not currently the subject of, and has no present intention of taking any action to commence, an Insolvency Proceeding.

4.7 **Taxes; Liens Against Company**. Company has (i) timely filed all tax federal and material state and local returns required to be filed by it and (ii) paid, or caused to be paid, all taxes, assessments and other governmental charges, if any, other than taxes, assessments

and other governmental charges being contested in good faith by appropriate proceedings and as to which adequate reserves have been provided in accordance with GAAP, except to the extent that any such non-filing or non-payment could not reasonably be expected to adversely affect the value of Invested Receivables.

4.8 **Compliance With Laws**. Company has complied with the Laws applicable to it in all material respects. Neither Company nor, to its knowledge, any director, officer, member, manager or other controlling person thereof has engaged in any fraud, embezzlement, malfeasance, gross mismanagement or misappropriation of funds, willful misconduct or any similar activities, and no allegations of any of the foregoing or charges in respect of the foregoing have been made, brought against or threatened in writing against Company or, to its knowledge, any director, officer, member, manager or other controlling person thereof.

4.9 **Review**. Company has discussed and reviewed this Agreement with its representative accountants, independent auditors and counsel to the extent Company deemed reasonably necessary.

4.10 **Investment Company Act**. Company is not required to register as an "investment company" as defined in the Investment Company Act.

4.11 **No Brokers or Finders**. Company has not incurred or become liable for any broker's commission or finder's fee relating to the transactions contemplated by this Agreement.

4.12 **Company Provided Data**. The information delivered by Company to Arranger in respect of Reference Cohorts, historical performance and other relevant areas as determined by Arranger in its sole and reasonable discretion is, to the knowledge of Company, true and correct and does not omit to state a fact necessary in order to make the information contained therein not misleading.

4.13 **Invested Receivables**. Company is the legal owner of each Invested Receivable free and clear of any Lien, subject to Permitted Liens. Company has not authorized the filing of and is not aware of any financing statements filed against Company that include a description of collateral covering such Invested Receivable other than any financing statement that has been terminated or amended to reflect the release of any security interest in such Invested Receivable except for in connection with Permitted Liens.

4.14 **Anti-Corruption Laws & Sanctions**. Company has implemented and maintains in effect policies and procedures reasonably designed to ensure compliance by it and its directors, officers, employees and agents, when acting at the direction of or for the benefit of Company, with Anti-Corruption Laws and applicable Sanctions. Company and, to the knowledge of Company, its respective officers, employees and directors are in compliance with Anti-Corruption Laws and applicable Sanctions. Neither Company nor any of its subsidiaries has taken, paid, offered, promised, or authorized the payment of money or anything of value, directly or indirectly, to any Government Official for the purpose of: (a) influencing any act or decision of such person in their official capacity; (b) inducing such person to act (including through action or omission) in violation of the lawful duty of such person; (c) securing any improper advantage; or

(d) inducing such person to use their influence to affect or influence any act or decision of a Government Entity, in order to assist Company, any of its subsidiaries, or any other Person in obtaining or retaining business for or with, or directing business to, any Person. Neither Company, any of its subsidiaries nor, to the knowledge of Company, any Affiliate of any of the foregoing, (a) is a Sanctioned Entity; (b) to its knowledge is under investigation for an alleged breach of Sanction(s) by any Governmental Authority that enforces Sanctions; (c) has not, within the last five (5) years, engaged in a transaction or dealing, directly or indirectly, with or involving a Sanctioned Country or Sanctioned Entity that violated applicable Sanctions; or (d) will fund any payment in connection with the Invested Receivables with proceeds derived from any transaction that would be prohibited by applicable Sanctions or would otherwise cause any Investor or Arranger to be in breach of any applicable Sanctions. The transactions contemplated by this Agreement will not violate Anti-Corruption Laws, Anti-Money Laundering Laws, or applicable Sanctions.

4.15 **Insurance Policy**. Company shall maintain or cause to be maintained, with insurance companies that Company believes (in good faith judgment of the management of Company) are financially sound and reputable insurers at the time the relevant coverage is placed or renewed, insurance coverage with respect to liabilities, losses or damage in respect of the assets, properties and businesses of Company and its subsidiaries as may customarily be carried or maintained under similar circumstances by Persons of established reputation engaged in similar businesses, in each case in such amounts (giving effect to self-insurance), with such deductibles, covering such risks and otherwise on such terms and conditions as shall be customary for such Persons.

5. **Covenants of Company**.

From the Effective Date until the Termination Date, Company shall do all of the following:

5.1 **Notice of Disputes, Breaches**. Together with all information delivered pursuant to Section 5.9 below, Company will provide written notice to Arranger (i) of the occurrence of any dispute with a Customer who is a member of any Reference Cohort related to any Invested Receivable where the amount at risk exceeds the lesser of (x) [***]% of the Periodic Funding Amount for the applicable Open Reference Cohort or (y) [***] in respect of any Invested Receivable, (ii) of the occurrence of any material breach by a Reference Cohort that may reasonably give rise to Customer failing to pay an amount due in excess of lesser of (x) [***]% of the Periodic Funding Amount for the applicable Open Reference Cohort or (y) [***] under any Invested Receivable, (iii) any Insolvency Proceeding with respect to any Reference Cohort for any Invested Receivable in excess of [***], or (iv) it becoming illegal or highly impracticable for a Reference Cohort to pay all or any part of the amount due in respect of the Invested Receivable.

5.2 **Invested Receivables**. Company, at its expense, shall timely and fully perform all terms, covenants and other provisions required to be performed by it under each agreement with its Reference Cohorts and for the enforcement of the related obligations thereunder and shall promptly notify Arranger of any material breaches of any agreement with a Reference Cohort by Company.

5.3 **Existence**. Company shall (i) comply in all material respects with all applicable laws, rules, regulations and orders and (ii) preserve and maintain its organizational existence, rights, franchises, required qualifications, and privileges, except in the case of (i) or (ii), as could not reasonably be expected to result in a Material Adverse Change. Other than for a corporate reorganization or other valid corporate reason, Company shall keep its state of organization as in effect on the date of this Agreement and principal place of business and chief executive office and the office where it keeps its records concerning the Invested Receivables at the address set forth in Section 12 hereof or, in each case, upon ten (10) Business Days' prior written notice to Arranger, at any other locations in jurisdictions where all actions reasonably necessary to protect and maintain Arranger's, on behalf of the applicable Investors, interest in the Invested Receivables have been taken and completed.

5.4 **Books and Records**. Company shall maintain accurate books and accounts with respect to the Invested Receivables. Company shall maintain and implement administrative and operating procedures (including, without limitation, an ability to recreate records evidencing the Invested Receivables in the event of the destruction of the originals thereof), and keep and maintain all documents, books, records and other information reasonably necessary or advisable for collecting the Invested Receivables (including, without limitation, records adequate to permit the daily identification of the Invested Receivables and all collections of and adjustments to the existing Invested Receivables).

5.5 **Ongoing Data Access**. Company shall grant Arranger continuous access to its internal systems that provide all underlying detailed data for Customers, Reference Cohorts, Reference Income, calculation of Cohort Threshold Tests, Actual Growth Spend and all other related information reasonably needed by Arranger, on behalf of the applicable Investors. Company shall not make any personal information, as defined by any Data Protection Law applicable to Company or the information, accessible to Arranger in breach of applicable Data Protection Laws. Company shall notify Arranger within five (5) business days after discovery of any such personal information made accessible to Arranger in Company's systems in breach of applicable Data Protection Laws.

5.6 **Sales and Liens; Indebtedness**.

(a) Company shall not sell, assign (by operation of law or otherwise) or otherwise dispose of, or create or suffer to exist any Lien, encumbrance or security interest upon or with respect to, any Invested Receivable, except for Permitted Liens. Other than this Agreement, Company will not accept any investment in the Invested Receivables that entitles the applicable investor to receive a return directly or indirectly based on the collections of the Invested Receivables.

(b) Company shall not create, incur, assume, suffer to exist or otherwise become liable for any Indebtedness unless subject to an intercreditor or subordination agreement in form and substance reasonably satisfactory to and approved in writing by Arranger.

5.7 **Extension or Amendment of Invested Receivables**. Company shall not materially extend the payment terms under any Invested Receivable, materially amend any Invested Receivable or otherwise waive or permit or agree to any material deviation from the terms

or conditions of any Invested Receivable in excess of the lesser of (x) [***]% of the Periodic Funding Amount for the applicable Open Reference Cohort or (y) $[***] unless, in each case (i) Arranger, on behalf of the applicable Investors, shall have provided its prior written consent thereto, (ii) such alteration, amendment, deviation or waiver does not result in a change to the investment return or (iii) Company shall have offered Arranger, on behalf of the applicable Investors, such other financial accommodation that is acceptable to Arranger in its sole discretion.

5.8 **[Reserved]**.

5.9 **Reporting and Notice Requirements**.

(a) On or before the 15th day following the end of each calendar month, for the reporting period ending on the last day of such month, Company shall provide Arranger with its unaudited income statement.

(b) No more than thirty (30) days after completion and signing of the applicable audit, Company shall provide Arranger with its annual audited financial statements; **provided that**, if Company's annual audited financial statements are not available within one hundred twenty (120) days after the end of Company's fiscal year, (i) Company shall provide Arranger with a written explanation regarding such unavailability and Company's annual unaudited financial statements and (ii) Company shall provide Arranger with annual audited financial statements promptly upon such statements becoming available.

(c) On or before the 30^{th} day following the end of each calendar month, Company shall provide Arranger with a calculation of the Cohort Threshold Test for each Tested Cohort.

(d) Company represents and warrants that it will take reasonable measures to ensure that no information is revealed, transmitted, or made available to Arranger that is deemed "personal information" (or equivalent) in breach of any Data Protection Law applicable to Company, or the information in question. Insofar as Company reveals, transmits, or makes available to Arranger any personal information, Company agrees to indemnify Arranger (together with its affiliates, officers, directors, agents, representatives, shareholders, counsel and employees) from and against any and all claims, losses and liabilities (including, without limitation, reasonable and documented attorneys' fees) resulting from breach of data protection and data security laws or regulations with respect to that personal information, other than for breaches resulting from Arranger's actions or omissions.

(e) As soon as reasonably practicable following Arranger's written request (and in no event later than thirty (30) days thereafter), Company will provide to Arranger such other information regarding its business, financial condition, operations and such other matters as Arranger, on behalf of the Investors, may reasonably request.

(f) Substantially concurrently with the distribution thereof, Company will provide to Arranger copies of all materials, meeting invitations, business information, corporate presentations and 'decks', financial reports and other documents and information which Company provides to any of its equity holders or financing providers; **provided that** if Company is restricted by applicable Law or existing contractual obligations from providing any such

information, Company shall provide notice and explanation of why the same were not provided, together with a reasonably detailed summary of such omitted information (to the extent practicable and permitted by such applicable Laws or contractual restrictions).

(g) On or before the date that is two (2) Business Days prior to any Disbursement Date, Company shall complete and deliver to Arranger a Growth Period Funds Flow ("**Growth Period Funds Flow**") substantially in the form of Exhibit C hereof.

(h) If applicable, on the Effective Date and thereafter, within fourteen (14) days upon the incurrence thereof (and in no event later than the date of the Disbursement Date Report following the incurrence thereof), Company shall disclose to Arranger (in writing in reasonable detail) any financing arrangements and other indebtedness (including without limitation letters of credit, interest rate and currency hedging, swap and cap agreements, capital lease obligations, deferred purchase price obligations, guarantees and other contingent obligations, and other indebtedness), whether or not relating to Invested Receivables, which (i) is in an aggregate amount in excess of $25,000,000, (ii) contains any financial covenants or limitations on Liens or indebtedness of Company and/or (iii) contains any 'most favored nation', cross-default or cross-acceleration provisions in respect of this Agreement or any other indebtedness of Company.

(i) On or before the date that is fourteen (14) days prior to the start of any calendar quarter, Company shall provide to Arranger in writing its final projections for its Expected Growth Spend for each Growth Period in the upcoming calendar quarter.

(j) Company will promptly provide Investors with copies of any correspondence between Company and/or its Affiliates and any reinsurers, regulators or any other Person discussing circumstances involving the Company's capital position and/or the termination/renewal of any contracts which circumstances could reasonably be expected to lead to a Material Adverse Change.

(k) On or before the 20th day following the end of each calendar month, for the reporting period ending on the last day of such month, Company shall provide Arranger with a monthly reporting packet including key financial/operational information (abbreviated income statement and balance sheet) immediately available to Company, the preparation of which does not incur unreasonable burden on Company.

5.10 **Taxes**. Company will pay any and all (i) taxes relating to, or arising out of the investment in the performance of the Invested Receivables (including applicable gross-up for any withholding taxes) and (ii) any taxes in the nature of net income or franchise taxes payable in connection with the Invested Receivables.

5.11 **Not Adversely Affect Investors' Rights**. Company shall refrain from any act or omission that, in its reasonable judgment, is likely to prejudice or limit in any material respect any Investor's ability to receive its share of any Reference Income.

5.12 **Compliance with Laws**. Company shall comply with all Laws applicable to it in all material respects.

5.13 **Further Assurances**. Company shall, at its expense, promptly execute and deliver all further instruments and documents, and take all further action that Arranger may reasonably request, from time to time, and to the extent not inconsistent with the terms hereof, in order to protect or more fully evidence any investment in the Invested Receivables, or to enable Arranger to exercise or enforce its rights on behalf of the Investors to receive the investment return in respect of the Invested Receivables.

5.14 **Sanctions**. Neither Company, nor any Person directly or indirectly Controlling Company, and no Person directly or indirectly Controlled by Company, and no other Affiliate of any of the foregoing, in each case directly or indirectly, shall use any portion of any Investment Amount paid hereunder, or lend, contribute, or otherwise make available any portion of any Investment Amount paid hereunder to any subsidiary, joint venture partner, or other Person (i) to fund any activities or business of or with a Sanctioned Entity (with respect to sectoral sanctions, to the extent prohibited by applicable Sanctions), or (ii) in any manner that would be prohibited by applicable Sanctions or would otherwise cause Arranger or any Investor to be in breach of any applicable Sanctions. Company shall comply with all applicable Anti-Corruption Laws and Sanctions in all material respects, and shall maintain policies and procedures reasonably designed to ensure compliance with Sanctions. Company will not, and will not permit any Person directly or indirectly Controlled by Company to (i) become a Sanctioned Entity (including by virtue of being owned or controlled by a Sanctioned Entity) or own or control a Sanctioned Entity, or (ii) engage in any dealing or transaction with any Person if such dealing or transaction would be in breach of Sanctions or would cause Company any Person Controlled by Company, Arranger or any Investor to be in breach of Sanctions or (b) could expose any of the foregoing to a risk of designation under any Sanctions.

5.15 **Anti-Corruption Laws and Anti-Money Laundering Laws**. Company, each Person directly or indirectly Controlling Company, and each Person directly or indirectly Controlled by Company shall, (i) comply with all applicable Anti-Money Laundering Laws and Anti-Corruption Laws; (ii) maintain policies and procedures reasonably designed to ensure compliance with all applicable Anti-Money Laundering Laws and Anti-Corruption Laws; (iii) not use any portion of any Investment Amount paid hereunder in violation of any Anti-Corruption Laws or Anti-Money Laundering Laws; and (iv) not take, pay, offer, promise, or authorize the payment of money or anything of value, directly or indirectly, to any Government Official for the purpose of: (a) influencing any act or decision of such person in their official capacity; (b) inducing such person to act (including through action or omission) in violation of the lawful duty of such person; (c) securing any improper advantage; or (d) inducing such person to use their influence to affect or influence any act or decision of a Government Entity, in order to assist Company, any of its subsidiaries, or any other Person in obtaining or retaining business for or with, or directing business to, any Person.

5.16 **Examination and Visits**. Company shall, upon Arranger's reasonable request, at Arranger's reasonable expense, during regular business hours, permit Arranger, or its agents or representatives, upon reasonable prior notice, (i) on a confidential basis, to examine all books, records and documents (including, without limitation, computer tapes and disks) in its possession or under its control relating to each Invested Receivable including and (ii) to visit its offices and properties for the purpose of examining such materials described in clause (i) above,

and to discuss matters relating to each Invested Receivable or Company's performance hereunder with any of its officers or employees having knowledge of such matters.

5.17 **Accuracy of Information**. All information furnished by Company to Arranger hereunder will be a true, correct and accurate in all material respects to the knowledge of Company, on the date such information is provided, stated or certified and will not contain any material misstatement of fact or omit to state a material fact or any fact necessary to make the statements contained therein not misleading.

5.18 **Anti-Cash Hoarding**. To the extent any Subsidiary of Company receives (or is entitled to receive) any Reference Income which constitutes the Investor Sharing Percentage or any other amounts payable to Investor hereunder, Company shall cause such Subsidiary to distribute such amounts to Company when payment is due pursuant to this Agreement and the applicable Investment Request prior to any payments being made pursuant to this Agreement and the applicable Investment Request, such amount to be added to the Growth Period Funds Flow for such Growth Period and further paid over to the Investor as and when such amounts are required to be paid to Investor under this Agreement.

6. **Administration of Invested Receivables**.

6.1 **Invested Receivables**. Company shall administer and service the Invested Receivables and perform all obligations as servicer and all commercially reasonable, customary and appropriate commercial collection activities in arranging the timely payment of amounts due and owing by any Customer all in accordance with applicable Laws, with commercially reasonable care and diligence, including, without limitation, diligently and faithfully performing all servicing and collection actions. In connection with its servicing obligations, Company will perform its obligations and exercise its rights under each Invested Receivable with the same care and applying the same policies as it applies to receivables similar to the Invested Receivables generally as if Investors had not invested in such Invested Receivables and shall act in a commercially reasonable manner to maximize collections on the Invested Receivables. Company may perform any and all of its duties and exercise its rights and powers as servicer by or through any one (1) or more agents appointed by it, **provided that**, notwithstanding the appointment of any such agents, Company shall remain liable for the performance of the obligations in this Section 6.

6.2 **Terms of Service**. Company shall engage in commercially reasonable customer service, promotional and marketing activities with respect to Customers constituting part of any Reference Cohort under all existing and future receivables, which customer service, promotional and marketing activities are, to the extent applicable, consistent with those customer service, promotional and marketing activities engaged in by Company with Customers under similar receivables and future receivables of Company for which the Investors have not invested in the performance thereof.

7. **Indemnities and Set-Off**.

7.1 **General Indemnification**. Company agrees to indemnify Arranger and Investors (together with their respective Affiliates, officers, directors, agents, representatives, shareholders, counsel and employees, each, an "**Indemnified Party**") from and against any and

all claims, losses and liabilities (including, without limitation, reasonable and documented attorneys' fees of one (1) counsel) arising out of or resulting from any Cancellation Event. The foregoing indemnification shall not apply in the case of any claims, losses or liabilities to the extent resulting solely from the gross negligence, bad faith, fraud or willful misconduct of an Indemnified Party. Company will have the right at any time to conduct and control the defense of, negotiate, settle or otherwise control any claims pursuant to this Section 7.1 and to select counsel of reasonable experience and expertise in the relevant area(s) of law implicated by such claims; **provided, however, that** if the defendants in any such action include Company and Arranger and the Indemnified Parties shall have reasonably concluded that there may be legal defenses available to it or them and/or other Indemnified Parties that are different from or additional to those available to Company or that such that joint representation of the parties would create an ethical conflict of interest for counsel, the Indemnified Party or parties shall have the right to elect for the Indemnified Parties to be represented by one (1) separate counsel to assert such legal defenses and to otherwise participate in the defense of such action on behalf of such Indemnified Party or parties. Company agrees that it shall not, without the consent of the Indemnified Party, effect any settlement of any pending or threatened proceeding in respect of which any Indemnified Party is or could reasonably have been a party and indemnity could reasonably have been sought hereunder by such Indemnified Party, unless such settlement includes an unconditional release of such Indemnified Party from all liability on claims that are the subject matter of such proceeding and does not include a statement as to or an admission of fault, culpability or a failure to act by or on behalf of such Indemnified Party.

7.2 **Tax Indemnification**. Company will indemnify Arranger and Investors for (i) any taxes withheld or deducted (from payments on an Invested Receivable whether by the related Customer or by the Company) (ii) any taxes payable by Company pursuant to Section 10 of this Agreement and (iii) costs, expenses and reasonable and documented fees of counsel selected by Arranger in defending against the same, whether arising by reason of the acts to be performed by Company hereunder or otherwise, in each case, other than Excluded Taxes. For purposes of this Section 7.2, the term "Tax" or "Taxes" shall include any interest, additions to tax or penalties applicable thereto.

8. **Retained Obligations**. Neither Arranger nor any Investor shall have any responsibility for, or have any liability with respect to, the performance of the Invested Receivables. All obligations of Company under each Invested Receivable and Customer Agreement, including all representations and warranty obligations, all servicing obligations and all maintenance obligations, shall be retained by Company (the "**Retained Obligations**"). Neither any claim that Company may have against any Reference Cohort or any other Person, nor the failure of any Reference Cohort to fulfill its obligations under the related Invested Receivable, shall affect the obligations of Company to perform its obligations and make payments required to be made by Company hereunder, and none of such events or circumstances shall be used as a defense or as set-off, counterclaim or cross-complaint as against the performance or payment of any of Company's obligations hereunder.

9. **Costs and Expenses; Default Rate**. Any fees, expenses or other amounts payable by Company to Arranger or Investors in connection with this Agreement (other than, in each case, any legal, accounting, tax or consultant fees and/or expenses) shall bear interest each day from the date following the date due therefor, until paid in full at the Default Rate, whether before or after

judgment. Fees are deemed payable on the date or dates set forth herein; expenses, indemnity, or other amounts payable by Company to Arranger or Investors are due five (5) Business Days after receipt by Company of written demand thereof. All interest amounts calculated under this Section 9 on a per annum basis shall be calculated on the basis of a year of three hundred sixty (360) days consisting of twelve (12) 30-day months.

10. **General Payments**. All amounts payable by Company to Arranger, on behalf of the applicable Investors, under this Agreement shall be paid in full, free and clear of all deductions, set-off or withholdings whatsoever except only as may be required by Law, and shall be paid on the date such amount is due to Arranger, on behalf of the applicable Investors. If any deduction or withholding is required by Law, Company shall pay to Arranger, on behalf of the applicable Investors, such additional amount as necessary to ensure that the net amount actually received by Arranger, on behalf of the applicable Investors, equals to the full amount Arranger, on behalf of the applicable Investors, should have received had no such deduction or withholding been required. All payments to be made or due hereunder shall be in United States dollars, including, but not limited to, Reference Income and Investment Amount. Any amounts that would fall due for payment on a day other than a Business Day shall be payable on the succeeding Business Day. All interest amounts calculated on a per annum basis hereunder are calculated on the basis of a year of three hundred sixty (360) days consisting of twelve (12) 30-day months.

11. **Tax and Accounting Treatment.** Each of Company and Arranger, and each applicable Investor, shall treat each Investment Amount as debt for tax and accounting purposes and shall not report on any applicable tax return or financial statement in a manner that is inconsistent with such treatment. Further this Agreement and any Investment Amount shall not be treated as creating a partnership (for tax purposes or otherwise) between any of Company and Arranger or any applicable Investor. Company shall make all disclosures required by applicable law or regulation with respect to Investors' investment in the performance of the Invested Receivables and account for such investment in accordance with GAAP.

12. **Notices**. Unless otherwise provided herein, any notice, request or other communication which Arranger or Company may be required or may desire to give to the other party under any provision of this Agreement shall be in writing and sent by e-mail, hand delivery, courier or first class mail, certified or registered and postage prepaid, and shall be deemed to have been given or made when transmitted (i) if delivered by e-mail, after receipt of an electronic receipt from the recipient's e-mail system or confirmation or acknowledgment of receipt by the recipient, (ii) if delivered by hand, after actual receipt and (iii) if delivered by courier or certified or registered mail, after receipt of a delivery confirmation, and in each case addressed to Arranger or Company as set forth below. Any party hereto may change the address to which all notices, requests and other communications are to be sent to it by giving written notice of such address change to the other parties in conformity with this paragraph, but such change shall not be effective until notice of such change has been received by the other parties.

If to Company:

Lemonade, Inc.
attn: General Counsel
5 Crosby Street, 3rd Floor

New York, NY 10013 Email:
legal@lemonade.com

If to Arranger:

GC Customer Value Arranger, LLC
75 Hawthorne St, Floor 20
San Francisco, CA 94105
Email: legal@generalcatalyst.com

Company agrees that Arranger may presume the authenticity, genuineness, accuracy, completeness and due execution of any email or fax communication bearing a facsimile or scanned signature resembling a signature of an authorized Person of Company, without further verification or inquiry by Arranger. Notwithstanding the foregoing, Arranger in its sole discretion may elect not to act or rely upon such a communication and shall be entitled (but not obligated) to make inquiries or require further action by Company to authenticate any such communication.

13. **Survival**. All covenants, representations and warranties made herein shall continue in full force and effect until the Termination Date; **provided that**, Company's obligations to indemnify the Indemnified Parties pursuant to Section 6 hereof shall survive until the 3rd anniversary of the Termination Date.

14. **Governing Law; Venue; Waiver of Jury Trial; etc**.

14.1 This Agreement shall be governed by the Laws of the State of New York, without giving effect to conflict of laws principles that would require the application of the Law of any other jurisdiction.

14.2 Each of the parties hereto irrevocably and unconditionally submits, for itself and its property, to the nonexclusive jurisdiction of any federal court of the United States, or New York state court if required by Law, sitting in the Borough of Manhattan, New York City, and any appellate court from any thereof, in any action or proceeding arising out of or relating to this Agreement, or for recognition or enforcement of any judgment. Each of the parties hereto hereby irrevocably and unconditionally agrees that all claims in respect of any such action or proceeding may be heard and determined in any such federal court or New York State court to the extent required by Law to be heard in such state court. A final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by Law. Each of the parties hereto irrevocably and unconditionally waives, to the fullest extent it may legally and effectively do so, any objection that it may now or hereafter have to the laying of venue of any suit, action or proceeding arising out of or relating to this Agreement in any federal court located in the Borough of Manhattan. Each of the parties hereto hereby irrevocably waives, to the fullest extent permitted by Law, the defense of inconvenient forum to the maintenance of such action or proceeding in any such court.

14.3 EACH PARTY HERETO IRREVOCABLY WAIVES ANY RIGHT THAT SUCH PERSON MAY HAVE TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF ANY OF THE TRANSACTIONS

CONTEMPLATED HEREIN, INCLUDING CONTRACT CLAIMS, TORT CLAIMS, BREACH OF DUTY CLAIMS AND ALL OTHER COMMON LAW OR STATUTORY CLAIMS.

15. **Fees and Expenses**. On the Effective Date, Company shall pay (i) all reasonable and documented out-of-pocket expenses, including but not limited to legal and accounting fees, incurred by Arranger in connection with the preparation, execution, delivery and administration of this Agreement and the Program Documents and related documentation, including in connection with any amendments, modifications or waivers of the provisions of any Program Documents (whether or not the transactions contemplated thereby shall be consummated, but only to the extent such amendments, modifications or waivers were requested by Company to be prepared); **provided that** to the extent the expenses and fees described in this clause (i) exceed $100,000, Arranger shall pay the amount of such excess and (ii) all reasonable and documented out-of-pocket expenses incurred by Arranger in connection with the enforcement, collection or protection of its rights in connection with the Program Documents, including its rights under this Section 15, or in connection with the investments made hereunder. Other than to the extent required to be paid on the Effective Date, all amounts due under this Section 15 shall be payable by Company within thirty (30) days of receipt of an invoice relating thereto, setting forth such expenses in reasonable detail and together with backup documentation supporting such reimbursement requests (or as otherwise agreed by Company).

16. **Dispute Resolution**. In Arranger's sole discretion, any controversy or claim arising out of or relating to this contract, or the breach thereof, may be settled by arbitration administered by the American Arbitration Association in accordance with its Commercial Arbitration Rules, and judgment on the award rendered by the arbitrator(s) may be entered in any court having jurisdiction thereof.

17. **General Provisions**.

17.1 This Agreement represents the final agreement of the parties with respect to the subject matter hereof and supersedes all prior and contemporaneous understandings and agreements with respect to such subject matter. No provision of this Agreement may be amended or waived except by a writing (including by email) provided by the parties hereto. Notwithstanding the foregoing, the Schedule of Investments may be updated by Arranger and Company at the time of execution of each Investment Request and the signatures to each such Investment Request shall constitute written consent of each party for each such update.

17.2 This Agreement shall bind and inure to the benefit of the respective successors and permitted assigns of each of the parties; **provided**, **however**, **that** Company may not assign any rights hereunder without Arranger's prior written consent, given or withheld in Arranger's sole discretion; **provided**, **further**, **that** Arranger may assign this Agreement (i) to any of its Controlled Investment Affiliates at any time without the prior written consent of Company and (ii) to any other party with the written consent of Company (such consent not to be unreasonably withheld, conditioned or delayed). The rights and obligations of any Investor hereunder may be assigned by delivery of an amended Exhibit A to the relevant Investment Request. Following each such assignment, Arranger shall deliver an updated Schedule C; **provided that** the failure to deliver an updated Schedule C shall not affect the validity of any

assignment. Each Investor shall be an intended third party beneficiary of the Agreement entitled to enforce the Agreement as though it were a party hereto.

17.3 Each provision of this Agreement shall be severable from every other provision hereof for the purpose of determining the legal enforceability of any specific provision. This Agreement may be executed in any number of counterparts and by different parties on separate counterparts, each of which, when executed and delivered, shall be deemed to be an original, and all of which, when taken together, shall constitute but one (1) and the same agreement. Each party agrees that this Agreement and any other documents to be delivered in connection herewith may be electronically signed, and that any electronic signatures appearing on this Agreement or such other documents are the same as handwritten signatures for the purposes of validity, enforceability, and admissibility.

17.4 It is understood and agreed that money damages would not be a sufficient remedy for any breach or threatened breach of this Agreement by Company and that Arranger and Investors shall be entitled to seek specific performance and injunctive or other equitable relief as a remedy for any such breach or threatened breach to the extent permitted by Law. In the event that such equitable relief is granted, such remedy or remedies shall not be deemed to be the exclusive remedy or remedies for breach or threatened breach of this Agreement but shall be in addition to all other remedies available to Arranger and Investors at law or equity.

18. **Confidentiality**. Arranger agrees to maintain the confidentiality of any Confidential Information (as defined below) received from Company and shall not disclose such Confidential Information to any third party except (a) as set forth in the Agreement, (b) to any employee, contractor, officer, director or agent who has a need to know such information, (c) to any existing or potential investor in, acquiror of, or lender or other financing source to, the receiving party in connection with such investor, acquiror lender or other financing source's existing or potential investment in, acquisition of or providing financing to the receiving party, so long as such investor, acquiror, lender or other financing source is bound by a written confidentiality agreement that covers such Confidential Information or (d) to members, managers, partners, affiliates, consultants, legal, financial and other advisors, representatives, and others who, in each case, agree to be bound by at least the same confidentiality undertakings as those set forth herein with respect to such Confidential Information. "**Confidential Information**" shall mean information of a party that is clearly identified as being "Confidential Information" or which a reasonable person would understand to be confidential, proprietary and/or non-public. "Confidential Information" shall not include any information that (i) is part of the public domain without any breach of this Agreement by the receiving party; (ii) is or becomes generally known to the general public or organizations engaged in the same or similar businesses as the receiving party on a non-confidential basis, through no wrongful act of such party; (iii) is known by the receiving party prior to disclosure to it hereunder without any obligation to keep it confidential; (iv) is disclosed to it by a third party which, to the best of the receiving party's knowledge, is not required to maintain the information as proprietary or confidential; (v) is independently developed by the receiving party without reference to Confidential Information of the other party; or (vi) is the subject of a written agreement whereby the other party consents to the disclosure of such Confidential Information on a non-confidential basis. Arranger may disclose Confidential Information, without the consent of Company, if such party becomes legally compelled (by applicable law, rule, regulation, oral questions, interrogatories, request for information or

documents, subpoena, civil investigative demand or similar process) to disclose any of the Confidential Information **provided that** the receiving party promptly notifies the disclosing party of the demand for such a disclosure in order that the disclosing party may undertake any available means to oppose such a disclosure that are in its discretion necessary and appropriate. The obligations under this Section 18 shall terminate on the date which is seven (7) years from the date of the termination of this Agreement, except that with respect to any Confidential Information which is a trade secret, such obligations shall continue until such trade secret is no longer Confidential Information, if ever. Arranger shall require that its employees, contractors, officers, directors and agents enter into confidentiality agreements which prevent the further disclosure of the disclosing party's Confidential Information except in furtherance of the transactions contemplated hereunder.

IN WITNESS WHEREOF, each of the parties have caused this Agreement to be executed as of the date first above written.

LEMONADE, INC., as Company

By: /s/ Tim Bixby

Tim Bixby, CFO

GC CUSTOMER VALUE ARRANGER, LLC,
as Arranger

By: General Catalyst Group Management LLC, its Manager

By: /s/ Sara Chehreshsa

Name: Sara Chehreshsa
Title: Associate General Counsel

SCHEDULE A

SPECIFIED COMMERCIAL TERMS

1. **Defined Terms.**

1.1 **Definitions**. Capitalized terms used but not defined in this Schedule A shall have the meanings set forth in the Agreement:

"**Borderline Funding Threshold Test**" means a test which is satisfied for any Tested Cohort if each of the following, calculated as of the end of each Growth Period, is satisfied: (i) the Threshold M0 is equal to or greater than [***]%, (ii) the Threshold M12 is equal to or greater than [***]%; (iii) the Threshold M24 is equal to or greater than [***]% and (iv) the Threshold Delta M+1 is greater than or equal to [***]%.

"**Cohort Threshold Test**" means a test which is satisfied for any Tested Cohort if each of the following, calculated as of the end of each Growth Period, is satisfied: (i) the Threshold M0 is equal to or greater than [***]%, (ii) the Threshold M12 is equal to or greater than [***]%; (iii) the Threshold M24 is equal to or greater than [***]% and (iv) the Threshold Delta M+1 is greater than or equal to [***]%.

"**Commitment Breach**" means, with respect to any Tested Cohort, the failure to satisfy the Cohort Threshold Test on any day on or prior to the Original Commitment End Date; **provided, however**, that if only one (1) Tested Cohort does not satisfy the Cohort Threshold Test, then no Commitment Breach will have occurred. For the avoidance of doubt, a Commitment Breach will occur if at any time there is more than one (1) Tested Cohort which does not satisfy the Cohort Threshold Test.

"**Commitment Period**" means the period of time from the Effective Date through December 31, 2025; **provided that**, the Commitment Period may be modified upon mutual written agreement of Company and Arranger (which written agreement may be in email form); **provided further, that**, the Commitment Period shall end on December 31, 2024 (the "**Original Commitment End Date**") in the event a Commitment Breach has occurred at any time on or prior to the Original Commitment End Date.

"**Funding Threshold Test**" means a test which is satisfied for any Tested Cohort if each of the following, calculated as of the end of each Growth Period, is satisfied: (i) the Threshold M0 is equal to or greater than [***]%, (ii) the Threshold M12 is equal to or greater than [***]%; (iii) the Threshold M24 is equal to or greater than [***]% and (iv) the Threshold Delta M+1 is greater than or equal to [***]%.

"**Internal Rate of Return**" means the rate of return, expressed as a percentage, obtained by running the XIRR function in Microsoft Excel, Google Sheets, or similar spreadsheet tool or computer program, with such function taking as inputs the cash disbursements/collections and associated dates of such disbursements/collections as described when such term is used in this Agreement. For the avoidance of doubt, cash disbursements from Arranger to Company shall be expressed as negative amounts and cash disbursements from Company to Arranger shall be expressed as positive amounts in the calculation of such Internal Rate of Return.

"**Invested Receivable**" means, collectively, an amount owed to Company by a Reference Cohort, payment processor or other source expected to generate Reference Income.

"**Investor Cap Amount**" means, with respect to any Reference Cohort, the lesser of (a) the greater of (i) 0 and (ii) the amount which, taking into consideration (x) all prior Reference Income and any amounts remitted to Investors pursuant to Section 2.1(d), along with the actual dates of such remittances related to the applicable Reference Cohort, and (y) all prior Investment Amounts, including any amounts remitted to Company pursuant to Section 2.1(d), and the Investment Funding Dates of such remittances, would, as of any date of calculation, lead Investors to realize an Internal Rate of Return of 16% across all such cash remittances; and (b) the product of (i) [***]% and (ii) the Periodic Funding Amount; **provided that**, on and after the date that is 10 years following the last day of the Growth Period in which such Reference Cohort was originated, the "Investor Cap Amount" with respect to such Reference Cohort shall be zero.

"**Investor Funding Percentage**" means, with respect to any Reference Cohort for a Growth Period, the quotient of (i) the applicable Periodic Funding Amount *divided by* (ii) the respective Expected Growth Spend; **provided**, **however**, **that** in the case of a Spend Reconciliation, the Investor Funding Percentage may be revised pursuant to a Funding Adjustment; **provided further, that** the Investor Funding Percentage shall not exceed the Investor Funding Percentage Cap, unless otherwise agreed to in the related Investment Request in Arranger's sole discretion.

"**Investor Funding Percentage Cap**" means [***]; **provided, however, that** the Investor Funding Percentage Cap for any Reference Cohort originated during a Growth Period occurring after the first six (6) full Growth Periods following the Effective Date have elapsed shall be [***] if, as of the applicable Investment Funding Dates each of the following is satisfied: (i) the Funding Threshold Test has been met for all Tested Cohorts at all times since the Effective Date, (ii) no Cohort Threshold Breach has occurred at any time since the Effective Date and (ii) all of the conditions in Section 3.1 and 3.2 of this Agreement have been satisfied at all times since the Effective Date.

"**Investor Sharing Percentage**" means, with respect to any Reference Cohort, a percentage equal to the Investor Funding Percentage; **provided**, **however**, **that** immediately in the event of a Cohort Threshold Breach with respect to such Reference Cohort, the Investor Sharing Percentage for such Reference Cohort shall be equal to 100%.

"**Periodic Funding Amount**" means, with respect to any Reference Cohort, the Investment Amount, subject to any adjustment pursuant to Section 2.1(d), for the Growth Period in which such Reference Cohort was originated.

"**Reference Cohort**" means, with respect to any Growth Period, the group of Customers each of which is identified as having its first nonzero transaction date in such Growth Period by reference to the "accounting_date" column in the dataset provided by Company to Arranger.

"**Reference Income**" means, with respect to any Reference Cohort, an amount equal to the product of (i) (x) for payments associated with Customers underwritten by Company, including its Affiliates, the total such gross cash payments (including premium) collected by Company and its

Affiliates, and (y) for payments associated with Customers whose related insurance contracts are 'placed' by Company with a third party, the total such gross cash payments (including premium) paid by the Customer, including to the related third party as well as to Company and its Affiliates and (ii) [***]%.

"**Growth Period**" means each monthly period, commencing on July 1, 2023.

"**Growth Spend**" means the total amount (without duplication) of marketing and sales expenses that are recognized on the income statement of Company for such Growth Period (including the amortized portion of any marketing and sales expenditures capitalized in prior periods, which expenditures shall be recorded and presented to Arranger in a separate pro forma income statement which sets forth the applicable amount) that Company determines in good faith to be tied to the acquisition or retention of customers. From time to time, the Company may engage in new channel experiments (i.e., marketing channels which Company has not previously invested in prior to the Effective Date) and such new channel experiments shall be excluded from Growth Spend for purposes of this Agreement.

"**Tested Cohort**" means (i) any Open Reference Cohort and (ii) the groups of Customers that would constitute Reference Cohorts for each of the twelve (12) monthly periods that occurred immediately prior to the Effective Date, if this Agreement were in effect and such periods were Growth Periods; **provided, that** any Tested Cohort shall cease to be a Tested Cohort on and after the date on which the cumulative Reference Income associated with such Tested Cohort exceeds the Actual Growth Spend for the related Growth Period or monthly period, as applicable, during which such Tested Cohort was originated.

"**Threshold Delta M+1**" means, with respect to a Tested Cohort and any Growth Period starting with the second full Growth Period after the first date on which such Tested Cohort began to be originated, an amount (expressed as a percentage) equal to aggregate Reference Income across all associated members of such Tested Cohort for such Growth Period divided by the Actual Growth Spend for the Growth Period in which such Tested Cohort was originated.

"**Threshold M0**" means, with respect to any Tested Cohort, an amount (expressed as a percentage) equal to the aggregate Reference Income across all associated members of such Tested Cohort during the Growth Period in which such Tested Cohort was originated divided by the Actual Growth Spend for the Growth Period in which such Tested Cohort was originated.

"**Threshold M12**" means, with respect to any Tested Cohort, an amount (expressed as a percentage) equal to aggregate Reference Income across all associated members of such Tested Cohort during the first thirteen (13) full Growth Periods after the first date on which such Tested Cohort began to be originated (measured cumulatively) divided by the Actual Growth Spend for the Growth Period in which such Tested Cohort was originated.

"**Threshold M24**" means, with respect to any Tested Cohort, an amount (expressed as a percentage) equal to aggregate Reference Income across all associated members of such Tested Cohort during the first twenty-five (25) full Growth Periods after the first date on which such Tested Cohort began to be originated (measured cumulatively) divided by the Actual Growth Spend for the Growth Period in which such Tested Cohort was originated.

2. **Specified Commercial Terms**.

2.1 **Committed Facility Commercial Terms**

(a) Notwithstanding anything to the contrary herein, (i) the maximum invested amount for all Investment Requests funded by Arranger prior to the Original Commitment End Date shall not exceed $150,000,000, (ii) the maximum invested amount for all Investment Requests funded by Arranger from the Original Commitment End Date through December 31, 2025 shall not exceed $140,000,000, (iii) the Investment Amount for any given Growth Period (other than the initial Growth Period following the Effective Date) shall not exceed the product of [***]% and Investment Amount for the immediately preceding Growth Period and (iv) the Investment Amount for any Growth Period shall not exceed [***], in each case without Arranger's prior written consent.

(b) For any Growth Period during the Commitment Period, in the event that Company does not issue Investment Requests to Arranger for an aggregate Investment Amount of [***] of the Actual Growth Spend (such amount, the "**Minimum Investment Amount**") with respect to such Growth Period, Company shall be deemed to have received an Investment Amount equal to the Minimum Investment Amount for purposes of this Agreement.

(c) **Commitment Termination**. Arranger may immediately cancel and terminate any further commitment to honor any Investment Requests made to Arranger, on behalf of the applicable Investors, hereunder upon the occurrence of any of the following: (i) a Funding Threshold Breach by Company, (ii) a Cancellation Event, (iii) the representations and warranties of Company contained this Agreement ceasing to be true and correct, or (iv) breach by Company of any of the covenants and other undertakings set forth herein, **provided that** with respect to the foregoing clauses (iii) and (iv), to the extent such breach is (x) curable, (y) does not result in a Material Adverse Change with respect to any Invested Receivable, and (z) has not previously occurred during the term of the Agreement, Company may provide prompt notice to Arranger of its intent to cure such breach or failure and shall cure such breach or failure within a period of twenty (20) days thereafter (and upon receipt of such notice of intent to cure, Arranger shall forbear from terminating its commitments hereunder, and may, but shall not be obligated to, honor any further Investment Requests during such cure period in its sole discretion); **provided further that**, Arranger, on behalf of the applicable Investors, and Company shall make reasonable efforts to reach an agreement to resume such commitment, and such commitment shall be resumed upon mutual election by Arranger and Company.

Severance Agreement

THIS SEVERANCE AGREEMENT (the "*Severance Agreement*") is entered into as of the Effective Date (as defined below) between Lemonade, Inc. (together with any Affiliate that may employ you from time to time, the "*Company*") and Maya Prosor ("*Executive*" or "*you*").

1. Definitions. The following capitalized terms used herein shall have the following meanings:

(a) "*Affiliate*" means (a) any Subsidiary; and (b) any domestic eligible entity that is disregarded, under Treasury Regulation Section 301.7701-3, as an entity separate from either (i) the Company or (ii) any Subsidiary.

(b) "*Annual Bonus*" means the annual variable cash compensation you are eligible to receive as determined from time to time by the Company, whether acting through the Company's Board of Directors (the "*Board*"), a committee thereof or otherwise, based on the achievement of certain Company and/or individual performance objectives.

(c) "*Base Pay*" means your annual base compensation, as determined from time to time by the Company, whether acting through the Board, a committee thereof or otherwise, regardless of whether all or any portion thereof may be deferred under any deferred compensation plan or program of the Company.

(d) "*Cause*" means "Cause" (or any term of similar effect) as defined in your employment agreement with the Company or any Affiliate if such an agreement exists and contains a definition of Cause (or term of similar effect), or, if no such agreement exists or such agreement does not contain a definition of Cause (or term of similar effect), then Cause shall include, but not be limited to: (i) your unauthorized use or disclosure of confidential information or trade secrets of the Company or any Affiliate or any material breach of a written agreement between you, on the one hand, and the Company or any Affiliate, on the other, including without limitation a material breach of any employment, confidentiality, non-compete, non-solicit or similar agreement; (ii) any refusal to carry out a reasonable directive of the chief executive officer, the Board or your direct supervisor, which involves the business of the Company and/or its Affiliates and was capable of being lawfully performed; (iii) dismissal under the circumstances defined in Section 16 and/or Section 17 of the Israeli Severance Pay Law, 1963; (iv) embezzlement of funds of the Company and/or its Affiliates; your commission of, indictment for or your entry of a plea of guilty or *nolo contendere* to, a felony under the laws of the United States or any state thereof or any crime involving dishonesty or moral turpitude (or any similar crime in any jurisdiction outside the United States); (v) your gross negligence or willful misconduct or your willful or repeated failure or refusal to substantially perform assigned duties; or (vi) any acts, omissions or statements by you which the Company reasonably determines to be materially detrimental or damaging to the reputation, operations, prospects or business relations of the Company or any Affiliate.

(e) "*Change in Control*" shall have the meaning set forth in the Incentive Award Plan. Notwithstanding the foregoing, if a Change in Control constitutes a payment or benefit event with respect to any payment or benefit hereunder that provides for the deferral of compensation that is subject to Section 409A, to the extent required to avoid the imposition of additional taxes under Section 409A, such transaction or event will not be deemed a Change in Control unless the transaction qualifies as a "change in control event" within the meaning of Section 409A.

(f) "*Change in Control Protection Period*" means the period beginning on the date three

months prior to the consummation of the Change in Control and ending on the first anniversary of such Change in Control.

(g) "*Code*" means the Internal Revenue Code of 1986, as amended.

(h) "*Date of Termination*" means the date of termination of your employment for any reason.

(i) *"Disability"* means "Disability" (or any term of similar effect) as defined in your employment agreement with the Company or any Affiliate if such an agreement exists and contains a definition of Disability (or term of similar effect), or, if no such agreement exists or such agreement does not contain a definition of Disability (or term of similar effect), then Disability means an illness (mental or physical) or incapacity, which results in you being unable to perform your duties as an employee of the Company for a period of one hundred eighty (180) days, whether or not consecutive, in any twelve (12) month period.

(j) "*Equity Awards*" means all stock options, restricted stock units, performance stock units and such other equity-based awards granted pursuant to the Incentive Award Plan. For the avoidance of doubt, "Equity Awards" shall not include any cash or cash-based awards granted pursuant to the Incentive Award Plan.

(k) "*Incentive Award Plan*" means Lemonade, Inc. 2020 Incentive Award Plan (or any successor equity incentive plan of the Company).

(l) "*Lemonade Entities*" means Lemonade, Inc. and its direct and indirect Subsidiaries.

(m) "*Subsidiary*" shall mean any entity (other than the Company), whether domestic or foreign, in an unbroken chain of entities beginning with the Company if each of the entities other than the last entity in the unbroken chain beneficially owns, at the time of the determination, securities or interests representing at least fifty percent (50%) of the total combined voting power of all classes of securities or interests in one of the other entities in such chain

2. <u>Term of Agreement</u>. The term of this Agreement will commence on the last date that this Agreement is signed below (the "*Effective Date*") and shall continue in effect until your Date of Termination.

3. <u>Termination and Eligibility for Severance</u>.

(a) <u>Accrued Benefits</u>. Upon any termination of your employment, you will be paid (i) any and all earned and unpaid portion of your Base Pay through the Date of Termination; (ii) any accrued but unused vacation pay owed to you in accordance with Company practices up to and including the Date of Termination; and (iii) any allowable and unreimbursed business expenses incurred through the Date of Termination that are supported by appropriate documentation in accordance with the Company's applicable expense reimbursement policies. Hereafter, items (i) through (iii) in this Section 3 are referred to as "*Accrued Benefits*." If termination of your employment is for any reason other than by the Company without Cause (other than due to death or Disability), you will be entitled to receive <u>only</u> the Accrued Benefits.

(b) <u>Severance Payments and Benefits</u>. Subject to Sections 3(c), 5 and 6 of the Agreement:

(i) *Non-CIC Severance Payments and Benefits*. If the Company terminates your employment without Cause (other than as a result of your death or Disability), in each case, outside of the Change in Control Protection Period, then, in addition to the Accrued

Benefits, the Company will provide you the following severance and related post-termination benefits (the "*Non-CIC Severance Payments and Benefits*"):

(1) The Company shall, during the period beginning on the Date of Termination and ending on the six (6)-month anniversary of the Date of Termination, pay to you an amount equal to the sum of six (6) months of your Base Pay as in effect immediately prior to the Date of Termination and fifty percent (50%) of your target Annual Bonus for the calendar year in which the Date of Termination occurs (collectively, the "*Non-CIC Severance Payment*");

(2) The Company shall pay you an amount equal to the aggregate sum of the Company's share of medical, dental and vision insurance premiums for you and your dependents for the period commencing on the Date of Termination and ending on the sixth month anniversary thereof (as if you had remained employed and based on coverage as of immediately prior to termination). For the avoidance of doubt, if immediately prior to the termination of your employment you were required to contribute towards the cost of premiums as a condition of receiving such insurance, the payment hereunder will not cover any such contributions. The cash payment provided for in this Section 3(b)(i)(2) or Section 3(b)(ii)(2), as applicable, is referred to herein as the "*Continued Benefit Payment*");

(3) Unless otherwise explicitly set forth in the award agreement for the applicable Equity Award, each outstanding unvested Equity Award held by you immediately prior to the Date of Termination that is subject to vesting based solely upon your continuous service with the Company that would have vested during the six (6)-month period following the Date of Termination had you remained employed shall remain outstanding and shall automatically vest and become exercisable (as applicable) on the Severance Commencement Date; provided that the Release Agreement has become effective and irrevocable as of such date (the "*Non-CIC Equity Benefit*"); provided, further, that if the Release Agreement has not become effective and irrevocable as of such date, such Equity Awards shall automatically be forfeited for no consideration on such date, and

(4) Subject to the provisions of Sections 3(c) and 6, the Non-CIC Severance Payment and Continued Benefit Payment shall be paid in equal installments during the six (6)-month period following the Date of Termination in accordance with the Company's normal payroll practices beginning on the first payroll date following the 60th day following the Date of Termination (such payroll date, the "*Severance Commencement Date*"), and with the first installment including any amounts that would have been paid had the Release Agreement been effective and irrevocable on the Date of Termination.

(ii) *CIC Severance Payments and Benefits*. If the Company terminates your employment without Cause (other than as a result of your death or Disability), in each case, during the Change in Control Protection Period, then, in addition to the Accrued Benefits (and, for the avoidance of doubt, in lieu of the Non-CIC Severance Payments and Benefits), the Company will provide you the following severance and related post-termination benefits (the "*CIC Severance Payments and Benefits*"):

(1) The Company shall pay you an amount equal to the sum of twelve (12) months of your Base Pay as in effect immediately prior to the Date of Termination and your target Annual Bonus for the calendar year in which the Date of Termination

occurs (collectively, the "*CIC Severance Payment*");

(2) The Company shall pay you an amount equal to the aggregate sum of the Company's share of medical, dental and vision insurance premiums for you and your dependents for the period commencing on the Date of Termination and ending on the first anniversary thereof (as if you had remained employed and based on coverage as of immediately prior to termination). For the avoidance of doubt, if immediately prior to the termination of your employment you were required to contribute towards the cost of premiums as a condition of receiving such insurance, the payment hereunder will not cover any such contributions; and

(3) Unless otherwise explicitly set forth in the award agreement for the applicable Equity Award, any unvested Equity Awards outstanding immediately prior to the Date of Termination shall automatically become fully vested and exercisable (as applicable) on the Severance Commencement Date; provided that the Release Agreement has become effective and irrevocable as of such date (the "*CIC Equity Benefit*"); provided, further, that if the Release Agreement has not become effective and irrevocable as of such date, such Equity Awards shall automatically be forfeited for no consideration on such date.

(4) Subject to the provisions of Sections 3(c) and 6, the CIC Severance Payment and the Continued Benefit Payments shall be paid in equal installments during the twelve (12)-month period following the Date of Termination in accordance with the Company's normal payroll practices beginning on Severance Commencement Date, and with the first installment including any amounts that would have been paid had the Release Agreement been effective and irrevocable on the Date of Termination shall be made in a lump sum on the Severance Commencement Date.

(c) Release. Any amounts payable pursuant to Section 3(b)(i) or Section 3(b)(ii), as applicable (collectively, the "*Severance Benefits*"), shall be in lieu of notice or any other severance benefits to which you might otherwise be entitled from any Lemonade Entity. Notwithstanding anything to the contrary herein, the Company's provision of the Severance Benefits will be contingent upon your timely execution and non-revocation of a general waiver and release of claims agreement in a form to be provided by the Company (a "*Release Agreement*"), subject to the terms set forth herein. You will have twenty-one (21) days (or, in the event that your termination of employment is "in connection with an exit incentive or other employment termination program" (as such phrase is defined in the Age Discrimination in Employment Act of 1967, as amended), forty-five (45) days) following your receipt of the Release Agreement to consider whether or not to accept it. If the Release Agreement is signed and delivered by you to the Company, you will have seven (7) days from the date of delivery to revoke your acceptance of such agreement (the "*Revocation Period*"). If you do not timely execute or if you subsequently revoke the Release Agreement, you shall be required to pay to the Company, immediately upon demand therefor, the amount of any payments or benefits you received in connection with any portion of Equity Awards that was eligible to vest pursuant to Section 3(b) (including, without limitation, proceeds received or realized by you from the sale or surrender of any shares underlying such Equity Awards in connection with applicable tax withholding).

(d) The provisions of this Section 3 shall supersede in their entirety any severance payment provisions in any employment agreement, severance plan, severance policy, severance program or other severance arrangement maintained by the Company. The Company shall have no further obligation to you in the event of termination of your employment for any reason at any time, other than those obligations specifically set forth in this Section 3.

4. Mitigation. You shall not be required to mitigate the amount of any payment or benefit provided for in Section 3 by seeking other employment or otherwise, nor shall the amount of any payment or benefit provided for in Section 3 be reduced by any compensation earned by you as the result of employment by another employer or by retirement benefits after the Date of Termination or otherwise, subject to Section 5; provided, however, that any loans, advances or other amounts owed by you to the Company may be offset by the Company and its Affiliates against amounts payable to you under Section 3 to the greatest extent permitted by applicable law.

5. Restrictive Covenants and Other Conditions. You acknowledge and agree that you are a party to a restrictive covenant agreement -- called a Proprietary Information, Assignment of Inventions Non Disclosure and Non Compete Agreement or other name -- and such agreement remains in full force and effect (the "*Restrictive Covenant Agreement*"). In the event of (a) your material breach of the Restrictive Covenant Agreement, (b) your engagement in any act or omission after the Date of Termination that would have constituted "Cause" under subsection (i) of the definition thereof (without regard for any cure periods therein) for termination of your employment had you remained employed after the Date of Termination, or (c) the Company's determination in good faith that facts or circumstances existed on the Date of Termination that, if known by the Company on the Date of Termination, would have constituted Cause, the Company shall be entitled to cease all payments and benefits pursuant to Section 3(b), all Equity Awards that vested pursuant to Section 3(b) and any shares of Company stock you received with respect thereto shall immediately be forfeited, without payment therefor, and you shall be required to pay to the Company, immediately upon demand therefor, the amount of any proceeds realized by you from the sale of any such shares.

6. Section 409A Tax Implications. Any payments or benefits required to be provided under this Agreement that is subject to Section 409A of the Code shall be provided only after the date of your "separation from service" with the Company as defined under Section 409A of the Code and the regulations and guidance issued thereunder (collectively, "*Section 409A*"). The following rules shall apply with respect to distribution of the payments and benefits, if any, to be provided to you under this Agreement:

(a) To the extent applicable, this Agreement shall be interpreted in accordance with Section 409A. Each installment of the payments and benefits provided hereunder shall be treated as a separate "payment" for purposes of Section 409A. If and to the extent (i) any portion of any payment, compensation or other benefit provided to you pursuant to this Agreement in connection with your termination of employment constitutes "nonqualified deferred compensation" within the meaning of Section 409A and (ii) you are a specified employee as defined in Section 409A(a)(2)(B)(i) of the Code, in each case as determined by the Company in accordance with its procedures, by which determinations you agree that you are bound, such portion of the payment, compensation or other benefit shall not be paid until the first business day that is six (6) months plus one (1) day or more after the date of "separation from service" (as determined under Section 409A) (the "*New Payment Date*"), except such earlier date as Section 409A may then permit. The aggregate of any payments that otherwise would have been paid to you during the period between the date of separation from service and the New Payment Date shall be paid to you in a lump sum on such New Payment Date, and any remaining payments will be paid on their original schedule.

(b) The Company and its employees, agents and representatives make no representations or warranty and shall have no liability to you or any other person if any provisions of or payments, compensation or other benefits under this Agreement are determined to constitute nonqualified deferred compensation subject to Section 409A but do not satisfy the conditions of that section. Notwithstanding any provision of this Agreement to the contrary, in the event that following the

Effective Date the Board determines that this Agreement may be subject to Section 409A, the Board may (but is not obligated to), without your consent, adopt such amendments to this Agreement or adopt other policies and procedures (including amendments, policies and procedures with retroactive effect), or take any other actions, that the Board determines are necessary or appropriate to (i) exempt this Agreement from Section 409A and/or preserve the intended tax treatment of the benefits provided with respect to this Agreement or (ii) comply with the requirements of Section 409A and thereby avoid the application of any penalty taxes under Section 409A.

7. Section 280G. If any payment or benefit you would receive or retain under this Severance Agreement, when combined with any other payment or benefit you receive or retain in connection with a "change in control event" within the meaning of Section 280G of the Code and the regulations and guidance thereunder ("*Section 280G*"), would (a) constitute a "parachute payment" within the meaning of Section 280G of the Code, and (b) but for this Section 7, be subject to the excise tax imposed by Section 4999 of the Code (the "*Excise Tax*"), then such Payment shall be either payable in full or in such lesser amount as would result in no portion of the Payment being subject to the Excise Tax, whichever of the foregoing amounts, taking into account the applicable federal, state and local employment taxes, income taxes, and the Excise Tax, results in your receipt, on an after-tax basis, of the greater amount of the Payment notwithstanding that all or some portion of the Payment may be subject to the Excise Tax. All determinations required to be made under this Section 7, including whether and to what extent the Payment shall be reduced and the assumptions to be utilized in arriving at such determination, shall be made by a nationally recognized certified public accounting firm or consulting firm experience in matters regarding Section 280G of the Code as may be designated by the Company (the "*280G Advisor*"). The 280G Advisor shall provide detailed supporting calculations both to you and the Company at such time as is requested by the Company. All fees and expenses of the Accounting Firm shall be borne solely by the Company. Any final determination by the 280G Advisor shall be binding upon you and the Company. For purposes of making the calculations required by this Section 7, the 280G Advisor may make reasonable assumptions and approximations concerning applicable taxes and may rely on reasonable, good-faith interpretations concerning the application of Sections 280G and 4999 of the Code.

8. Withholding. The Company shall be entitled to withhold from any amounts payable under this Agreement any federal, state, local or foreign withholding or other taxes or charges that the Company is required to withhold. The Company shall be entitled to rely on an opinion or advice of counsel if any questions as to the amount or requirement of withholding arise.

9. Miscellaneous.

(a) This Agreement, together with any written employment agreement or offer letter to which you may be a party and any agreements referenced herein, will constitute our entire agreement as to your employment by the Company and will supersede any prior agreements or understandings, whether in writing or oral, with respect to the subject matter hereof, other than with respect to any agreements between you and the Company with respect to confidential information, intellectual property, non-competition, non-solicitation, non-disparagement, nondisclosure of proprietary information, inventions and injunctive relief, including, without limitation, the Restrictive Covenant Agreement); provided that Section 9(f) supersedes and replaces any prior dispute resolution provisions in any other prior agreement between you and the Company (including, without limitation, the Restrictive Covenant Agreement).

(b) This Agreement may be executed in more than one counterpart, each of which shall be deemed to be an original, and all such counterparts together shall constitute one and the same instrument.

(c) The provisions of this Agreement are severable and if any one or more provisions may be determined to be illegal or otherwise unenforceable, in whole or in part, the remaining provisions of this Agreement shall nevertheless be binding and enforceable and except to the extent necessary to reform or delete such illegal or unenforceable provision, this Agreement shall remain unmodified and in full force and effect.

(d) This Agreement is personal in nature and neither of the parties hereto shall, without the written consent of the other, assign or otherwise transfer this Agreement or its obligations, duties and rights under this Agreement; provided, however, that in the event of the merger, consolidation, transfer or sale of all or substantially all of the assets of the Company, this Agreement shall, subject to the provisions hereof, be binding upon and inure to the benefit of such successor and such successor shall discharge and perform all of the promises, covenants, duties and obligations of the Company hereunder.

(e) All notices shall be in writing and shall be delivered personally (including by courier), by overnight receipted courier service (such as UPS or Federal Express) or sent by certified, registered or express mail, postage prepaid, to the Company at the following address: Lemonade, Inc., 5 Crosby Street, 3rd Floor, Attn: Head of Legal, and to you at the most current address we have in your employment file. Any such notice shall be deemed given when so delivered personally, or, if by certified, registered or express mail, postage prepaid mailed, forty-eight (48) hours after the date of deposit in the mail. Any party may, by notice given in accordance with this paragraph to the other party, designate another address or person for receipt of notices hereunder.

(f) *Disputes.* The parties will keep confidential, and will not disclose to any person, except as may be required by law or the rules and regulations of the Securities and Exchange Commission or other government agencies, the existence of any controversy hereunder or the status or court resolution thereof.

(g) This Agreement shall be governed by and interpreted in accordance with the laws of the State of Israel, without regard to the conflict of laws provisions thereof or of any other jurisdiction. Any dispute arising under or relating to this Agreement shall be resolved by the competent courts in Tel Aviv, and each of the parties hereby submits irrevocably to the exclusive jurisdiction of such venue.

10. Acceptance. You may accept the terms and conditions described herein by confirming your acceptance in writing. Please sign and date this Agreement below, which execution will evidence your agreement with the terms and conditions set forth herein.

[The remainder of this page is intentionally left blank.]

IN WITNESS WHEREOF, each of the parties has executed this Severance Agreement, in the case of the Company by its duly authorized officer, as of the day and year last written below.

EXECUTIVE:

By: /s/ Maya Prosor   Date: 2024-02-12

Name: Maya Prosor
Title: Chief Business Officer

COMPANY:

By: /s/ Daniel Schreiber   Date: 2024-02-12

Name: Daniel Schreiber
Title: Chief Executive Officer

Signature Page to Severance Agreement

EXHIBIT 21.1

Subsidiaries of Lemonade, Inc.

Name	State or Other Jurisdiction of Incorporation or Organization
Lemonade Agency B.V.	Netherlands
Lemonade B.V.	Netherlands
Lemonade E&S Insurance Agency, LLC	Delaware
Lemonade Insurance Agency, LLC	New York
Lemonade Insurance Company	New York
Lemonade Insurance N.V.	Netherlands
Lemonade Life Insurance Agency, LLC	Delaware
Lemonade Ltd.	Israel
Lemonade Re SPC	Cayman Islands
Lemonade Tech B.V.	Netherlands
Metromile Insurance Company	Delaware
Metromile Insurance Services LLC	California
Metromile Enterprise Solutions, LLC	California
Metromile, LLC	Delaware
Metromile Operating Company	Delaware

EXHIBIT 23.1

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements:

(1) Registration Statement (Form S-8 No. 333-266362) pertaining to the 2020 Incentive Award Plan of Lemonade, Inc., Metromile, Inc. 2021 Equity Incentive Plan, and the Metromile, Inc. Amended and Restated 2011 Equity Incentive Plan,
(2) Registration Statement (Form S-8 No. 333-254011) pertaining to the 2020 Incentive Award Plan and 2020 Employee Stock Purchase Plan of Lemonade, Inc.,
(3) Registration Statement (Form S-8 No. 333-239656) pertaining to the 2020 Incentive Award Plan, 2020 Employee Stock Purchase Plan, and the Amended and Restated 2015 Incentive Share Option Plan.,
(4) Registration Statement (Form S-3ASR No. 333-268695) of Lemonade, Inc., and
(5) Registration Statement (Form S-8 No. 333-270247) pertaining to the 2020 Incentive Award Plan

of our reports dated February 28, 2024, with respect to the consolidated financial statements of Lemonade, Inc. and the effectiveness of internal control over financial reporting of Lemonade, Inc. included in this Annual Report (Form 10-K) of Lemonade, Inc. for the year ended December 31, 2023.

/s/ Ernst & Young LLP

New York, New York
February 28, 2024

Exhibit 31.1

CERTIFICATION

I, Daniel Schreiber, certify that:

1. I have reviewed this Annual Report on Form 10-K 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 officer(s) 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 officer(s) 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:	February 28, 2024	By:	/s/ Daniel Schreiber
			Daniel Schreiber
			Chief Executive Officer
			(principal executive officer)

Exhibit 31.2

CERTIFICATION

I, Tim Bixby, certify that:

1. I have reviewed this Annual Report on Form 10-K 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 officer(s) 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 officer(s) 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:	February 28, 2024	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 Annual Report on Form 10-K of Lemonade, Inc. (the “Company”) for the year ended December 31, 2023, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Daniel Schreiber, 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:	February 28, 2024	By:	/s/ Daniel Schreiber
			Daniel Schreiber
			Chief Executive Officer
			(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 Annual Report on Form 10-K of Lemonade, Inc. (the “Company”) for the year ended December 31, 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:	February 28, 2024	By:	/s/ Tim Bixby
			Tim Bixby
			Chief Financial Officer
			(principal financial officer)

LEMONADE, INC. POLICY FOR RECOVERY OF ERRONEOUSLY AWARDED COMPENSATION

Lemonade, Inc. (the "***Company***") has adopted this Policy for Recovery of Erroneously Awarded Compensation (the "***Policy***"), effective as of October 25, 2023 (the "***Effective Date***"). Capitalized terms used in this Policy but not otherwise defined herein are defined in Section 11.

1. Persons Subject to Policy

This Policy shall apply to current and former Officers of the Company. Each Officer shall be required to sign an acknowledgment pursuant to which such Officer will agree to be bound by the terms of, and comply with, this Policy; however, any Officer's failure to sign any such acknowledgment shall not negate the application of this Policy to the Officer.

2. Compensation Subject to Policy

This Policy shall apply to Incentive-Based Compensation received on or after the Effective Date. For purposes of this Policy, the date on which Incentive-Based Compensation is "received" shall be determined under the Applicable Rules, which generally provide that Incentive-Based Compensation is "received" in the Company's fiscal period during which the relevant Financial Reporting Measure is attained or satisfied, without regard to whether the grant, vesting or payment of the Incentive-Based Compensation occurs after the end of that period.

3. Recovery of Compensation

In the event that the Company is required to prepare a Restatement, the Company shall recover, reasonably promptly, the portion of any Incentive-Based Compensation that is Erroneously Awarded Compensation, unless the Committee has determined that recovery would be Impracticable. Recovery shall be required in accordance with the preceding sentence regardless of whether the applicable Officer engaged in misconduct or otherwise caused or contributed to the requirement for the Restatement and regardless of whether or when restated financial statements are filed by the Company. For clarity, the recovery of Erroneously Awarded Compensation under this Policy will not give rise to any person's right to voluntarily terminate employment for "good reason," or due to a "constructive termination" (or any similar term of like effect) under any plan, program or policy of or agreement with the Company or any of its affiliates.

4. Manner of Recovery; Limitation on Duplicative Recovery

The Committee shall, in its sole discretion, determine the manner of recovery of any Erroneously Awarded Compensation, which may include, without limitation, reduction or cancellation by the Company or an affiliate of the Company of Incentive-Based Compensation or Erroneously Awarded Compensation, reimbursement or repayment by any person subject to this Policy of the Erroneously Awarded Compensation, and, to the extent permitted by law, an offset of the Erroneously Awarded Compensation against other compensation payable by the Company or an affiliate of the Company to such person. Notwithstanding the foregoing, unless otherwise prohibited by the Applicable Rules, to the extent this Policy provides for recovery of Erroneously Awarded Compensation already recovered by the Company pursuant to Section 304 of the Sarbanes-Oxley Act of 2002 or Other Recovery Arrangements, the amount of Erroneously Awarded Compensation already recovered by the Company from the recipient of such Erroneously Awarded Compensation may be credited to the amount of Erroneously Awarded Compensation required to be recovered pursuant to this Policy from such person.

5. Administration

This Policy shall be administered, interpreted and construed by the Committee, which is authorized to make all determinations necessary, appropriate or advisable for such purpose. The Board of Directors of the Company (the "***Board***") may re-vest in itself the authority to administer, interpret and construe this Policy in accordance with applicable law, and in such event references herein to the "Committee" shall be deemed to be references to the Board. Subject to any permitted review by the applicable national securities exchange or association pursuant to the Applicable Rules, all determinations and decisions made by the Committee pursuant to the provisions of this Policy shall be final, conclusive and binding on all persons, including the Company and its affiliates, equityholders and employees. The Committee may delegate administrative duties with respect to this Policy to one or more directors or employees of the Company, as permitted under applicable law, including any Applicable Rules.

6. Interpretation

This Policy will be interpreted and applied in a manner that is consistent with the requirements of the Applicable Rules, and to the extent this Policy is inconsistent with such Applicable Rules, it shall be deemed amended to the minimum extent necessary to ensure compliance therewith.

7. No Indemnification; No Liability

The Company shall not indemnify or insure any person against the loss of any Erroneously Awarded Compensation pursuant to this Policy, nor shall the Company directly or indirectly pay or reimburse any person for any premiums for third-party insurance policies that such person may elect to purchase to fund such person's potential obligations under this Policy. None of the Company, an affiliate of the Company or any member of the Committee or the Board shall have any liability to any person as a result of actions taken under this Policy.

8. Application; Enforceability

Except as otherwise determined by the Committee or the Board, the adoption of this Policy does not limit, and is intended to apply in addition to, any other clawback, recoupment, forfeiture or similar policies or provisions of the Company or its affiliates, including any such policies or provisions of such effect contained in any employment agreement, bonus plan, incentive plan, equity-based plan or award agreement thereunder or similar plan, program or agreement of the Company or an affiliate or required under applicable law (the "***Other Recovery Arrangements***"). The remedy specified in this Policy shall not be exclusive and shall be in addition to every other right or remedy at law or in equity that may be available to the Company or an affiliate of the Company.

9. Severability

The provisions in this Policy are intended to be applied to the fullest extent of the law; provided, however, to the extent that any provision of this Policy is found to be unenforceable or invalid under any applicable law, such provision will be applied to the maximum extent permitted, and shall automatically be deemed amended in a manner consistent with its objectives to the extent necessary to conform to any limitations required under applicable law.

10. Amendment and Termination

The Board or the Committee may amend, modify or terminate this Policy in whole or in part at any time and from time to time in its sole discretion. This Policy will terminate automatically when the Company does not have a class of securities listed on a national securities exchange or association.

11. Definitions

"***Applicable Rules***" means Section 10D of the Exchange Act, Rule 10D-1 promulgated thereunder, the listing rules of the national securities exchange or association on which the Company's securities are listed, and any applicable rules, standards or other guidance adopted by the Securities and Exchange Commission or any national securities exchange or association on which the Company's securities are listed.

"***Committee***" means the committee of the Board responsible for executive compensation decisions comprised solely of independent directors (as determined under the Applicable Rules), or in the absence of such a committee, a majority of the independent directors serving on the Board.

"***Erroneously Awarded Compensation***" means the amount of Incentive-Based Compensation received by a current or former Officer that exceeds the amount of Incentive-Based Compensation that would have been received by such current or former Officer based on a restated Financial Reporting Measure, as determined on a pre-tax basis in accordance with the Applicable Rules.

"***Exchange Act***" means the Securities Exchange Act of 1934, as amended.

"***Financial Reporting Measure***" means any measure determined and presented in accordance with the accounting principles used in preparing the Company's financial statements, and any measures derived wholly or in part from such measures, including GAAP, IFRS and non-GAAP/IFRS financial measures, as well as stock or share price and total equityholder return.

"***GAAP***" means United States generally accepted accounting principles.

"***IFRS***" means international financial reporting standards as adopted by the International Accounting Standards Board.

"***Impracticable***" means (a) the direct costs paid to third parties to assist in enforcing recovery would exceed the Erroneously Awarded Compensation; provided that the Company (i) has made reasonable attempts to recover the Erroneously Awarded Compensation, (ii) documented such attempt(s), and (iii) provided such documentation to the relevant listing exchange or association, (b) to the extent permitted by the Applicable Rules, the recovery would violate the Company's home country laws pursuant to an opinion of home country counsel; provided that the Company has (i) obtained an opinion of home country counsel, acceptable to the relevant listing exchange or association, that recovery would result in such violation, and (ii) provided such opinion to the relevant listing exchange or association, or (c) recovery would likely cause an otherwise tax-qualified retirement plan, under which benefits are broadly available to employees of the Company, to fail to meet the requirements of 26 U.S.C. 401(a)(13) or 26 U.S.C. 411(a) and the regulations thereunder.

"***Incentive-Based Compensation***" means, with respect to a Restatement, any compensation that is granted, earned, or vested based wholly or in part upon the attainment of one or more Financial Reporting Measures and received by a person: (a) after beginning service as an Officer; (b) who served as an Officer at any time during the performance period for that compensation; (c) while the issuer has a class of its securities listed on a national securities exchange or association; and (d) during the applicable Three-Year Period.

"***Officer***" means each person who serves as an executive officer of the Company, as defined in Rule 10D-1(d) under the Exchange Act.

"***Restatement***" means an accounting restatement to correct the Company's material noncompliance with any financial reporting requirement under securities laws, including restatements that correct an error in previously issued financial statements (a) that is material to the previously issued financial statements or (b) that would result in a material misstatement if the error were corrected in the current period or left uncorrected in the current period.

"***Three-Year Period***" means, with respect to a Restatement, the three completed fiscal years immediately preceding the date that the Board, a committee of the Board, or the officer or officers of the Company authorized to take such action if Board action is not required, concludes, or reasonably should have concluded, that the Company is required to prepare such Restatement, or, if earlier, the date on which a court, regulator or other legally authorized body directs the Company to prepare such Restatement. The "Three-Year Period" also includes any transition period (that results from a change in the Company's fiscal year) within or immediately following the three completed fiscal years identified in the preceding sentence. However, a transition period between the last day of the Company's previous fiscal year end and the first day of its new fiscal year that comprises a period of nine to 12 months shall be deemed a completed fiscal year.

ACKNOWLEDGMENT AND CONSENT TO
POLICY FOR RECOVERY OF ERRONEOUSLY AWARDED COMPENSATION

The undersigned has received a copy of the Policy for Recovery of Erroneously Awarded Compensation (the "***Policy***") adopted by Lemonade, Inc. (the "***Company***").

For good and valuable consideration, the receipt of which is acknowledged, the undersigned agrees to the terms of the Policy and agrees that compensation received by the undersigned may be subject to reduction, cancellation, forfeiture and/or recoupment to the extent necessary to comply with the Policy, notwithstanding any other agreement to the contrary. The undersigned further acknowledges and agrees that the undersigned is not entitled to indemnification in connection with any enforcement of the Policy and expressly waives any rights to such indemnification under the Company's organizational documents or otherwise.

Date ____________________

____
Signature

____
Name

____
Title