

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

Form 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended **June 30, 2022**

or
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 001-39658

ROOT, INC.

(Exact name of Registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

80 E. Rich Street, Suite 500
Columbus, Ohio

(Address of principal executive offices)

84-2717903

(I.R.S. Employer
Identification Number)

43215

(Zip Code)

(866) 980-9431

(Registrant's telephone number, including area code)

N/A

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Class A common stock, \$0.0001 par value per share	ROOT	The Nasdaq Stock Market LLC

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

Non-accelerated filer

Accelerated filer

Smaller reporting company

Emerging growth company

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

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

As of August 1, 2022, the number of outstanding shares of the registrant's Class A common stock, par value \$0.0001 per share, was 161.2 million and the number of outstanding shares of the registrant's Class B common stock, par value \$0.0001 per share, was 93.8 million.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements about us and our industry that involve substantial risks and uncertainties. All statements other than statements of historical facts contained in this Quarterly Report on Form 10-Q are forward-looking statements. In some cases, you can identify forward-looking statements because they contain words such as “anticipate,” “believe,” “contemplate,” “continue,” “could,” “estimate,” “expect,” “intend,” “may,” “plan,” “potential,” “predict,” “project,” “should,” “target,” “will” or “would” or the negative of these words or other similar terms or expressions. These forward-looking statements include, but are not limited to, statements concerning the following:

- our ability to retain existing customers, acquire new customers, and expand our customer reach;
 - our expectations regarding our future financial performance, including total revenue, gross profit/(loss), net income/(loss), adjusted gross profit/(loss), direct contribution, adjusted EBITDA, gross loss ratio, marketing costs, gross loss adjustment expense, or LAE, ratio, quota share levels and expansion of our renewal premium base;
 - the impact of the COVID-19 pandemic and governmental responses thereto on our business and financial condition;
 - the impact of supply chain disruptions, increasing inflation, a recession and/or disruptions to properly functioning financial and capital markets and interest rates on our business and financial condition;
 - our goal to be licensed in all states in the United States and the timing of obtaining additional licenses and launching in new states;
 - the accuracy and efficiency of our telematics and behavioral data, and our ability to gather and leverage additional data;
 - our ability to materially improve retention rates and our ability to realize benefits from retaining customers;
 - our ability to underwrite risks accurately and charge profitable rates;
 - our ability to maintain our business model and improve our capital and marketing efficiency;
 - our ability to drive improved conversion and decrease the cost of customer acquisition;
 - our ability to maintain and enhance our brand and reputation;
 - our ability to effectively manage the growth of our business;
 - our ability to raise additional capital;
 - our ability to improve our product offerings, introduce new products and expand into additional insurance lines;
 - our ability to cross sell our products and attain greater value from each customer;
 - our lack of operating history and ability to attain profitability;
 - our ability to compete effectively with existing competitors and new market entrants in our industry;
 - future performance of the markets in which we operate;
 - our ability to operate a “capital-light” business and obtain and maintain reinsurance contracts;
 - our ability to realize economies of scale;
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- our ability to realize profits, retain customers, contract with additional partners to utilize the product, or achieve other benefits from our embedded insurance offering;
- our ability to expand our distribution channels through additional partnership relationships, digital media and referrals;
- our ability to reduce customer acquisition costs and realize other expected benefits related to the partnership with Carvana Group, LLC, or Carvana;
- our ability to drive a significant long-term competitive advantage through our partnership with Carvana;
- our ability to attract, motivate and retain key personnel, or hire personnel, in a competitive labor market and to offer competitive compensation and benefits;
- our ability to deliver a vertically integrated customer experience;
- our ability to develop products that utilize our telematics to drive better customer satisfaction and retention;
- our ability to protect our intellectual property and any costs associated therewith;
- our ability to develop an autonomous claims experience;
- our ability to take rate action early and react to changing environments;
- our ability to meet risk-based capital requirements;
- our ability to realize the benefits anticipated from our Texas county mutual fronting arrangement;
- our ability to expand domestically and internationally;
- our ability to stay in compliance with laws and regulations that currently apply or become applicable to our business;
- our ability to continue to meet Nasdaq listing standards; and
- the growth rates of the markets in which we compete.

You should not rely on forward-looking statements as predictions of future events. The outcome of the events described in these forward-looking statements is subject to risks, uncertainties and other factors described under the heading “Risk Factors” and elsewhere in this Quarterly Report on Form 10-Q. Moreover, we operate in a very competitive and rapidly changing environment. New risks and uncertainties emerge from time to time, and it is not possible for us to predict all risks and uncertainties that could have an impact on the forward-looking statements contained herein. The results, events and circumstances reflected in the forward-looking statements may not be achieved or occur, and actual results, events or circumstances could differ materially from those described in the forward-looking statements.

The forward-looking statements made in this Quarterly Report on Form 10-Q relate only to events as of the date on which the statements are made and we undertake no obligation to update them to reflect events or circumstances after the date of this Quarterly Report on Form 10-Q or to reflect new information or the occurrence of unanticipated events, except as required by law.

Unless the context otherwise indicates, references in this report to the terms “Root,” “the Company,” “we,” “our” and “us” refer to Root, Inc. and its subsidiaries.

We may announce material business and financial information to our investors using our investor relations website (ir.joinroot.com). We therefore encourage investors and others interested in Root to review the information that we make available on our website, in addition to following our filings with the Securities and Exchange Commission, or SEC, webcasts, press releases and conference calls.

Part I. Financial Information

Item 1. Financial Statements

ROOT, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS - UNAUDITED

	As of	
	June 30, 2022	December 31, 2021
	(in millions, except par value)	
Assets		
Investments:		
Fixed maturities available-for-sale, at fair value (amortized cost: \$124.9 and \$129.5 at June 30, 2022 and December 31, 2021, respectively)	\$ 120.3	\$ 129.9
Short-term investments (amortized cost: \$0.5 and zero at June 30, 2022 and December 31, 2021, respectively)	0.5	—
Other investments	4.4	4.7
Total investments	125.2	134.6
Cash and cash equivalents	885.6	706.0
Restricted cash	1.0	1.0
Premiums receivable, net of allowance of \$3.8 and \$5.4 at June 30, 2022 and December 31, 2021, respectively	132.2	148.1
Reinsurance recoverable and receivable, net of allowance of \$0.1 and \$0.2 at June 30, 2022 and December 31, 2021, respectively	158.1	155.0
Prepaid reinsurance premiums	91.8	100.8
Other assets	85.9	73.8
Total assets	\$ 1,479.8	\$ 1,319.3
Liabilities, Redeemable Convertible Preferred Stock and Stockholders' Equity		
Liabilities:		
Loss and loss adjustment expense reserves	\$ 312.7	\$ 320.2
Unearned premiums	161.9	180.1
Long-term debt and warrants	292.3	—
Reinsurance premiums payable	124.0	101.6
Accounts payable and accrued expenses	37.7	29.1
Other liabilities	51.2	39.9
Total liabilities	979.8	670.9
Commitments and Contingencies (Note 11)		
Redeemable convertible preferred stock, \$0.0001 par value, 100.0 shares authorized, 14.1 shares issued and outstanding at June 30, 2022 and December 31, 2021 (liquidation preference of \$126.5)	112.0	112.0
Stockholders' equity:		
Class A common stock, \$0.0001 par value, 1,000.0 shares authorized, 161.0 and 142.9 shares issued and outstanding at June 30, 2022 and December 31, 2021, respectively	—	—
Class B common stock, \$0.0001 par value, 269.0 shares authorized, 93.8 and 109.9 shares issued and outstanding at June 30, 2022 and December 31, 2021, respectively	—	—
Additional paid-in capital	1,829.0	1,806.1
Accumulated other comprehensive (loss) income	(4.6)	0.4
Accumulated loss	(1,436.4)	(1,270.1)
Total stockholders' equity	388.0	536.4
Total liabilities, redeemable convertible preferred stock and stockholders' equity	\$ 1,479.8	\$ 1,319.3

See Notes to Condensed Consolidated Financial Statements - Unaudited

ROOT, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS - UNAUDITED

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
(in millions, except per share data)				
Revenues:				
Net premiums earned	\$ 74.7	\$ 81.2	\$ 153.0	\$ 140.3
Net investment income	0.7	0.7	1.3	1.6
Net realized (losses) gains on investments	(0.1)	—	1.1	2.4
Fee and other income	5.1	7.9	10.4	14.1
Total revenues	<u>80.4</u>	<u>89.8</u>	<u>165.8</u>	<u>158.4</u>
Operating expenses:				
Loss and loss adjustment expenses	95.7	110.2	192.4	170.1
Sales and marketing	25.4	111.7	40.1	180.1
Other insurance (benefit) expense	(7.8)	(1.5)	(6.8)	0.9
Technology and development	17.9	17.5	31.8	31.3
General and administrative	29.9	24.0	59.9	42.4
Total operating expenses	<u>161.1</u>	<u>261.9</u>	<u>317.4</u>	<u>424.8</u>
Operating loss	(80.7)	(172.1)	(151.6)	(266.4)
Interest expense	(9.2)	(6.5)	(14.7)	(11.8)
Loss before income tax expense	(89.9)	(178.6)	(166.3)	(278.2)
Income tax expense	—	—	—	—
Net loss	<u>(89.9)</u>	<u>(178.6)</u>	<u>(166.3)</u>	<u>(278.2)</u>
Other comprehensive loss:				
Changes in net unrealized losses on investments	(1.3)	—	(5.0)	(3.5)
Comprehensive loss	<u>\$ (91.2)</u>	<u>\$ (178.6)</u>	<u>\$ (171.3)</u>	<u>\$ (281.7)</u>
Loss per common share: basic and diluted (both Class A and B)	\$ (0.36)	\$ (0.72)	\$ (0.66)	\$ (1.12)
Weighted-average common shares outstanding: basic and diluted (both Class A and B)	253.0	248.9	252.3	248.0

See Notes to Condensed Consolidated Financial Statements - Unaudited

ROOT, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF REDEEMABLE CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY - UNAUDITED

	Redeemable Convertible Preferred Stock		Class A and Class B Common Stock			Treasury Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Loss	Total Stockholders' Equity
	Shares	Amount	Class A Shares	Class B Shares	Amount	Shares	Amount				
Balance—March 31, 2022	14.1	\$ 112.0	154.9	99.5	\$ —	—	\$ —	\$ 1,818.5	\$ (3.3)	\$ (1,346.5)	\$ 468.7
Net loss	—	—	—	—	—	—	—	—	—	(89.9)	(89.9)
Other comprehensive loss	—	—	—	—	—	—	—	—	(1.3)	—	(1.3)
Conversion of Class B to Class A	—	—	5.7	(5.7)	—	—	—	—	—	—	—
Common stock—option exercises and restricted stock units vesting, net of shares withheld for employee taxes	—	—	0.4	—	—	—	—	—	—	—	—
Common stock—share-based compensation expense	—	—	—	—	—	—	—	7.4	—	—	7.4
Warrant compensation expense	—	—	—	—	—	—	—	3.5	—	—	3.5
Warrants issuance costs	—	—	—	—	—	—	—	(0.4)	—	—	(0.4)
Balance—June 30, 2022	14.1	\$ 112.0	161.0	93.8	\$ —	—	\$ —	\$ 1,829.0	\$ (4.6)	\$ (1,436.4)	\$ 388.0
Balance—January 1, 2022	14.1	\$ 112.0	142.9	109.9	\$ —	—	\$ —	\$ 1,806.1	\$ 0.4	\$ (1,270.1)	\$ 536.4
Net loss	—	—	—	—	—	—	—	—	—	(166.3)	(166.3)
Other comprehensive loss	—	—	—	—	—	—	—	—	(5.0)	—	(5.0)
Conversion of Class B to Class A	—	—	16.1	(16.1)	—	—	—	—	—	—	—
Common stock—option exercises and restricted stock units vesting, net of shares withheld for employee taxes	—	—	2.0	—	—	—	—	0.4	—	—	0.4
Reclassification of early-exercised stock options from liabilities	—	—	—	—	—	—	—	0.1	—	—	0.1
Common stock—share-based compensation expense	—	—	—	—	—	—	—	14.0	—	—	14.0
Warrant compensation expense	—	—	—	—	—	—	—	8.8	—	—	8.8
Warrants issuance costs	—	—	—	—	—	—	—	(1.0)	—	—	(1.0)
Term Loan C warrants issued	—	—	—	—	—	—	—	0.6	—	—	0.6
Balance—June 30, 2022	14.1	\$ 112.0	161.0	93.8	\$ —	—	\$ —	\$ 1,829.0	\$ (4.6)	\$ (1,436.4)	\$ 388.0

ROOT, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF REDEEMABLE CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS'
EQUITY - UNAUDITED (CONTINUED)

	Redeemable Convertible Preferred Stock		Class A and Class B Common Stock			Treasury Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income	Accumulated Loss	Total Stockholders' Equity
	Shares	Amount	Class A Shares	Class B Shares	Amount	Shares	Amount				
								(in millions)			
Balance—March 31, 2021	—	\$ —	86.5	166.4	\$ —	4.6	\$ (0.8)	\$ 1,780.6	\$ 2.1	\$ (847.6)	\$ 934.3
Net loss	—	—	—	—	—	—	—	—	—	(178.6)	(178.6)
Conversion of Class B to Class A	—	—	26.8	(26.8)	—	—	—	—	—	—	—
Common stock—option exercises and restricted stock units vesting, net of shares withheld for employee taxes	—	—	1.0	0.1	—	—	—	1.1	—	—	1.1
Reclassification of early-exercised stock options from liabilities	—	—	(0.3)	—	—	—	—	0.3	—	—	0.3
Common stock—share-based compensation expense	—	—	—	—	—	—	—	4.9	—	—	4.9
Balance—June 30, 2021	—	\$ —	114.0	139.7	\$ —	4.6	\$ (0.8)	\$ 1,786.9	\$ 2.1	\$ (1,026.2)	\$ 762.0
Balance—January 1, 2021	—	\$ —	59.4	192.2	\$ —	4.6	\$ (0.8)	\$ 1,775.6	\$ 5.6	\$ (748.0)	\$ 1,032.4
Net loss	—	—	—	—	—	—	—	—	—	(278.2)	(278.2)
Other comprehensive loss	—	—	—	—	—	—	—	—	(3.5)	—	(3.5)
Conversion of Class B to Class A	—	—	52.9	(52.9)	—	—	—	—	—	—	—
Common stock—option exercises and restricted stock units vesting, net of shares withheld for employee taxes	—	—	2.0	0.4	—	—	—	3.4	—	—	3.4
Reclassification of early-exercised stock options from liabilities	—	—	(0.3)	—	—	—	—	0.7	—	—	0.7
Common stock—share-based compensation expense	—	—	—	—	—	—	—	7.2	—	—	7.2
Balance—June 30, 2021	—	\$ —	114.0	139.7	\$ —	4.6	\$ (0.8)	\$ 1,786.9	\$ 2.1	\$ (1,026.2)	\$ 762.0

See Notes to Condensed Consolidated Financial Statements - Unaudited

ROOT, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS - UNAUDITED

	Six Months Ended June 30,	
	2022	2021
	(in millions)	
Cash flows from operating activities:		
Net loss	\$ (166.3)	\$ (278.2)
Adjustments to reconcile net loss to net cash used in operating activities:		
Share-based compensation	14.0	7.2
Warrant compensation expense	8.8	—
Depreciation and amortization	6.6	7.2
Bad debt expense	8.9	9.4
Payment-in-kind interest expense	—	5.8
Net realized gains on investments	(1.1)	(2.4)
Changes in operating assets and liabilities:		
Premiums receivable	7.0	(39.5)
Reinsurance recoverable and receivable	(3.1)	(17.2)
Prepaid reinsurance premiums	9.0	1.3
Other assets	(10.5)	3.3
Losses and loss adjustment expenses reserves	(7.5)	35.3
Unearned premiums	(18.2)	38.7
Reinsurance premiums payable	22.4	(20.5)
Accounts payable and accrued expenses	14.3	23.0
Other liabilities	10.8	0.1
Net cash used in operating activities	(104.9)	(226.5)
Cash flows from investing activities:		
Purchases of investments	(9.0)	(6.8)
Proceeds from maturities, call and pay downs of investments	11.6	23.9
Sales of investments	2.2	70.2
Capitalization of internally developed software	(5.3)	(3.2)
Purchases of fixed assets	—	(1.5)
Purchases of indefinite-lived intangible assets and transaction costs	(1.3)	—
Net cash (used in) provided by investing activities	(1.8)	82.6
Cash flows from financing activities:		
Proceeds from exercise of stock options and restricted stock units, net of tax proceeds/(withholding)	0.3	4.7
Proceeds from issuance of debt and related warrants, net of issuance costs	286.0	—
Repayments of long-term debt	—	(0.5)
Net cash provided by financing activities	286.3	4.2
Net increase (decrease) in cash, cash equivalents and restricted cash	179.6	(139.7)
Cash, cash equivalents and restricted cash at beginning of period	707.0	1,113.8
Cash, cash equivalents and restricted cash at end of period	\$ 886.6	\$ 974.1

See Notes to Condensed Consolidated Financial Statements - Unaudited

ROOT, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

1. NATURE OF BUSINESS

Root, Inc. is a holding company which, directly or indirectly, maintains 100% ownership of each of its subsidiaries, including, among others, Root Insurance Company, an Ohio-domiciled insurance company; Root Property & Casualty Insurance Company, a Delaware-domiciled insurance company; and Root Reinsurance Company, Ltd., a Cayman Islands-domiciled reinsurance company, together with Root, Inc., “we,” “us” or “our.” We were formed in 2015 and began writing personal auto insurance in July 2016.

We are a technology company operating a primarily direct-to-consumer model with the majority of our personal insurance customers acquired through mobile applications. We offer auto and renters insurance products underwritten by Root Insurance Company and Root Property & Casualty Insurance Company.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation—In our opinion, all adjustments necessary for a fair presentation of the condensed consolidated financial statements have been included. All such adjustments are of a normal and recurring nature. These condensed consolidated financial statements are unaudited and, accordingly, should be read in conjunction with the consolidated financial statements and related notes included in the Annual Report on Form 10-K for the year ended December 31, 2021 filed with the SEC on February 23, 2022, or the 2021 10-K.

Basis of Consolidation—The unaudited condensed consolidated financial statements include the accounts of Root, Inc. and its subsidiaries, all of which are wholly owned. These financial statements have been prepared in accordance with accounting principles generally accepted in the United States, or GAAP. All intercompany accounts and transactions have been eliminated.

Use of Estimates—The preparation of the unaudited condensed consolidated financial statements requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the unaudited condensed consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates reflected in our unaudited condensed consolidated financial statements include, but are not limited to, reserves for loss and loss adjustment expense, or LAE, allowance for expected credit losses on premium receivables and valuation allowances for income taxes.

COVID-19—In March 2020, the World Health Organization declared COVID-19 to be a global pandemic. The pandemic and related measures taken to contain the spread of COVID-19, such as government-mandated business closures, orders to “shelter in place” and travel and transportation restrictions, have negatively affected the U.S. and global economies, disrupted global supply chains, and led to unemployment. We, and other businesses within the insurance industry, have been impacted by certain individual state bulletins that were issued in 2020 and outlined COVID-19-related premium relief efforts, including restrictions on the ability to cancel policies for non-payment, requirements to defer insurance premium payments for up to 60 days and restrictions on increasing policy premiums. The COVID-19 pandemic and governmental responses thereto have impacted and may further impact the broader economic environment, including creating or exacerbating supply chain disruptions and inflation and negatively impacting unemployment levels, economic growth, the proper functioning of financial and capital markets and interest rates. As a result of certain factors related to the COVID-19 global pandemic, we continue to file in multiple states to establish rates that more closely follow the evolving loss cost trends. As the COVID-19 pandemic continues, there is uncertainty around the severity and duration of the pandemic and the pandemic’s potential impact on our business and our financial performance. Accordingly, we cannot predict the impact that it may have on our future results of operations and financial condition.

Cash, Cash Equivalents and Restricted Cash—The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the condensed consolidated balance sheets that sum to the total of the same such amount in the condensed consolidated statements of cash flows:

	As of	
	June 30, 2022	December 31, 2021
	(dollars in millions)	
Cash and cash equivalents	\$ 885.6	\$ 706.0
Restricted cash	1.0	1.0
Total cash, cash equivalents and restricted cash shown in the statement of cash flows	<u>\$ 886.6</u>	<u>\$ 707.0</u>

3. INVESTMENTS

The amortized cost and fair value of short-term investments and available-for-sale fixed maturity securities at June 30, 2022 and December 31, 2021 are as follows:

	June 30, 2022				
	Amortized Cost	Allowance for Expected Credit Losses	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(dollars in millions)				
Fixed maturities:					
U.S. Treasury securities and agencies	\$ 23.3	\$ —	\$ —	\$ (0.8)	\$ 22.5
Municipal securities	20.0	—	—	(0.9)	19.1
Corporate debt securities	48.5	—	—	(1.9)	46.6
Residential mortgage-backed securities	2.7	—	—	(0.2)	2.5
Commercial mortgage backed securities	27.9	—	—	(0.8)	27.1
Other debt obligations	2.5	—	—	—	2.5
Total fixed maturities	124.9	—	—	(4.6)	120.3
Short-term investments	0.5	—	—	—	0.5
Total	\$ 125.4	\$ —	\$ —	\$ (4.6)	\$ 120.8

	December 31, 2021				
	Amortized Cost	Allowance for Expected Credit Losses	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(dollars in millions)				
Fixed maturities:					
U.S. Treasury securities and agencies	\$ 23.7	\$ —	\$ —	\$ (0.4)	\$ 23.3
Municipal securities	20.4	—	0.3	(0.1)	20.6
Corporate debt securities	48.2	—	0.7	(0.2)	48.7
Residential mortgage-backed securities	3.5	—	—	—	3.5
Commercial mortgage backed securities	30.2	—	0.2	(0.1)	30.3
Other debt obligations	3.5	—	—	—	3.5
Total	\$ 129.5	\$ —	\$ 1.2	\$ (0.8)	\$ 129.9

Management reviewed the available-for-sale securities at each balance sheet date to consider whether it was necessary to recognize a credit loss as of June 30, 2022 and December 31, 2021 related to any of the above securities. We do not intend to sell the investments and it is not more likely than not that we will be required to sell the security before recovery. Management concluded that the available-for-sale securities' unrealized losses were due to non-credit related factors and, therefore, there was no allowance for credit loss as of June 30, 2022 and December 31, 2021.

Other Investments

As of June 30, 2022 and December 31, 2021, other investments related to our private equity investments were \$4.4 million and \$4.7 million, respectively. We recognized zero and \$1.2 million of realized gains for the three and six months ended June 30, 2022, respectively. We recorded the sale of one of our private equity investments within net realized (losses) gains on investments in our condensed consolidated statements of operations and comprehensive loss. There were no unrealized gains or impairment losses recognized on private equity investments for the three and six months ended June 30, 2022 and 2021.

The following tables reflect the gross unrealized losses and fair value of short-term investments and available-for-sale fixed maturity securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at June 30, 2022 and December 31, 2021:

	June 30, 2022					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
	(dollars in millions)					
Fixed maturities:						
U.S. Treasury securities and agencies	\$ 6.6	\$ (0.2)	\$ 15.0	\$ (0.6)	\$ 21.6	\$ (0.8)
Municipal securities	15.8	(0.7)	2.2	(0.2)	18.0	(0.9)
Corporate debt securities	44.3	(1.7)	1.6	(0.2)	45.9	(1.9)
Residential mortgage-backed securities	2.0	(0.2)	0.5	—	2.5	(0.2)
Commercial mortgage-backed securities	26.2	(0.8)	0.5	—	26.7	(0.8)
Other debt obligations	2.4	—	—	—	2.4	—
Total fixed maturities	97.3	(3.6)	19.8	(1.0)	117.1	(4.6)
Short-term investments	0.5	—	—	—	0.5	—
Total	\$ 97.8	\$ (3.6)	\$ 19.8	\$ (1.0)	\$ 117.6	\$ (4.6)

	December 31, 2021					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
	(dollars in millions)					
Fixed maturities:						
U.S. Treasury securities and agencies	\$ 7.5	\$ (0.1)	\$ 14.0	\$ (0.3)	\$ 21.5	\$ (0.4)
Municipal securities	8.9	(0.1)	—	—	8.9	(0.1)
Corporate debt securities	12.7	(0.1)	1.6	(0.1)	14.3	(0.2)
Residential mortgage-backed securities	1.9	—	0.5	—	2.4	—
Commercial mortgage-backed securities	8.7	(0.1)	—	—	8.7	(0.1)
Total fixed maturities	\$ 39.7	\$ (0.4)	\$ 16.1	\$ (0.4)	\$ 55.8	\$ (0.8)

The following table reflects the gross and net realized gains and losses on short-term investments, fixed maturities and other investments that have been included in the condensed consolidated statements of operations and comprehensive loss for the three and six months ended June 30, 2022 and 2021:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
	(dollars in millions)			
Realized gains on investments	\$ —	\$ —	\$ 1.2	\$ 2.5
Realized losses on investments	(0.1)	—	(0.1)	(0.1)
Net realized gains on investments	<u>\$ (0.1)</u>	<u>\$ —</u>	<u>\$ 1.1</u>	<u>\$ 2.4</u>

The following table sets forth the amortized cost and fair value of short-term investments and fixed maturity securities by contractual maturity at June 30, 2022:

	June 30, 2022	
	Amortized Cost	Fair Value
	(dollars in millions)	
Due in one year or less	\$ 34.7	\$ 34.3
Due after one year through five years	72.6	69.5
Due five years through 10 years	5.9	5.5
Due after 10 years	12.2	11.5
Total	<u>\$ 125.4</u>	<u>\$ 120.8</u>

The following table sets forth the components of net investment income for the three and six months ended June 30, 2022 and 2021:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
	(dollars in millions)			
Interest on bonds	\$ 0.5	\$ 0.6	\$ 1.1	\$ 1.3
Interest on deposits and cash equivalents	0.4	0.3	0.6	0.6
Total	0.9	0.9	1.7	1.9
Investment expense	(0.2)	(0.2)	(0.4)	(0.3)
Net investment income	<u>\$ 0.7</u>	<u>\$ 0.7</u>	<u>\$ 1.3</u>	<u>\$ 1.6</u>

The following tables summarize the credit ratings of investments at June 30, 2022 and December 31, 2021:

S&P Global rating or equivalent	June 30, 2022		
	Amortized Cost	Fair Value	% of Total Fair Value
	(dollars in millions)		
AAA	\$ 67.0	\$ 64.6	53.5 %
AA+, AA, AA-, A-1	15.4	14.9	12.3
A+, A, A-	33.8	32.4	26.8
BBB+, BBB, BBB-	9.2	8.9	7.4
Total	<u>\$ 125.4</u>	<u>\$ 120.8</u>	<u>100.0 %</u>

S&P Global rating or equivalent	December 31, 2021		
	Amortized Cost	Fair Value	% of Total Fair Value
	(dollars in millions)		
AAA	\$ 70.9	\$ 70.8	54.5 %
AA+, AA, AA-, A-1	14.7	14.8	11.4
A+, A, A-	33.4	33.6	25.9
BBB+, BBB, BBB-	10.5	10.7	8.2
Total	\$ 129.5	\$ 129.9	100.0 %

4. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following tables provide information about our financial assets measured and reported at fair value as of June 30, 2022 and December 31, 2021:

	June 30, 2022			
	Level 1	Level 2	Level 3	Total Fair Value
	(dollars in millions)			
Assets				
Fixed maturities:				
U.S. Treasury securities and agencies	\$ 21.8	\$ 0.7	\$ —	\$ 22.5
Municipal securities	—	19.1	—	19.1
Corporate debt securities	—	46.6	—	46.6
Residential mortgage-backed securities	—	2.5	—	2.5
Commercial mortgage-backed securities	—	27.1	—	27.1
Other debt obligations	—	2.5	—	2.5
Total fixed maturities	21.8	98.5	—	120.3
Short-term investments	—	0.5	—	0.5
Cash equivalents	126.8	—	—	126.8
Total assets at fair value	\$ 148.6	\$ 99.0	\$ —	\$ 247.6

	December 31, 2021			
	Level 1	Level 2	Level 3	Total Fair Value
	(dollars in millions)			
Assets				
Fixed maturities:				
U.S. Treasury securities and agencies	\$ 22.6	\$ 0.7	\$ —	\$ 23.3
Municipal securities	—	20.6	—	20.6
Corporate debt securities	—	48.7	—	48.7
Residential mortgage-backed securities	—	3.5	—	3.5
Commercial mortgage-backed securities	—	30.3	—	30.3
Other debt obligations	—	3.5	—	3.5
Total fixed maturities	22.6	107.3	—	129.9
Cash equivalents	127.0	—	—	127.0
Total assets at fair value	\$ 149.6	\$ 107.3	\$ —	\$ 256.9

We estimate the fair value of all our different classes of Level 2 fixed maturities and short-term investments by using quoted prices from a combination of an independent pricing vendor or broker/dealer, pricing models, quoted prices of securities with similar characteristics or discounted cash flows.

Fair Value of Long-Term Debt

The carrying amount of long-term debt is recorded at the unpaid balance, net of debt issuance costs. The fair value of outstanding long-term debt is classified within Level 2 of the fair value hierarchy. The fair value is based on a model referencing observable interest rates and spreads to project and discount cash flows to present value. As of June 30, 2022 and December 31, 2021, the carrying amounts and fair values of these financial instruments were as follows:

	Carrying Amount as of June 30, 2022	Estimated Fair Value as of June 30, 2022	Carrying Amount as of December 31, 2021	Estimated Fair Value as of December 31, 2021
	(dollars in millions)			
Long-term debt	\$ 292.3	\$ 304.7	\$ —	\$ —

The carrying amounts of other short-term financial instruments approximates their fair value due to their short-term nature.

5. LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES

The following provides a reconciliation of the beginning and ending reserve balances for loss and LAE, net of reinsurance:

	Six Months Ended June 30,	
	2022	2021
	(dollars in millions)	
Gross loss and LAE reserves, January 1	\$ 320.2	\$ 237.2
Reinsurance recoverable on unpaid losses	(79.5)	(79.6)
Net loss and LAE reserves, January 1	240.7	157.6
Net incurred loss and LAE related to:		
Current year	191.9	178.7
Prior years	0.5	(8.6)
Total incurred	192.4	170.1
Net paid loss and LAE related to:		
Current year	89.8	81.3
Prior years	96.0	55.7
Total paid	185.8	137.0
Net loss and LAE reserves, June 30	247.3	190.7
Plus reinsurance recoverable on unpaid losses	65.4	81.8
Gross loss and LAE reserves, June 30	\$ 312.7	\$ 272.5

Incurred losses and LAE attributable to prior accident years was an increase of \$0.5 million and a decrease of \$8.6 million for the six months ended June 30, 2022 and 2021, respectively. For the six months ended June 30, 2022, the development of incurred losses related to prior periods was primarily related to higher-than-expected reported losses on property damage, collision and comprehensive claims due to inflation. This was partially offset by lower-than-expected LAE on prior accident period claims. For the six months ended June 30, 2021, the development of incurred losses related to prior periods was primarily related to lower-than-expected reported losses on bodily injury and uninsured motorist bodily injury claims and greater than expected recoveries from subrogation and salvage.

6. REINSURANCE

The following table reflects amounts affecting the condensed consolidated statements of operations and comprehensive loss for reinsurance for the three and six months ended June 30, 2022 and 2021:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
	(dollars in millions)			
Premiums written:				
Direct	\$ 130.8	\$ 177.1	\$ 304.3	\$ 379.6
Assumed	9.3	—	23.0	—
Ceded	(81.1)	(109.7)	(183.5)	(199.3)
Net premiums written	\$ 59.0	\$ 67.4	\$ 143.8	\$ 180.3
Premiums earned:				
Direct	\$ 159.3	\$ 180.7	\$ 324.8	\$ 340.9
Assumed	11.5	—	20.7	—
Ceded	(96.1)	(99.5)	(192.5)	(200.6)
Net premiums earned	\$ 74.7	\$ 81.2	\$ 153.0	\$ 140.3
Losses and LAE incurred:				
Direct	\$ 152.2	\$ 181.7	\$ 303.9	\$ 310.9
Assumed	13.2	—	24.4	—
Ceded	(69.7)	(71.5)	(135.9)	(140.8)
Net losses and LAE incurred	\$ 95.7	\$ 110.2	\$ 192.4	\$ 170.1

In the event that all or any of the reinsuring companies might be unable to meet their obligations under existing reinsurance agreements, we would be liable to the policyholder for such defaulted amounts.

7. LONG-TERM DEBT

In January 2022, we entered into a \$300.0 million five-year term loan, or Term Loan C, with the principal amount due and payable upon maturity on January 27, 2027. Interest is payable quarterly and is determined on a floating interest rate currently calculated on the Secured Overnight Financing Rate, or SOFR, with a 1.0% floor, plus 9.0%, plus 0.26161% per annum. As part of the loan agreement, we issued warrants to the lender to purchase 5.7 million shares of our Class A common stock at a strike price of \$9.00 per share. Such warrants will expire on the later of the repayment in full of the Term Loan C or January 27, 2027. The fair value of these warrants at January 27, 2022 was \$0.1132 per warrant for a total fair value of \$0.6 million.

The Term Loan C contains debt covenants which, among other things, require cash and cash equivalents held in entities other than our insurance subsidiaries to be at least \$200 million at all times. This threshold may be reduced to \$150 million under two sets of circumstances: issuing 62,500 insurance policies through our Carvana embedded product and achieving a ratio of direct contribution to gross earned premium of 12%; or ceasing any customer acquisition spend outside of the Carvana commercial agreement and reducing our monthly cash burn to no greater than \$12 million.

Under the latter set of circumstances, we must issue additional warrants to purchase shares of our Class A common stock equal to 1.0% of the aggregate number of issued and outstanding shares of Class A common stock on a fully-diluted basis as of the date the threshold is reduced. The additional warrants, if issued, would have an exercise price equal to the 30-trading day volume weighted average price of the Class A common stock as of the trading day immediately prior to the triggering date. The additional warrants will expire on the later of the repayment in full of the Term Loan C, January 27, 2027 or the date that falls 12 months after the issuance of these warrants. As of June 30, 2022, the fair value of these 1.0% warrants were immaterial to our condensed consolidated financial statements.

The following summarizes the carrying value of long-term debt as of June 30, 2022 and December 31, 2021:

	June 30, 2022	December 31, 2021
	(dollars in millions)	
Term Loan C	\$ 300.0	\$ —
Accrued interest payable	5.6	—
Unamortized discount, debt issuance costs and warrants	(13.3)	—
Total	\$ 292.3	\$ —

8. INCOME TAXES

The consolidated effective tax rate was zero for the three and six months ended June 30, 2022 and 2021. The difference between these rates and the U.S. federal income tax rate of 21% was primarily due to a full valuation allowance on our U.S. deferred tax assets.

As of June 30, 2022 and December 31, 2021, we did not have any unrecognized tax benefits for uncertain tax positions and had no interest or penalties related to uncertain tax positions.

We performed an estimated ownership change analysis as of June 30, 2022 and determined that we have experienced an ownership change under Section 382 of the Internal Revenue Code. Accordingly, use of a portion of our net operating losses and tax credit carryforwards are subject to an annual limitation under Section 382. We do not expect to lose any deferred tax assets related to our net operating losses as a result of these limitations.

9. RESTRUCTURING COSTS

In January 2022, we instituted an organizational realignment, which included an involuntary workforce reduction, due to inflation and loss cost trends and to further drive efficiency and increased focus on our strategic priorities. We recognized charges of zero and \$5.6 million for severance, benefits and related costs as a result of these actions for the three and six months ended June 30, 2022, respectively. The charges resulted in \$0.1 million and \$3.4 million of cash expenditures for the three and six months ended June 30, 2022, respectively. Additionally, we ceased using certain floors of our corporate headquarters in Columbus, Ohio. To the extent we had no intent or ability to sublease the space, we accelerated the amortization of the related right-of-use assets, leasehold improvements and furniture and fixtures. For subleased space, we recognize sublease income as an offset to amortization of the right-of-use asset. We recognized charges of \$0.6 million and \$2.1 million for these real estate exit costs for the three and six months ended June 30, 2022, respectively. In addition, we recognized charges of zero and \$0.7 million related to accelerated expense for software that no longer has future economic benefit for the three and six months ended June 30, 2022, respectively. We recognized \$0.6 million and \$8.4 million in total restructuring costs related to the organizational realignment for the three and six months ended June 30, 2022, respectively. These restructuring costs are included in general and administrative expenses on the condensed consolidated statements of operations and comprehensive loss.

10. SHARE-BASED COMPENSATION

We maintain an equity incentive plan for the issuance and grant of equity awards (restricted stock, restricted stock units, or RSUs, and incentive and nonqualified stock options) to our officers, directors, employees and certain advisors. As of June 30, 2022, we had 28.6 million common shares authorized and available for issuance under the plan.

Warrants

In October 2021, we issued Carvana eight tranches of warrants, comprised of three tranches of “short-term warrants” and five tranches of “long-term warrants.” However, the exercisability of certain tranches are subject to Carvana’s decision to exercise certain other tranches. If Carvana exercises short-term tranches, then long-term tranche 1 warrants are cancelled and the remaining long-term tranches would be reduced such that Carvana will have the opportunity to purchase a maximum of 129.1 million shares of Class A common stock.

As of June 30, 2022, we determined that all short-term warrants were probable of vesting. Under that scenario, it is not a possible outcome for the long-term warrants to also vest, so they are considered not probable of vesting. We recognized \$3.5 million and \$8.8 million of warrant compensation expense related to these equity-classified warrants based on progress toward completing the integrated automobile insurance solution for Carvana's car buying platform, or Integrated Platform, for the three and six months ended June 30, 2022, respectively. This expense is included in sales and marketing of our condensed consolidated statements of operations and comprehensive loss. All of these warrants are out-of-the-money and therefore have no intrinsic value as of June 30, 2022.

As of June 30, 2022, there was \$26.8 million of unrecognized compensation cost related to warrants. The remaining costs are expected to be recognized over a period of approximately two years.

Employee Share-Based Compensation

The following table displays share-based compensation expense recorded in the condensed consolidated statements of operations and comprehensive loss:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
	(dollars in millions)			
Share-based compensation expense:				
Loss and loss adjustment expenses	\$ 0.2	\$ 0.5	\$ 0.4	\$ 0.6
Sales and marketing	0.3	0.2	0.4	0.2
Other insurance (benefit) expense	0.3	0.4	0.5	0.5
Technology and development	1.3	1.5	2.0	1.8
General and administrative	5.3	2.3	10.7	4.1
Total share-based compensation expense	\$ 7.4	\$ 4.9	\$ 14.0	\$ 7.2

The following table provides total share-based compensation expense by type of award:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
	(dollars in millions)			
Share-based compensation expense:				
Restricted stock unit expense	\$ 7.0	\$ 4.2	\$ 13.1	\$ 4.8
Stock option expense	0.4	0.7	0.9	2.4
Total share-based compensation expense	\$ 7.4	\$ 4.9	\$ 14.0	\$ 7.2

As part of the January 2022 organizational realignment discussed in Note 9, "Restructuring Costs," we modified certain share-based awards which resulted in zero and \$2.1 million of share-based compensation expense recognized in general and administrative expenses during the three and six months ended June 30, 2022, respectively.

As of June 30, 2022, there was \$3.2 million and \$65.2 million of unrecognized compensation cost related to unvested stock options and RSUs, respectively. The remaining costs are expected to be recognized over a period of approximately four years for unvested stock options and four years for RSUs.

Restricted Stock Units

A summary of RSU activity for the six months ended June 30, 2022 is as follows:

Restricted Stock Units	Six Months Ended June 30, 2022		
	Number of Shares	Weighted-Average Grant Date Fair Value per Share	Aggregate Intrinsic Value
	(in millions, except per share amounts)		
Nonvested at January 1, 2022	8.9	\$ 9.02	\$ 27.4
Granted	20.2	1.90	
Vested	(1.4)	10.24	2.7
Forfeited, expired or canceled	(3.5)	7.07	
Nonvested at June 30, 2022	<u>24.2</u>	\$ 3.09	\$ 28.8

Stock Options

A summary of option activity for the six months ended June 30, 2022 is as follows:

Options	Six Months Ended June 30, 2022			
	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in Years)	Aggregate Intrinsic Value
	(in millions, except exercise price and term amounts)			
Outstanding and exercisable at January 1, 2022	6.5	\$ 2.36	6.12	\$ 9.5
Granted	—	1.19		
Exercised	(1.0)	0.37		1.9
Forfeited, expired or canceled	(1.1)	4.27		
Outstanding and exercisable at June 30, 2022	<u>4.4</u>	\$ 2.39	6.12	\$ 1.5

11. COMMITMENTS AND CONTINGENCIES

From time to time, we are party to litigation and legal proceedings relating to our business operations. Except as disclosed below, we do not believe that we are party to any current or pending legal action that could reasonably be expected to have a material adverse effect on our financial condition or results of operations and cash flow.

On March 19, 2021, a purported class action complaint was filed against the Company and certain of its current and former officers and directors in the U.S. District Court for the Southern District of Ohio (Case No. 2:21-cv-01197) on behalf of certain Root shareholders. The complaint alleges that defendants made false or misleading statements and omissions of purportedly material fact, in violation of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 (the "Exchange Act") and Rule 10b-5 thereunder, and of Sections 11 and 15 of the Securities Act of 1933 (the "Securities Act"), in connection with and following the Company's initial public offering. The complaint seeks unspecified damages. The defendants have moved to dismiss the claims set forth in the complaint. The Company believes that the claims in this lawsuit are without merit and intends to defend against them vigorously. The lawsuit is in the early stages and, at this time, we are unable to predict the outcome and we cannot estimate the likelihood or magnitude of our possible or potential loss contingency.

On June 27, 2022, a verified shareholder derivative complaint was filed against certain of the Company's current and former officers and directors in the U.S. District Court for the District of Delaware (Case No. 1:22-cv-00865). The Company was named as a nominal defendant. The complaint alleges that defendants made false or misleading statements and omissions of purportedly material fact, in violation of Section 10(b) of the Exchange Act and Rule 10b-5 thereunder, breached their fiduciary duties and/or aided and abetted the breach of fiduciary duties, were unjustly enriched, wasted corporate assets, and are liable under Section 11(f) of the Securities Act, in connection with and following the Company's initial public offering. The complaint seeks unspecified damages. The Company believes that the claims in this lawsuit are without merit and intends to defend against them vigorously. The lawsuit is currently stayed pending resolution of the motion to dismiss filed by the defendants in the above matter and, at this time, we are unable to predict the outcome and we cannot estimate the likelihood or magnitude of our possible or potential loss contingency.

We are contingently liable for possible future assessments under regulatory requirements for insolvencies and impairments of unaffiliated insurance companies.

12. OTHER COMPREHENSIVE LOSS AND ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME

The following table presents the changes in our accumulated other comprehensive (loss) income, or AOCI, for the three and six months ended June 30, 2022 and 2021:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
	(dollars in millions)			
Beginning balance	\$ (3.3)	\$ 2.1	\$ 0.4	\$ 5.6
Other comprehensive loss before reclassifications	(1.4)	—	(5.1)	(1.1)
Net realized losses (gains) on investments reclassified from AOCI to net loss	0.1	—	0.1	(2.4)
Net current period other comprehensive loss	(1.3)	—	(5.0)	(3.5)
Ending balance	\$ (4.6)	\$ 2.1	\$ (4.6)	\$ 2.1

13. LOSS PER SHARE

The following table displays the computation of basic and diluted loss per share for both Class A and Class B common stock for the three and six months ended June 30, 2022 and 2021:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
	(in millions, except per share amounts)			
Net loss	\$ (89.9)	\$ (178.6)	\$ (166.3)	\$ (278.2)
Weighted-average common shares outstanding: basic and diluted (both Class A and B)	253.0	248.9	252.3	248.0
Loss per common share: basic and diluted (both Class A and B)	\$ (0.36)	\$ (0.72)	\$ (0.66)	\$ (1.12)

We excluded the following potentially dilutive common stock equivalents, presented based on amounts outstanding at each period end, from the computation of diluted loss per share attributable to common shareholders for the periods indicated because including them would have had an anti-dilutive effect:

	As of June 30,	
	2022	2021
	(in millions)	
Options to purchase common stock	4.4	7.4
Nonvested shares subject to repurchase	1.9	3.9
Restricted stock units	24.2	6.0
Redeemable convertible preferred stock (as converted to common stock)	14.1	—
Warrants to purchase common stock	137.7	—
Total	182.3	17.3

On August 1, 2022, a subcommittee of our Board of Directors approved a reverse stock split of our Class A common stock and Class B common stock at a ratio of 1-for-18. The reverse stock split will be effected through an amendment to our Amended and Restated Certificate of Incorporation, which is expected to be filed and take effect, or the Effective Time, after market close August 12, 2022.

At the Effective Time, every 18 issued and outstanding shares of our Class A common stock and Class B common stock will be converted into one share of our Class A common stock and Class B common stock, respectively. Once effective, the reverse stock split will reduce the number of shares of Class A common stock issued and outstanding from approximately 161.2 million to approximately 9.0 million, and will reduce the number of shares of Class B common stock issued and outstanding from approximately 93.8 million to approximately 5.2 million.

As a result of the reverse stock split, all historical per share data, number of shares outstanding and other common stock equivalents presented in future financial statements will be retroactively adjusted.

The following table displays the computation of pro forma reverse stock split effected basic and diluted loss per share for both Class A and Class B common stock for the three and six months ended June 30, 2022 and 2021:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
	(in millions, except per share amounts)			
Net loss	\$ (89.9)	\$ (178.6)	\$ (166.3)	\$ (278.2)
Weighted-average common shares outstanding: basic and diluted (both Class A and B) - pro forma	14.1	13.8	14.0	13.8
Loss per common share: basic and diluted (both Class A and B) - pro forma	\$ (6.38)	\$ (12.94)	\$ (11.88)	\$ (20.16)

14. GEOGRAPHICAL BREAKDOWN OF GROSS WRITTEN PREMIUM

Gross written premium by state is as follows for the three and six months ended June 30, 2022 and 2021:

State	Three Months Ended June 30,				Six Months Ended June 30,			
	2022		2021		2022		2021	
	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
	(dollars in millions)							
Texas ⁽¹⁾	\$ 26.0	18.6 %	\$ 37.4	21.1 %	\$ 63.3	19.3 %	\$ 80.4	21.2 %
Georgia	15.0	10.7	20.7	11.7	33.8	10.3	39.7	10.5
Colorado	9.8	7.0	7.5	4.2	20.5	6.3	16.4	4.3
Louisiana	8.2	5.9	10.3	5.8	18.9	5.8	20.6	5.4
Pennsylvania	7.7	5.5	9.3	5.3	17.7	5.4	19.7	5.2
Utah	7.1	5.1	7.9	4.5	16.1	4.9	16.5	4.3
Nevada	7.0	5.0	8.2	4.6	15.7	4.8	16.5	4.3
South Carolina	4.8	3.4	6.5	3.7	11.9	3.6	12.6	3.3
Oklahoma	4.6	3.3	4.8	2.7	10.9	3.3	11.5	3.0
Missouri	3.9	2.8	5.5	3.1	9.9	3.0	13.4	3.5
All others states	46.0	32.7	59.0	33.3	108.6	33.3	132.3	35.0
Total	\$ 140.1	100.0 %	\$ 177.1	100.0 %	\$ 327.3	100.0 %	\$ 379.6	100.0 %

(1) Includes assumed premiums, which commenced in August 2021. Assumed written premium for the three and six months ended June 30, 2022 was \$9.3 million and \$23.0 million, respectively. Prior to the fronting carrier commencement, we did not assume any premiums.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited condensed consolidated financial statements and related notes appearing elsewhere in this Quarterly Report on Form 10-Q and our audited consolidated financial statements and the related notes and the discussion under the heading “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in our Annual Report on Form 10-K for the year ended December 31, 2021 filed with the Securities and Exchange Commission, or SEC, on February 23, 2022, or the 2021 10-K. This discussion, particularly information with respect to our future results of operations or financial condition, business strategy and plans and objectives of management for future operations, includes forward-looking statements that involve risks and uncertainties as described under the heading “Special Note Regarding Forward-Looking Statements” in this Quarterly Report on Form 10-Q. You should review the disclosure under the heading “Risk Factors” in this Quarterly Report on Form 10-Q and in the 2021 10-K for a discussion of important factors that could cause our actual results to differ materially from those anticipated in these forward-looking statements.

Our Business

Root is a technology company revolutionizing personal insurance with a pricing model based upon fairness and a modern customer experience. We operate primarily a direct-to-consumer model in which we currently acquire the majority of our customers through mobile applications.

We believe the \$273 billion U.S. auto insurance market is ripe for disruption. Auto insurance is required for the vast majority of drivers in the United States and we believe it is typically the first insurance policy purchased by consumers. As a result, our auto-first strategy establishes the foundation for an expansive lifetime relationship with the opportunity to add other personal insurance lines as customer needs evolve. As part of our strategy, we have also established the technological foundation for an enterprise software offering, diversifying our revenue streams over time.

We believe the Root advantage is derived from our unique ability to efficiently and effectively bind auto insurance policies quickly, aided by segmenting individual risk based on complex behavioral data and proprietary telematics, a customer experience built for ease of use and a product offering made possible with our full-stack insurance structure. These are all uniquely integrated into a single cloud-based technology platform that captures the entire insurance value chain—from customer acquisition to underwriting to claims and administration to ongoing customer engagement.

Our model benefits from portfolio maturity. As we scale the business, our results are disproportionately weighted towards new customers compared to traditional insurance carriers. As we build an underlying base of recurring customers, we expect the following financial impacts:

- **Improved loss ratio.** Renewal premiums, referring to premiums from a customer’s second term and beyond, have lower loss ratios as compared to new premiums in the customer’s first term. As we grow our business, we anticipate, consistent with industry norms, that a greater proportion of our premiums will be from customer renewals and drive down the loss ratio across our portfolio.
- **Reduced marketing as a percentage of premium.** Certain recurring customer premiums have no associated customer acquisition costs and minimal underwriting costs, driving profitability. As we grow our business, we anticipate, consistent with industry norms, that a greater proportion of our premiums will be from customer renewals without associated marketing costs.
- **Improved retention.** As a young insurance carrier weighted towards new customers, we naturally have a higher percentage of more frequent shoppers. As our business tenures and our flywheel spins, allowing us to increase our pricing advantage, we will have the opportunity to acquire more long-standing customers and retain those that might naturally shop frequently. In addition to our pricing advantage, we anticipate our expanding relationships with customers through product bundling will demonstrate further improvement in retention.

- **Increased revenue per customer.** Our product expansion provides an opportunity to generate additional premium and fee income per customer without material incremental marketing cost.

We use technology to drive efficiency across all functions, including distribution, underwriting, policy administration and claims in particular. We believe this allows us to operate with a cost to acquire and cost to serve advantage. We continue to develop machine learning loss models, which allows us to respond more quickly to changes in the market, improve pricing segmentation through enhancements to our usage-based insurance model and take appropriate rate actions. We efficiently acquire customers directly through multiple channels, including embedded, digital (performance), channel media, referrals and agency. Our marketing costs have historically been well below industry averages, although in any given period, these costs can vary by channel mix, by state, or due to seasonality or the competitive environment. Today, we acquire the vast majority of our customers through our mobile app and mobile website. We believe that through prudent investment in and diversification of our marketing channels, including a focus on embedded insurance through our exclusive partnership with Carvana Group, LLC, or Carvana, and leveraging proprietary data science and technology to build out products and relationships that will position us for more sustainable, long-term and profitable growth. Additionally, we are realizing operating efficiencies as we scale against our fixed expense base. Our claims management expenses, as represented by our loss adjustment expenses, or LAE, are in line with peers within only three years of bringing claims management in-house and are expected to improve as we further embed machine learning into our processes.

We also use our proprietary technology to measure long-term benefits to our business. When a state reaches certain maturation thresholds, we refer to it as a seasoned state. A seasoned state is defined as a state where (1) the regulator has approved our data science-driven telematics and pricing models and (2) we have been writing policies in the state for a minimum of one year with a minimum of two pricing filings.

As a full-stack insurance company, we currently employ a “capital-light” model, which utilizes a variety of reinsurance structures at elevated levels of reinsurance. These reinsurance structures deliver three core objectives: (1) top-line growth without a commensurate increase in regulatory capital requirements, (2) support of customer acquisition costs and (3) protection from outsized losses or tail events. We expect to maintain an elevated level of third-party quota share reinsurance in order to operate a capital light business model. As our business scales, we expect to have the flexibility to reduce our quota share levels to maximize the return to shareholders.

Given the significant impact of reinsurance on our results of operations, we use certain gross basis key performance indicators to manage and measure our business operations and enhance investor understanding of our business model prior to reinsurance. We believe our long-term success will be apparent through the progression of our gross metrics. Results of operations on a gross basis alone are not achievable under our regulatory landscape given our top-line growth and resulting capital requirements, which are relieved, in part, by obtaining reinsurance. The gross basis metrics include gross written premium, gross earned premium, direct contribution, ratio of direct contribution to total revenue, ratio of direct contribution to gross earned premium, gross loss ratio, gross LAE ratio and gross accident period loss ratio. We believe that adjusted earnings before interest, tax, depreciation, amortization, or adjusted EBITDA, will provide investors with useful insight into the underlying performance of our business. For additional information, including definitions of these metrics, see “— Key Performance Indicators”, and for a reconciliation of our non-GAAP measures to the most directly comparable generally accepted accounting principles in the United States, or GAAP, measures, see “— Non-GAAP Financial Measures.”

Recent Developments Affecting Comparability

COVID-19 Impact

In March 2020, the World Health Organization declared COVID-19 a global pandemic. The pandemic and related measures taken to contain the spread of COVID-19, such as government-mandated business closures, “shelter in place” orders, or SIPs, and travel and transportation restrictions, have negatively affected the U.S. and global economies, disrupted global supply chains and led to unemployment. We, and other businesses within the insurance industry, have been impacted by certain individual state bulletins that were issued in 2020 and outlined COVID-19 premium relief efforts, including restrictions on the ability to cancel policies for non-payment, requirements to defer insurance premium payments for up to 60 days and restrictions on increasing policy premiums. The COVID-19 pandemic and governmental responses thereto have impacted and may further impact the broader economic environment, including creating or exacerbating supply chain disruptions and inflation and negatively impacting unemployment levels, economic growth, the proper functioning of financial and capital markets and interest rates.

The economic instability caused by the COVID-19 pandemic has led to acute inflationary pressures and supply chain disruptions, which have increased the value of used vehicles and replacement parts. These cost increases have resulted in greater claims severity while being partially offset by higher salvage and subrogation recoveries on damaged vehicles. As a result of certain factors related to the COVID-19 global pandemic, we continue to file in multiple states to establish rates that more closely follow the evolving loss cost trends.

As the COVID-19 pandemic continues, there is ongoing uncertainty around the severity and duration of the pandemic and the pandemic’s potential impact on our business and our financial performance. See the section titled “Risk Factors” in the 2021 10-K for more details.

Comprehensive Reinsurance

We expect to continue to utilize reinsurance in the future, and our diversified approach to reinsurance allows us to be flexible in response to changes in market conditions or our own business changes, which allows us to strategically fuel growth and technology investment by optimizing the amount of capital required.

Components of Our Results of Operations

Revenue

We generate revenue primarily from the sale of auto insurance policies within the United States and, to a lesser extent, from the sale of renters insurance policies. We also generate revenue through fee income from our customers paying on installment and from net investment income earned on our investment portfolio. We distribute website and app policy inquiry leads in geographies where we do not have a presence to third parties in exchange for fee revenue. We also generate income or loss from the sale of investments within net realized (losses) gains on investments. We also have agency operations that generate commission revenue by selling homeowners insurance policies on behalf of third-party insurance companies.

Net Premiums Earned

Premiums written are deferred and earned pro rata over the policy period. Net premiums earned represents the earned portion of our gross written premium, less the earned portion that is ceded to third-party reinsurers under our reinsurance agreements.

Net Investment Income

Net investment income represents interest earned from our fixed maturity and short-term investments and cash and cash equivalents less investment expenses. Net investment income is directly correlated with the overall size of our investment portfolio, market level of interest rates and changes in fair value of our private equity investments. Net investment income will vary with the size of our investment portfolio, market returns and the investment strategy.

Net Realized (Losses) Gains on Investments

Net realized (losses) gains on investments represents the difference between the amount received by us on the sale of an investment as compared to the investment's amortized cost basis.

Fee and Other Income

For those policyholders who pay premiums on an installment basis, we charge a flat fee for each installment related to the additional administrative costs associated with processing more frequent billing. We recognize this fee income in the period in which we process each installment. Other income is primarily comprised of revenue earned from distributing website and app policy inquiry leads in geographies where we do not have a presence, recognized when we generate the lead; commissions earned for homeowners policies placed with third-party insurance companies where we have no exposure to the insured risk, recognized on the effective date of the associated policy; and sale of enterprise technology products to provide telematics-based data collection and trip tracking, recognized ratably as the service is performed.

Operating Expenses

Our operating expenses consist of loss and LAE, sales and marketing, other insurance (benefit) expense, technology and development, and general and administrative expenses.

Loss and Loss Adjustment Expenses

Loss and LAE include an amount determined using adjuster determined case-base estimates for reported claims and actuarial determined unpaid claim estimates using past experience and historical emergence patterns for unreported losses and LAE. These reserves are a liability established to cover the estimated ultimate cost to settle insured losses. The unpaid loss estimates consider loss trends, mix of business, and other risk factors impacting claims settlement. The method used to estimate unpaid LAE liability is based on claims transaction data, including the relative cost of adjusting and settling a range of claim types from express material damage claims to more complex injury cases.

Loss and LAE is 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 may be paid out over a period of years.

Various other expenses incurred during claims processing are considered LAE. These amounts include claims salaries, health benefits, bonuses, employee retirement plan related expenses and employee share-based compensation expense, or Personnel Costs; software expense; internally developed software amortization; and overhead allocated based on headcount, or Overhead.

Sales and Marketing

Sales and marketing expense includes spending related to performance and embedded channels, channel media, advertising, branding, public relations, consumer insights and referral fees. These expenses also include related Personnel Costs, Overhead and warrant compensation expense related to our embedded channel. We incur sales and marketing expenses for all product offerings. Sales and marketing are expensed as incurred. Warrant compensation expense is recognized on a pro-rata basis considering progress toward completing the Integrated Platform under the Carvana commercial agreement.

We plan to continue investing in and diversifying our marketing channels to attract and acquire new customers, increase our brand awareness, and expand our product offerings. We expect that in the long term, our sales and marketing will decrease as a percentage of revenue as the proportion of renewals to our total business increases.

Other Insurance (Benefit) Expense

Other insurance (benefit) expense includes underwriting expenses, credit card and policy processing expenses, premium write-offs, insurance license expenses, and Personnel Costs and Overhead related to actuarial and certain data science activities. Other insurance (benefit) expense also includes amortization of deferred acquisition costs like premium taxes and report costs related to the successful acquisition of a policy. Other insurance (benefit) expense is expensed as incurred, except for costs related to deferred acquisition costs that are capitalized and subsequently amortized over the same period in which the related premiums are earned. These expenses are also recognized net of ceding commissions earned.

Technology and Development

Technology and development expense consists of software development costs related to our mobile app and homegrown information technology systems; third-party services related to infrastructure support; Personnel Costs and Overhead for engineering, product, technology, and certain data science activities; and amortization of internally developed software. Technology and development is expensed as incurred, except for development and testing costs related to internally developed software that are capitalized and subsequently amortized over the expected useful life.

We expect technology and development to increase in absolute dollars and as a percentage of total revenue as we continue to devote significant resources to enhance our customer experience and continually improve our integrated technology platform. Over time, we expect technology and development to decrease as a percentage of revenue.

General and Administrative

General and administrative expenses primarily relate to external professional service expenses; Personnel Costs and Overhead for corporate functions; depreciation expense for computers, furniture and other fixed assets; and restructuring costs associated with the organizational realignment. General and administrative expenses are expensed as incurred.

We expect general and administrative expenses to continue to increase as a percentage of total revenue in the near term, and then decrease over time.

Interest Expense

Interest expense is not an operating expense; therefore, we include these expenses below operating expenses. Interest expense primarily relates to interest incurred on our long-term debt, certain fees that are expensed as incurred and amortization of debt issuance costs. In addition, changes in the fair value of warrant liabilities that were associated with our long-term debt are recorded as interest expense.

Key Performance Indicators

We regularly review a number of metrics, including the following key performance indicators, to evaluate our business, measure our performance, identify trends in our business, prepare financial projections and make strategic decisions. We believe these non-GAAP and operational measures are useful in evaluating our performance, in addition to our financial results prepared in accordance with GAAP. See the section titled “— Non-GAAP Financial Measures” for additional information regarding our use of adjusted gross profit/(loss), direct contribution and adjusted EBITDA and their reconciliations to the most directly comparable GAAP measures.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
(dollars in millions, except premiums per policy)				
Policies in force				
Auto	297,716	373,721	297,716	373,721
Renters	7,778	9,103	7,778	9,103
Premiums per policy				
Auto	\$ 1,077	\$ 971	\$ 1,077	\$ 971
Renters	\$ 140	\$ 141	\$ 140	\$ 141
Premiums in force				
Auto	\$ 641.3	\$ 725.8	\$ 641.3	\$ 725.8
Renters	\$ 1.1	\$ 1.3	\$ 1.1	\$ 1.3
Gross written premium ⁽¹⁾	\$ 140.1	\$ 177.1	\$ 327.3	\$ 379.6
Gross earned premium ⁽¹⁾	\$ 170.8	\$ 180.7	\$ 345.5	\$ 340.9
Gross profit/(loss)	\$ (7.5)	\$ (18.9)	\$ (19.8)	\$ (12.6)
Gross margin	(9.3) %	(21.0) %	(11.9) %	(8.0) %
Net loss	\$ (89.9)	\$ (178.6)	\$ (166.3)	\$ (278.2)
Adjusted gross profit/(loss)	\$ 0.4	\$ (3.8)	\$ (5.1)	\$ 13.2
Direct contribution	\$ (0.2)	\$ (3.8)	\$ 6.2	\$ 22.8
Adjusted EBITDA	\$ (67.2)	\$ (165.2)	\$ (118.4)	\$ (255.4)
Ratio of adjusted gross profit/(loss) to total revenue	0.5 %	(4.2) %	(3.1) %	8.3 %
Ratio of adjusted gross profit/(loss) to gross earned premium	0.2 %	(2.1) %	(1.5) %	3.9 %
Ratio of direct contribution to total revenue	(0.2) %	(4.2) %	3.7 %	14.4 %
Ratio of direct contribution to gross earned premium	(0.1) %	(2.1) %	1.8 %	6.7 %
Gross loss ratio	87.0 %	89.9 %	85.6 %	81.0 %
Gross LAE ratio	9.9 %	10.6 %	9.5 %	10.2 %
Gross accident period loss ratio	85.2 %	89.9 %	83.1 %	83.4 %

(1) Includes premiums assumed from the fronting carrier that commenced in August 2021. Assumed written premium for the three and six months ended June 30, 2022 was \$9.3 million and \$23.0 million, respectively. Assumed earned premium for the three and six months ended June 30, 2022 was \$11.5 million and \$20.7 million, respectively. Prior to the fronting carrier commencement, we did not assume any premiums.

Policies in Force

We define policies in force as the number of current and active policyholders underwritten by us as of the period end date. We view policies in force as an important metric to assess our financial performance because policy growth drives our revenue growth, expands brand awareness, deepens our market penetration, and generates additional data to continue to improve the functioning of our platform.

Premiums per Policy

We define premiums per policy as the ratio of gross written premium on policies in force at the end of the period divided by policies in force. We view premiums per policy as an important metric since the higher the premiums per policy the greater the amount of earned premium we expect from each policy.

Premiums in Force

We define premiums in force for our auto policies as premiums per policy multiplied by policies in force multiplied by two. We view premiums in force as an estimate of annualized run rate of gross written premium as of a given period. Since our auto policies are six-month policies, we multiply this figure by two in order to determine an annualized amount of premiums in force. We define premiums in force for our renters policies as premiums per policy multiplied by policies in force. We view this as an important metric because it is an indicator of the size of our portfolio of policies as well as an indicator of expected earned premium over the coming 12 months. Premiums in force is not a forecast of future revenue nor is it a reliable indicator of revenue expected to be earned in any given period. We believe that our calculation of premiums in force is useful to investors and analysts because it captures the impact of growth in customers and premiums per policy at the end of each reported period, without adjusting for known or projected policy updates, cancellations and non-renewals.

Gross Written Premium

We define gross written premium as the total amount of gross premium on policies that were bound during the period less the prorated impact of policy cancellations. Gross written premiums include direct premiums and assumed premiums. We began assuming premium during the third quarter of 2021 in connection with our entry into an arrangement with a fronting carrier in Texas. We view gross written premium as an important metric because it is the metric that most closely correlates with our growth in gross earned premium. We use gross written premium, which excludes the impact of premiums ceded to reinsurers, to manage our business because we believe that it reflects the business volume and direct economic benefit generated by our customer acquisition activities, which along with our underlying underwriting and claims operations (gross loss ratio and gross LAE) are the key drivers of our future profit opportunities. Additionally, premiums ceded to reinsurers can change significantly based on the type and mix of reinsurance structures we use, and as such we have the optionality to fully retain the premiums from customers acquired in the future.

Gross Earned Premium

We define gross earned premium as the amount of gross premium that was earned during the period. Premiums are earned over the period in which insurance protection is provided, which is typically six months. Gross earned premium includes direct premiums and assumed premiums. We began assuming premium during the third quarter of 2021 in connection with our entry into an arrangement with a fronting carrier in Texas. We view gross earned premium as an important metric as it allows us to evaluate our growth prior to the impacts of reinsurance. It is the primary driver of our consolidated GAAP revenues. As with gross written premium, we use gross earned premium, which excludes the impact of premiums ceded to reinsurers to manage our business, because we believe that it reflects the business volume and direct economic benefit generated by our customer acquisition activities, which along with our underlying underwriting and claims operations (gross loss ratio and gross LAE) are the key drivers of our future profit opportunities.

Gross Profit/(Loss)

We define gross profit/(loss) as total revenue minus net loss and LAE and other insurance (benefit) expense inclusive of depreciation and amortization. We view gross profit/(loss) as an important metric because we believe it is informative of the financial performance of our core insurance business.

Gross profit/(loss) margin is equal to gross profit/(loss) divided by revenue.

Adjusted Gross Profit/(Loss)

We define adjusted gross profit/(loss), a non-GAAP financial measure, as gross profit/(loss) excluding net investment income, net realized gains (losses) on investments, report costs, Personnel Costs, allocated Overhead, licenses, professional fees and other expenses, which are included in other insurance (benefit) expense. After these adjustments, the resulting calculation is inclusive of only those variable costs of revenue incurred on the successful acquisition of business. We view adjusted gross profit/(loss) as an important metric because we believe it measures our progress towards profitability for our core insurance business.

The ratio of adjusted gross profit/(loss) to total revenue is equal to adjusted gross profit/(loss) divided by total revenue.

See the section titled “— Non-GAAP Financial Measures” for a reconciliation of total revenue to adjusted gross profit/(loss).

Direct Contribution

We define direct contribution, a non-GAAP financial measure, as adjusted gross profit/(loss) excluding ceded earned premium, ceded loss and LAE, and net ceding commission and other. Net ceding commission and other is comprised of ceding commission received in connection with reinsurance ceded, partially offset by related sliding scale commission adjustments and amortization of excess ceding commission, and other impacts of reinsurance ceded which are included in other insurance (benefit) expense. After these adjustments, the resulting calculation is inclusive of only those gross variable costs of revenue incurred on the successful acquisition of business, but exclusive of net ceding commission, ceded loss and LAE and other impacts of reinsurance ceded. We view direct contribution as an important metric because we believe it measures progress towards the profitability of our total policy portfolio prior to the impact of reinsurance.

The ratio of direct contribution to total revenue is equal to direct contribution divided by total revenue.

See the section titled “— Non-GAAP Financial Measures” for a reconciliation of total revenue to direct contribution.

Adjusted EBITDA

We define adjusted EBITDA, a non-GAAP financial measure, as net loss excluding interest expense, income tax expense, depreciation and amortization, share-based compensation, warrant compensation expense and restructuring charges. After these adjustments, the resulting calculation represents expenses directly attributable to our operating performance. We use adjusted EBITDA as an internal performance measure in the management of our operations because we believe it provides management and other users of our financial information useful insight into our results of operations and 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.

See the section titled “— Non-GAAP Financial Measures” for a reconciliation of net loss to adjusted EBITDA.

Ratio of Adjusted Gross Profit/(Loss) to Gross Earned Premium

The ratio of adjusted gross profit/(loss) 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/(loss) ratio as calculated in accordance with GAAP, because it provides management with insight into our underlying profitability trends with respect to our customer base. We use gross earned premium as the denominator in calculating this ratio because it reflects business volume free of elective capital-light choices related to our reinsurance programs. As discussed above in gross written premium, this key performance indicator has been updated to include assumed earned premiums in the calculation of ratio of adjusted gross profit/(loss) to gross earned premium during the third quarter of 2021.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
	(dollars in millions)			
Numerator: Adjusted gross profit/(loss)	\$ 0.4	\$ (3.8)	\$ (5.1)	\$ 13.2
Denominator: total gross earned premium	\$ 170.8	\$ 180.7	\$ 345.5	\$ 340.9
Ratio of adjusted gross profit/(loss) to gross earned premium	0.2 %	(2.1)%	(1.5)%	3.9 %

Ratio of Direct Contribution to Gross Earned Premium

The ratio of direct contribution 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, without contemplating the impacts of reinsurance. We rely on this measure, which supplements our gross margin as calculated in accordance with GAAP, because it provides management with insight into our underlying profitability trends with respect to our total policy portfolio. We use gross earned premium as the denominator in calculating this ratio because it reflects business volume free of elective capital-light cession or commission structure choices from our reinsurance ceded programs. As discussed above in gross written premium, this key performance indicator has been updated to include assumed earned premiums in the calculation of ratio of direct contribution to gross earned premium during the third quarter of 2021.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
	(dollars in millions)			
Numerator: direct contribution	\$ (0.2)	\$ (3.8)	\$ 6.2	\$ 22.8
Denominator: total gross earned premium	\$ 170.8	\$ 180.7	\$ 345.5	\$ 340.9
Ratio of direct contribution to gross earned premium	(0.1)%	(2.1)%	1.8 %	6.7 %

Gross Loss Ratio

We define gross loss ratio, expressed as a percentage, as the ratio of gross losses to gross earned premium. Gross loss ratio excludes LAE. We view gross loss ratio as an important metric because it allows us to evaluate incurred losses and LAE separately prior to the impact of reinsurance. As discussed above in gross written premium, this key performance indicator has been changed to include assumed losses and assumed earned premiums in the calculation of gross loss ratio beginning during the third quarter of 2021.

Gross LAE Ratio

We define gross LAE ratio, expressed as a percentage, as the ratio of gross LAE to gross earned premium. We view gross LAE ratio as an important metric because it allows us to evaluate incurred losses and LAE separately. Currently, we do not cede any of our LAE to our third-party quota share reinsurance treaties; therefore, we actively monitor LAE ratio as it has a direct impact on our results regardless of our reinsurance strategy. As discussed above in gross written premium, this key performance indicator has been changed to include assumed LAE and assumed earned premium in the calculation of gross LAE ratio beginning during the third quarter of 2021.

Gross Accident Period Loss Ratio

Gross accident period loss ratio, expressed as a percentage, represents all losses and claims expected to arise from insured events that occurred during the applicable period regardless of when they are reported and finally settled divided by gross earned premiums for the same period. Changes to our ultimate loss estimates from prior periods are the primary driver of the difference between our gross accident period loss ratio and gross loss ratio. We believe that gross accident period loss ratio is useful in evaluating expected losses prior to the impact of reinsurance. As discussed above in gross written premium, this key performance indicator has been changed to include assumed accident period losses and assumed earned premium in the calculation of gross accident period loss ratio beginning during the third quarter of 2021.

Results of Operations

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

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

	Three Months Ended June 30,			
	2022	2021	\$ Change	% Change
	(dollars in millions)			
Revenues:				
Net premiums earned	\$ 74.7	\$ 81.2	\$ (6.5)	(8.0)%
Net investment income	0.7	0.7	—	— %
Net realized losses on investments	(0.1)	—	(0.1)	(100.0)%
Fee and other income	5.1	7.9	(2.8)	(35.4)%
Total revenues	80.4	89.8	(9.4)	(10.5)%
Operating expenses:				
Loss and loss adjustment expenses	95.7	110.2	(14.5)	(13.2)%
Sales and marketing	25.4	111.7	(86.3)	(77.3)%
Other insurance benefit	(7.8)	(1.5)	(6.3)	420.0 %
Technology and development	17.9	17.5	0.4	2.3 %
General and administrative	29.9	24.0	5.9	24.6 %
Total operating expenses	161.1	261.9	(100.8)	(38.5)%
Operating loss	(80.7)	(172.1)	91.4	N.M.
Interest expense	(9.2)	(6.5)	(2.7)	41.5 %
Loss before income tax expense	(89.9)	(178.6)	88.7	N.M.
Income tax expense	—	—	—	— %
Net loss	(89.9)	(178.6)	88.7	N.M.
Other comprehensive loss:				
Changes in net unrealized losses on investments	(1.3)	—	(1.3)	(100.0)%
Comprehensive loss	\$ (91.2)	\$ (178.6)	\$ 87.4	N.M.

N.M. - Percentage change not meaningful

Revenue

Net Premiums Earned

Net premiums earned decreased \$6.5 million, or 8.0%, to \$74.7 million for the three months ended June 30, 2022 compared to the same period in 2021. The decrease was primarily due to lower policies in force as a result of reduced marketing expenditures, partially offset by an increase in premium per policy resulting from rate actions.

During the three months ended June 30, 2022 and 2021, we ceded approximately 56.3% and 55.1% of our gross earned premiums to third-party reinsurers, respectively. The change in ceding percentage between the periods was primarily driven by a higher proportion of our gross earned premiums being subject to reinsurance treaties, partially offset by the decrease in gross earned premiums.

The following table presents gross written premium, ceded written premium, net written premium, gross earned premium, ceded earned premium and net earned premium for the three months ended June 30, 2022 and 2021:

	Three Months Ended June 30,			
	2022	2021	\$ Change	% Change
	(dollars in millions)			
Gross written premium	\$ 140.1	\$ 177.1	\$ (37.0)	(20.9)%
Ceded written premium	(81.1)	(109.7)	28.6	(26.1)%
Net written premium	59.0	67.4	(8.4)	(12.5)%
Gross earned premium	170.8	180.7	(9.9)	(5.5)%
Ceded earned premium	(96.1)	(99.5)	3.4	(3.4)%
Net earned premium	\$ 74.7	\$ 81.2	\$ (6.5)	(8.0)%

The decrease in gross earned premium was primarily due to lower gross written premium as a result of reducing marketing expenditures. This decrease was partially offset by a 10.9% increase in premium per policy for automobile insurance primarily attributable to rate actions.

Operating Expenses

Loss and Loss Adjustment Expenses

Loss and LAE decreased \$14.5 million, or 13.2%, to \$95.7 million for the three months ended June 30, 2022 compared to the same period ended in 2021. The decrease was primarily driven by lower net earned premiums and growth in average premium per policy primarily attributable to rate actions and improved tenure mix as our book of business matures.

Gross accident period loss ratios decreased to 85.2% from 89.9% for the three months ended June 30, 2022 and 2021, respectively. The improvement in the ratios was driven by higher average premium per policy and improved tenure mix as our book of business matures. This was partially offset by higher loss severity per claim due to inflation, as the industry experienced higher replacement parts cost and growth in used car values. We experienced an 8% increase in severity per claim for the three months ended June 30, 2022 compared to the same period in 2021. The claim severity estimates are based on bodily injury, collision and property damage coverages.

Sales and Marketing

Sales and marketing expense decreased \$86.3 million, or 77.3%, to \$25.4 million for the three months ended June 30, 2022 compared to the same period in 2021. The decrease was primarily due to a decline in performance marketing of \$82.5 million and branding and advertising of \$14.0 million as a result of lower marketing expenditures. This was partially offset by an increase of \$6.5 million in content development and partnership marketing expense as we focus on diversifying our marketing channels compared to the prior year period and by \$3.5 million of warrant compensation expense related to progress toward completing the Integrated Platform pursuant to the Carvana commercial agreement.

Other Insurance Benefit

Other insurance benefit increased \$6.3 million, or 420.0%, to \$7.8 million for the three months ended June 30, 2022 compared to the same period in 2021. The increase was primarily driven by lower underwriting costs, premium taxes, and policy processing expenses of \$7.6 million as well as lower premium write offs of \$0.5 million. This is partially offset by a \$2.2 million decrease in ceding commission contra-expense net of sliding scale commission expense due to the decrease in gross written premiums.

General and Administrative

General and administrative increased \$5.9 million, or 24.6%, to \$29.9 million for the three months ended June 30, 2022 compared to the same period in 2021. The increase was driven by an increase of \$3.0 million in share based compensation expenses relating to our equity incentive plan and a \$2.2 million increase in employee-related costs compared to the same period in 2021. In addition, we incurred \$0.6 million in restructuring costs related to an organizational realignment. This was partially offset by a decrease in professional services of \$1.4 million driven by a decrease in consulting services.

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

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

	Six Months Ended June 30,			
	2022	2021	\$ Change	% Change
(dollars in millions)				
Revenues:				
Net premiums earned	\$ 153.0	\$ 140.3	\$ 12.7	9.1 %
Net investment income	1.3	1.6	(0.3)	(18.8)%
Net realized gains on investments	1.1	2.4	(1.3)	(54.2)%
Fee and other income	10.4	14.1	(3.7)	(26.2)%
Total revenues	165.8	158.4	7.4	4.7 %
Operating expenses:				
Loss and loss adjustment expenses	192.4	170.1	22.3	13.1 %
Sales and marketing	40.1	180.1	(140.0)	(77.7)%
Other insurance (benefit) expense	(6.8)	0.9	(7.7)	(855.6)%
Technology and development	31.8	31.3	0.5	1.6 %
General and administrative	59.9	42.4	17.5	41.3 %
Total operating expenses	317.4	424.8	(107.4)	(25.3)%
Operating loss	(151.6)	(266.4)	114.8	N.M.
Interest expense	(14.7)	(11.8)	(2.9)	24.6 %
Loss before income tax expense	(166.3)	(278.2)	111.9	N.M.
Income tax expense	—	—	—	— %
Net loss	(166.3)	(278.2)	111.9	N.M.
Other comprehensive loss:				
Changes in net unrealized losses on investments	(5.0)	(3.5)	(1.5)	42.9 %
Comprehensive loss	\$ (171.3)	\$ (281.7)	\$ 110.4	N.M.

N.M. - Percentage change not meaningful

Revenue

Net Premiums Earned

Net premiums earned increased \$12.7 million, or 9.1%, to \$153.0 million, for the six months ended June 30, 2022, compared to the same period in 2021. The increase was primarily due to growth in gross earned premium and lower cession rates on gross earned premiums.

During the six months ended June 30, 2022 and 2021, we ceded approximately 55.7% and 58.8% of our gross earned premiums to third-party reinsurers, respectively. The change in ceding percentage between periods was primarily driven by retaining a larger share of our renewal book of business.

The following table presents gross written premium, ceded written premium, net written premium, gross earned premium, ceded earned premium and net earned premium for the six months ended June 30, 2022 and 2021:

	Six Months Ended June 30,			
	2022	2021	\$ Change	% Change
	(dollars in millions)			
Gross written premium	\$ 327.3	\$ 379.6	\$ (52.3)	(13.8)%
Ceded written premium	(183.5)	(199.3)	15.8	(7.9)%
Net written premium	143.8	180.3	(36.5)	(20.2)%
Gross earned premium	345.5	340.9	4.6	1.3 %
Ceded earned premium	(192.5)	(200.6)	8.1	(4.0)%
Net earned premium	\$ 153.0	\$ 140.3	\$ 12.7	9.1 %

Gross earned premium growth was primarily due to a 10.9% increase in premium per policy for automobile insurance primarily resulting from rate actions and improved customer retention between the periods. This increase was partially offset by lower gross written premium as a result of reducing marketing expenditures.

Operating Expenses

Loss and Loss Adjustment Expenses

Loss and LAE increased \$22.3 million, or 13.1%, to \$192.4 million for the six months ended June 30, 2022 compared to the same period in 2021. The increase was primarily due to growth in net earned premiums for the six months ended June 30, 2022 compared to the same period in 2021. In addition, the six months ended June 30, 2021 includes \$8.6 million in favorable prior accident years development, while the same period in 2022 was impacted slightly by unfavorable prior accident years development. For further information on prior accident years development, see Note 5, "Loss and Loss Adjustment Expense Reserves," in the Notes to Condensed Consolidated Financial Statements.

Gross accident period loss ratios decreased to 83.1% from 83.4% for the six months ended June 30, 2022 and 2021, respectively. The change in the ratios was driven by growth in average premium per policy primarily attributable to rate actions and improved tenure mix as our book of business matures. This was offset by higher loss costs from increased severity per claim due to inflation, as the industry experienced higher replacement parts cost and growth in used car values. We experienced a 10% increase in severity per claim and 2% increase in claim frequency for the six months ended June 30, 2022 compared to the same period in 2021. The claim severity and frequency estimates are based on bodily injury, collision and property damage coverages.

Sales and Marketing

Sales and marketing expense decreased \$140.0 million, or 77.7%, to \$40.1 million for the six months ended June 30, 2022 compared to the same period in 2021. The decrease was primarily due to a decline in performance marketing of \$128.4 million and branding and advertising of \$26.0 million as a result of lower marketing expenditures. This was partially offset by \$8.8 million of warrant compensation expense related to progress toward completing the Integrated Platform pursuant to the Carvana commercial agreement and an increase of \$6.4 million in content development and partnership marketing expense as we focus on diversifying our marketing channels compared to the prior year period.

Other Insurance (Benefit) Expense

Other insurance (benefit) expense decreased \$7.7 million, or 855.6%, to a benefit of \$6.8 million for the six months ended June 30, 2022 compared to the same period in 2021. The decrease was primarily driven by lower underwriting costs and premium taxes of \$12.5 million. This is partially offset by a \$5.5 million decrease in ceding commission contra-expense net of sliding scale commission expense due to the decrease in gross written premiums.

General and Administrative

General and administrative increased \$17.5 million, or 41.3%, to \$59.9 million for the six months ended June 30, 2022 compared to the same period in 2021. The increase was driven by \$8.4 million restructuring costs related to an organizational realignment. In addition, an increase of \$5.0 million in employee-related costs and an increase of \$4.5 million in share-based compensation expenses relating to our equity incentive plan compared to the same period in 2021. This was partially offset by a decrease in professional services of \$1.9 million driven by a decrease in consulting services.

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/(loss), direct contribution 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: (1) monitor and evaluate the performance of our business operations and financial performance; (2) facilitate internal comparisons of the historical operating performance of our business operations; (3) 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; (4) review and assess the operating performance of our management team; (5) analyze and evaluate financial and strategic planning decisions regarding future operating investments; and (6) plan for and prepare future annual operating budgets and determine appropriate levels of operating investments.

The following table provides a reconciliation of total revenue to adjusted gross profit/(loss) and direct contribution for the three and six months ended June 30, 2022 and 2021:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
	(dollars in millions)			
Total revenue	\$ 80.4	\$ 89.8	\$ 165.8	\$ 158.4
Loss and loss adjustment expenses	(95.7)	(110.2)	(192.4)	(170.1)
Other insurance benefit (expense)	7.8	1.5	6.8	(0.9)
Gross profit/(loss)	\$ (7.5)	\$ (18.9)	\$ (19.8)	\$ (12.6)
Gross margin	(9.3)%	(21.0)%	(11.9)%	(8.0)%
Less:				
Net investment income	\$ (0.7)	\$ (0.7)	\$ (1.3)	\$ (1.6)
Net realized losses (gains) on investments	0.1	—	(1.1)	(2.4)
Adjustments from other insurance expense ⁽¹⁾	8.5	15.8	17.1	29.8
Adjusted gross profit/(loss)	0.4	(3.8)	(5.1)	13.2
Ceded earned premium	96.1	99.5	192.5	200.6
Ceded loss and LAE	(69.7)	(71.5)	(135.9)	(140.8)
Net ceding commission and other ⁽²⁾	(27.0)	(28.0)	(45.3)	(50.2)
Direct contribution	(0.2)	(3.8)	6.2	22.8
Gross earned premium	\$ 170.8	\$ 180.7	\$ 345.5	\$ 340.9
Ratio of adjusted gross profit/(loss) to total revenue	0.5 %	(4.2)%	(3.1)%	8.3 %
Ratio of adjusted gross profit/(loss) to gross earned premium	0.2 %	(2.1)%	(1.5)%	3.9 %
Ratio of direct contribution to total revenue	(0.2)%	(4.2)%	3.7 %	14.4 %
Ratio of direct contribution to gross earned premium	(0.1)%	(2.1)%	1.8 %	6.7 %

(1) Adjustments from other insurance expense includes report costs, personnel costs, allocated overhead, licenses, professional fees and other.

(2) Net ceding commission and other is comprised of ceding commissions received in connection with reinsurance ceded, partially offset by sliding scale commission adjustments and amortization of excess ceding commission, and other impacts of reinsurance ceded.

Adjusted EBITDA

The following table provides a reconciliation of net loss to adjusted EBITDA for the three and six months ended June 30, 2022 and 2021:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
	(dollars in millions)			
Net loss	\$ (89.9)	\$ (178.6)	\$ (166.3)	\$ (278.2)
Adjustments:				
Interest expense	8.5	4.8	13.5	8.4
Income tax expense	—	—	—	—
Depreciation and amortization	2.7	3.7	5.3	7.2
Share-based compensation	7.4	4.9	11.9	7.2
Warrant compensation expense	3.5	—	8.8	—
Restructuring costs ⁽¹⁾	0.6	—	8.4	—
Adjusted EBITDA	<u>\$ (67.2)</u>	<u>\$ (165.2)</u>	<u>\$ (118.4)</u>	<u>\$ (255.4)</u>

(1) Restructuring costs consist of severance, benefits, related costs and real estate exit costs comprising of accelerated amortization of certain right-of-use assets, leasehold improvements, furniture and fixtures. This includes zero and \$2.1 million of share-based compensation for the three and six months ended June 30, 2022, respectively. This also includes \$0.3 million and \$1.3 million in depreciation and amortization for the three and six months ended June 30, 2022, respectively. For further information on restructuring costs, see Note 9, "Restructuring Cost," in the Notes to Condensed Consolidated Financial Statements.

Liquidity and Capital Resources

General

Since inception, we have financed operations primarily through sales of insurance policies and the net proceeds we have received from our issuance of stock and debt and from sales of investments. Cash generated from operations is highly dependent on being able to efficiently acquire and maintain customers while pricing our insurance products appropriately. We are continuously evaluating alternatives for efficiently funding our ongoing operations. We expect, from time to time, to engage in a variety of financing transactions for such purposes, including the issuance of securities.

Regulatory Considerations

We are organized as a holding company, but our primary operations are conducted by two of our wholly-owned insurance subsidiaries, Root Insurance Company, an Ohio-domiciled insurance company, and Root Property & Casualty Insurance Company, a Delaware-domiciled insurance company. The payment of dividends by our insurance subsidiaries is subject to restrictions set forth in the insurance laws and regulations of the States of Ohio and Delaware. To date, our insurance subsidiaries have not paid any dividends and, as of June 30, 2022, they were not permitted to pay any dividends without approval of the applicable superintendent, commissioner and/or director.

If our insurance subsidiaries' businesses grow, the amount of capital we are required to maintain to satisfy our risk-based capital requirements may increase significantly. To comply with these regulations, we may be required to maintain capital in the insurance subsidiaries that we would otherwise invest in our growth and operations. As of June 30, 2022, our insurance subsidiaries maintained a risk-based capital level that is in excess of an amount that would require any corrective actions on our part.

Our wholly-owned, Cayman Islands-based reinsurance subsidiary, Root Reinsurance Company, Ltd., or Root Re, maintains a Class B(iii) insurer license under Cayman Islands Monetary Authority, or CIMA. At June 30, 2022, Root Re was subject to compliance with certain capital levels and a net earned premium to capital ratio of 15:1, which we maintained as of June 30, 2022. The capital ratio can fluctuate at Root Re's election, subject to regulatory approval. Root Re's primary sources of funds are capital contributions from the holding company, assumed insurance premiums and net investment income. These funds are primarily used to pay claims and operating expenses and to purchase investments. Root Re must receive approval from CIMA before it can pay any dividend to the holding company.

Financing Arrangements

On January 26, 2022, we closed on a \$300.0 million five-year term loan, or Term Loan C. The maturity of the term loan is January 27, 2027. Interest is payable quarterly and is determined on a floating interest rate calculated on the Secured Overnight Financing Rate, with a 1.0% floor, plus 9%, plus 0.26161% per annum. Concurrently with the term loan, we also issued to the lender warrants to purchase 5.7 million shares of Class A common stock. Under certain contingent scenarios, the lender may also receive additional warrants to purchase shares of Class A common stock equal to 1.0% of the aggregate number of issued and outstanding shares of our Class A common stock on a fully-diluted basis as of the triggering date.

Liquidity

As of June 30, 2022, we had \$885.6 million in cash and cash equivalents, of which \$695.7 million was held outside of regulated insurance entities. We also had \$120.8 million in marketable securities.

Our cash and cash equivalents primarily consist of bank deposits and money market funds. Our marketable securities primarily consist of U.S. Treasury securities and agencies, municipal securities, corporate debt securities, residential and commercial mortgage-backed securities, and other debt obligations.

We believe that our existing cash and cash equivalents, marketable securities and cash flow from operations will be sufficient to support short-term working capital and capital expenditure requirements for at least the next 12 months and for the foreseeable future thereafter.

Our long-term capital requirements depend on many factors, including our insurance premium growth rate, renewal activity, the timing and the amount of cash received from customers, the performance of our embedded product, the timing and extent of spending to support development efforts, the introduction of new and enhanced products, the continuing market adoption of offerings on our platform, and the ongoing uncertainty in the global markets resulting from the global COVID-19 pandemic. In the first quarter of 2022, in response to inflation and loss cost trends and to further drive efficiency and increased focus on our strategic priorities we instituted an organizational realignment, including an involuntary workforce reduction affecting approximately 330 employees, which represented approximately 20% of our workforce. Through prudent deployment of capital we believe we have sufficient resources, and access to additional debt and equity capital, to adequately meet our obligations as they come due. For additional information regarding the organizational realignment refer to Note 9. "Restructuring Costs", in the Notes to Condensed Consolidated Financial Statements.

Currently, our debt covenants require cash and cash equivalents held in entities other than our insurance subsidiaries to be at least \$200 million at all times. This threshold may be reduced to \$150 million under two sets of circumstances: issuing 62,500 insurance policies through our Carvana embedded product and achieving a ratio of direct contribution to gross earned premium of 12%; or ceasing any customer acquisition spend outside of the Carvana commercial agreement and reducing our monthly cash burn to no greater than \$12 million.

Cash Flows

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

	Six Months Ended June 30,	
	2022	2021
	(in millions)	
Net cash used in operating activities	\$ (104.9)	\$ (226.5)
Net cash (used in) provided by investing activities	(1.8)	82.6
Net cash provided by financing activities	286.3	4.2

Net cash used in operating activities for the six months ended June 30, 2022 was \$104.9 million compared to \$226.5 million of net cash used in operating activities for the six months ended June 30, 2021. The decrease in cash used in operating activities was primarily due to a decline in net loss incurred primarily as a result of a decrease in marketing expense, timing of payments and cash receipts related to reinsurance activity, and timing of premium receipts and claim payments during the six months ended June 30, 2022 compared to the same period in 2021.

Net cash used in investing activities for the six months ended June 30, 2022 was \$1.8 million, primarily due to purchases of investments and indefinite-lived intangible assets and capitalization of internally developed software, which was partially offset by sales, maturities, calls and pay downs of investments. Net cash provided by investing activities for the six months ended June 30, 2021 was \$82.6 million, primarily due to proceeds from sales, maturities, calls and pay downs of investments.

Net cash provided by financing activities for the six months ended June 30, 2022 was \$286.3 million, primarily due to proceeds from our Term Loan C. Net cash provided by financing activities for the six months ended June 30, 2021 was \$4.2 million primarily due to proceeds from employees exercising stock options, net of tax proceeds (withholding), which was partially offset by a partial repayment of long-term debt.

Material Cash Requirements from Contractual and Other Obligations

There have been no material changes to our contractual and other obligations from those described in our 2021 10-K other than entering into a \$300.0 million five-year Term Loan C. The maturity of this term loan is January 27, 2027. For additional information regarding the term loan refer to Note 7, "Long-Term Debt," in the Notes to Condensed Consolidated Financial Statements.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on our financial condition, results of operations, liquidity or cash flows.

Critical Accounting Policies and Estimates

Our financial statements are prepared in accordance with GAAP. The preparation of the consolidated financial statements in conformity with GAAP 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 reserves for loss and LAE, premium write-offs and valuation allowance on our deferred tax assets. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results could differ from those estimates.

Our critical accounting policies are described under the heading “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates,” in our 2021 10-K and the Notes to Condensed Consolidated Financial Statements appearing elsewhere in this Quarterly Report on Form 10-Q. During the six months ended June 30, 2022, there were no material changes to our critical accounting policies from those discussed in our 2021 10-K, other than the potential accounting effects resulting from net operating loss, or NOL, limitations discussed below.

We calculate the tax effects of temporary differences that give rise to deferred tax assets and deferred tax liabilities in accordance with ASC 740, *Income Taxes*. The application of ASC 740 requires a company to evaluate the recoverability of deferred tax assets and to establish a valuation allowance if necessary to reduce the carrying value of the deferred tax asset to an amount that is more likely than not to be realized. Considerable judgment is required in determining whether a valuation allowance is necessary and, if so, the amount of such valuation allowance. In evaluating the need for a valuation allowance we consider many factors, including: (1) the nature of the deferred tax assets and liabilities; (2) whether they are ordinary or capital; (3) the timing of expected reversal; (4) taxable income in prior carry back years as well as projected taxable earnings exclusive of reversing temporary differences and carry forwards; (5) the length of time that carryovers can be used; (6) unique tax rules that would impact the utilization of the deferred tax assets; and (7) any tax planning strategies that we would employ to avoid a tax benefit expiring unused.

We may be unable to fully use our NOLs, if at all. Under Section 382 of the Internal Revenue Code, or 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. The limitation may be such that it prevents the company from fully utilizing its NOLs existing at the time of the ownership change prior to their expiration, which could also result in a substantial reduction in the deferred tax asset with an offsetting reduction in the valuation allowance.

We performed an estimated ownership change analysis as of June 30, 2022 and concluded that we have experienced an ownership change. Our estimated ownership percentage by certain shareholders over the most recent rolling three-year period changed significantly and exceeded the 50% threshold. In connection with this ownership change, we do not expect the limitation under Section 382 of the Code will result in any material reduction in our ability to use pre-ownership change NOLs in the future nor require a reduction in the associated deferred tax asset or valuation allowance. We may still experience additional ownership changes in the future as a result of subsequent shifts in ownership, which could result in additional limitations on our NOL usage.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes in the quantitative and qualitative market risk disclosures included in the 2021 10-K.

Item 4. Controls and Procedures

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 Quarterly Report on Form 10-Q, 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 our disclosure controls and procedures were effective at the reasonable assurance level as of June 30, 2022.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended June 30, 2022 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitations on Effectiveness of Controls and Procedures

Our management, including our principal executive officer and principal financial officer, do not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of the controls. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with policies or procedures may deteriorate. Due to inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Part II. Other Information

Item 1. Legal Proceedings

From time to time, we are party to litigation and legal proceedings relating to our business operations. While the outcome of all legal actions is not presently determinable, except as noted in Note 11, "Commitments and Contingencies," in the Notes to Condensed Consolidated Financial Statements, we do not believe that we are party to any current or pending legal action that could reasonably be expected to have a material adverse effect on our financial condition or results of operations and cash flow.

Item 1A. Risk Factors

Except as discussed below, there have been no material changes in our risk factors from those disclosed in the 2021 10-K. In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the risk factors discussed in Part I, Item IA, “Risk Factors” in the 2021 10-K. You should not interpret the disclosure of any risk factor to imply the risk has not already materialized.

Our ability to utilize our net operating loss carryforwards may be limited.

As of December 31, 2021, we had federal income tax net operating losses, or NOLs, of approximately \$1,042.6 million available to offset our future taxable income, if any, prior to consideration of annual limitations that may be imposed under Section 382 of the Internal Revenue Code, or the Code, or otherwise. Of our federal NOLs, \$496.1 million of losses will begin to expire in tax years 2035 through 2041 and \$546.5 million of losses can be carried forward indefinitely.

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 have experienced ownership changes in the past, and 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 a future 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 Tax Cuts and Jobs Act, or the Tax Act, as modified by the Coronavirus Aid, Relief, and Economic Security Act, or the CARES Act, among other things, includes changes to U.S. federal tax rates and the rules governing NOL carryforwards. For federal NOLs arising in tax years beginning after December 31, 2017, the Tax Act as modified by the CARES Act limits a taxpayer’s ability to utilize NOL carryforwards in taxable years beginning after December 31, 2020, to 80% of taxable income. In addition, federal NOLs arising in tax years beginning after December 31, 2017 can be carried forward indefinitely, but carryback of NOLs are generally permitted to the prior five taxable years only for NOLs arising in taxable years beginning before January 1, 2021 and after December 31, 2017. Deferred tax assets for NOLs will need to be measured at the applicable tax rate in effect when the NOLs are expected to be utilized. The new limitation on use of NOLs may significantly impact our ability to utilize our NOLs to offset taxable income in the future. In addition, for state income tax purposes, there may be periods during which the use of NOLs carryforwards is suspended or otherwise limited, which could accelerate or permanently increase state taxes owed. For example, California imposed limits on the usability of California state NOLs to offset taxable income in tax years beginning after 2019 and before 2023.

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

Issuer Purchases of Equity Securities

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Maximum number of shares that may yet be purchased under the plans or programs
4/1/2022 - 4/30/2022	—	\$ —	—	—
5/1/2022 - 5/31/2022	200	\$ 2.40	—	—
6/1/2022 - 6/30/2022	667	\$ 7.25	—	—

All of the shares repurchased, as reflected in the table above, were repurchases of unvested shares of our Class A and Class B common stock that had been issued upon early exercise of stock options. Pursuant to the associated option award agreements, upon termination of employment of a person holding unvested shares, we were entitled to repurchase the unvested shares at the original exercise price.

Dividend Policy

We have never declared or paid cash dividends on our stock. We currently intend to retain all available funds and future earnings, if any, to fund the development and expansion of our business, and we do not anticipate paying any cash dividends in the foreseeable future. Any future determination regarding the declaration and payment of dividends, if any, will be at the discretion of our board of directors and will depend on then-existing conditions, including our financial condition, operating results, contractual restrictions, capital requirements, business prospects and other factors our board of directors may deem relevant.

Dividend, Repurchase and Working Capital Restrictions

We are a holding company that transacts a majority of its business through operating subsidiaries. Our regulated insurance subsidiaries are subject to restrictions on the dividends they may pay, which could impact our ability to pay dividends to stockholders in the future.

The payment of any extraordinary dividend by one of our regulated insurance subsidiaries requires the prior approval of the superintendent of the supervisory Department of Insurance, or DOI. “Extraordinary dividend” is defined under the Ohio Revised Code and Delaware Insurance Code, or Code, as: (i) any dividend or distribution of cash or other property whose fair market value, together with that of other dividends or distributions made within the preceding 12 months, exceeds the greater of (a) 10% of an insurer’s policyholder surplus as of December 31 of the preceding year, or (b) an insurer’s net income for the 12-month period ending December 31 of the preceding year or (ii) any dividend or distribution paid by an insurer from a source other than earned surplus. As of December 31, 2021, neither Root Insurance Company nor Root Property & Casualty Insurance Company were permitted to pay any dividends to us without approval of the superintendent of the supervisory DOI. See the section titled “Risk Factors—Risks Related to Our Business— Failure to maintain our risk-based capital at the required levels could adversely affect our ability to maintain regulatory authority to conduct our business,” included in the 2021 10-K.

In addition, insurance regulators have broad powers to prevent a reduction of statutory surplus to inadequate levels, and there is no assurance that dividends of the maximum amount calculated under any applicable formula would be permitted. The Ohio DOI and the Delaware DOI may in the future adopt statutory provisions more restrictive than those currently in effect.

Further, Term Loan C includes covenants that require us to maintain certain levels of liquidity and restrict us from declaring or making cash dividend or other distributions and from repurchasing our common stock outside of the ordinary course of business or in excess of certain specified limits during the term of the applicable loan agreements.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits.

(a) Exhibits.

Exhibit Number	Description of Exhibit	Incorporation by Reference				
		Form	SEC File Number	Exhibit	Filing Date	Filed Herewith
3.1	Amended and Restated Certificate of Incorporation of Root, Inc.	8-K	001-39658	3.1	October 30, 2020	
3.2	Amended and Restated Bylaws of Root, Inc.	10-Q	001-39658	3.2	August 12, 2021	
3.3	Certificate of Designations of Series A Preferred Stock, filed with the Delaware Secretary of State on October 1, 2021	8-K	001-39658	3.1	October 1, 2021	
4.1	Form of Class A common stock certificate.	S-1/A	333-249332	4.1	October 20, 2020	
4.2	Common Stock Purchase Warrants, dated as of October 1, 2021, by and between Root, Inc. and Carvana Group, LLC	8-K	001-39658	4.1	October 1, 2021	
4.3	Form of Common Stock Purchase Warrant (Tranche 1), dated January 26, 2022	8-K	001-39658	4.1	January 27, 2022	
4.4	Form of Common Stock Purchase Warrant (Tranche 2)	8-K	001-39658	4.2	January 27, 2022	
10.1#	Executive Employment Agreement with Robert Bateman	8-K	001-39658	10.1	March 23, 2022	
10.2#	Executive Employment Agreement with Matt Bonakdarpour					X
10.3§	First Amendment to Carvana Commercial Agreement, dated as of May 13, 2022					X
31.1	Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X
31.2	Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X
32.1*	Certification of Principal Executive Officer and Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.					X
101.INS	Inline XBRL Instance Document					
101.SCH	Inline XBRL Taxonomy Extension Schema Document					
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document					
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document					
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document					
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document					

§ Schedules and exhibits to this Exhibit omitted pursuant to Regulation S-K Item 601(a)(5) and (b)(10). The Company agrees to furnish supplementally a copy of any omitted schedule or exhibit to the SEC upon request.

Indicates management contract or compensatory plan.

* The certifications furnished in Exhibit 32.1 hereto are deemed to accompany this Quarterly Report on Form 10-Q and will not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, except to the extent that the registrant specifically incorporates them by reference.

EXECUTIVE EMPLOYMENT AGREEMENT

THIS EXECUTIVE EMPLOYMENT AGREEMENT (this “**Agreement**”) is made as of December 2, 2021, (the “**Effective Date**”), between Caret Holdings, Inc, a Delaware corporation (and collectively with its parents, subsidiaries, and other corporate affiliates, and its or their successors or assigns (the “**Company**”), and Matt Bonakdarpour (“**Executive**”). The Company and Executive are each referred to as a “**Party**” and collectively as the “**Parties**”.

WHEREAS, the Company wishes to offer continued employment to the Executive, and the Executive wishes to accept such offer, on the terms and conditions set forth below;

NOW, THEREFORE, in consideration of the mutual covenants contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. **Term of Employment.** The Company shall employ Executive, and Executive hereby accepts employment with the Company, upon the terms and conditions set forth in this Agreement for the period commencing as of the Effective Date, and continuing on each anniversary of the Effective Date, unless terminated earlier in accordance with Section 4 hereof (the “**Employment Period**”).

2. **Position and Duties.**

(a) **Position.** During the Employment Period, the Executive shall serve as the Chief Data Science and Analytics Officer.

(b) **Duties.** Executive shall have the normal duties, responsibilities, functions and authority customarily associated with such position and such other duties and responsibilities as may be assigned from time to time to Executive by the Chief Executive Officer of the Company or such other person as the Chief Executive Officer may designate from time to time (the “**Supervisor**”). Executive shall report to the Supervisor, and Executive shall devote Executive’s full-time energies and attention to the business and affairs of the Company. Executive shall perform Executive’s duties, responsibilities and functions to the Company hereunder in a diligent, trustworthy, professional, ethical and efficient manner and shall comply with the policies and procedures of the Company and its Affiliates and will cooperate fully with the Board of Directors of the Company (the “**Board**”) in the advancement of the best interests of the Company. Notwithstanding, Executive may engage in charitable, civic, fraternal and trade association activities that do not interfere materially with Executive’s obligations to the Company and comply with the Company’s policies. Employees may serve on the boards of directors of other organizations so long as those other companies are not in direct competition with the Company and so long as the employees’ service does not otherwise present a real or perceived conflict of interest as defined by the Company’s policies. A real or perceived conflict of interest may arise if employees serve on the boards of more than one public company or if they serve on more than two boards in total.

3. **Compensation and Benefits.**

In exchange for services rendered by the Executive hereunder, the Company shall provide the following:

(c) **Base Salary.** During the Employment Period, Executive’s base salary shall be \$500,000 per annum, or such higher amount as determined by the Company in its

discretion, as adjusted from time to time (the “**Base Salary**”), which salary shall be payable by the Company in regular installments in accordance with the Company’s general payroll practices (in effect from time to time).

(d) RSU Grants. Executive is eligible to receive additional performance grants of one million eight hundred eighty thousand dollars (\$1,880,000.00) annually in RSUs, at the discretion of the Compensation Committee of Root, Inc. (the “**Compensation Committee**”), and subject to Executive meeting performance expectations for Executive’s role. Any such grants shall be governed by the Root, Inc. 2020 Equity Incentive Plan (the “**Plan**”), as may be duly amended from time-to-time by the Root, Inc. Board of Directors.

(e) Annual Performance Bonus. In addition to the Base Salary, Executive shall be eligible to receive an annual performance bonus of up to 60% of the Base Salary (the “**Annual Bonus**”). The actual amount of Annual Bonus, if any, shall be determined by the Company in its sole discretion, and shall be based, in part, on Executive’s performance and the performance of the Company during the calendar year, as well as any other criteria the Company deems relevant. Any Annual Bonus awarded to the Executive shall be paid in accordance with the Company’s policies and practices, as in effect from time to time, but in any event, no later than March 15th of the following calendar year. Executive must be employed on the day that the Annual Bonus, if any, is paid to be eligible to receive the bonus, unless a pro rata bonus is awarded in accordance with Section 4 below.

(f) Double Trigger Change in Control. In the event that Executive’s employment with Company is terminated by Company or its successor or assigns without Cause (as defined below) or Executive resigns for Good Reason (as defined below) on account of or within one year from the date of the closing of a Change in Control (as defined below) (such period, the “**Double Trigger Period**”), the vesting and exercisability of each of the Executive’s outstanding equity awards granted pursuant to the Plan or any prior Company equity incentive plan shall be automatically vested in full.

(g) Benefits. The Executive shall be permitted during employment to participate in any group life, hospitalization or disability insurance plans, health programs, retirement plans, fringe benefit programs and similar benefits that may be available to other employees of the Company generally, on the same terms as such other employees, in each case to the extent that the Executive is eligible under the terms of such plans or programs, as may be changed from time to time by the Company or the relevant insurer or administrator.

(h) Paid Time Off. Executive shall be eligible for paid time off each year in accordance with the policies of the Company in effect, subject to the conditions as they may be established or changed from time to time by the Company’s sole discretion.

(i) Business Expenses. Subject to Section 18(d), the Company shall reimburse Executive for all reasonable business expenses incurred by Executive in the course of performing Executive’s duties and responsibilities under this Agreement, so long as Executive’s business expenses are consistent with the Company’s policies in effect from time to time with respect to travel, entertainment and other business expenses, subject to the Company’s requirements with respect to reporting and documentation of such expenses.

4. Termination of Employment During the Employment Period.

(j) Termination. During the Employment Period, this Agreement and the employment of Executive by the Company may be terminated at any time as follows:

- (i) By mutual written agreement of the Parties;

- (ii) By the Company if Executive dies or becomes Disabled;
- (iii) By the Company for Cause immediately upon notice;
- (iv) By the Company without Cause upon thirty (30) days' written notice;
- (v) By Executive for Good Reason; or

(vi) By Executive, voluntarily, at any time; provided that Executive agrees to give the Company not less than thirty (30) days written notice of Executive's resignation unless such notice period is waived by the Company.

(k) Termination Payments.

(i) Termination for Cause. If Executive's employment hereunder is terminated during the Employment Period pursuant to Sections 4(a)(iii), Executive shall be entitled to payment of:

- (A) Executive's accrued but unpaid Base Salary through the date of termination; and
- (B) any properly documented reimbursable expenses owed to Executive (clauses (A) and (B) of this Section 4(b)(i), collectively, the "**Accrued Obligations**").

(vii) Termination upon Death or Disability. If Executive's employment hereunder and the Employment are terminated during the Employment Period pursuant to Section 4(a)(ii), Executive, or his estate if applicable, shall be entitled to payment of:

- (C) Accrued Obligations;
- (D) an amount equal to the portion of the Annual Bonus, if any, to be awarded to Executive pursuant to Section 3(c) from the period beginning on January 1st of the year in which Executive's employment with the Company is terminated, through the date of such termination on a pro rata basis.

(ii) Termination by Mutual Agreement, by the Company without Cause, by Executive for Good Reason or upon Executive's Resignation. If Executive's employment hereunder and the Employment Period are terminated during the Employment Period pursuant to Sections 4(a)(i), (iv), (v) or (vi), Executive shall be entitled to the following:

- (E) payment of Accrued Obligations;
- (F) an amount equal to twelve (12) months of Executive's per annum Base Salary as of the date of termination (the "**Severance**");
- (G) an amount equal to the portion of the Annual Bonus, if any, to be awarded to Executive pursuant to Section 3(c) from the period beginning on January 1st of the year in which Executive's

employment with the Company is terminated, through the date of such termination on a pro rata basis;

- (H) if Executive timely elects continued coverage under COBRA for Executive and Executive's covered dependents under the Company's group health plans following such termination or resignation of employment, then the Company shall (in the Company's discretion) pay directly or reimburse Executive for the payment of the COBRA premiums necessary to continue Executive's health insurance coverage in effect for Executive and Executive's eligible dependents on the Separation from Service date until the earliest of (A) the 12-month period following the termination of Executive's employment, (B) the expiration of Executive's eligibility for the continuation coverage under COBRA, or (C) the date when Executive becomes eligible for substantially equivalent health insurance coverage in connection with new employment or self-employment (such period from the termination date through the earliest of (A) through (C), the "COBRA Payment Period"). Notwithstanding the foregoing, if the Company determines, in its sole discretion, that the payment of the COBRA premiums could result in a violation of the nondiscrimination rules of Section 105(h)(2) of Section 409A of the Internal Revenue Code (the "Code") or any statute or regulation of similar effect (including but not limited to the 2010 Patient Protection and Affordable Care Act, as amended by the 2010 Health Care and Education Reconciliation Act), then in lieu of providing the COBRA premiums, the Company, in its sole discretion, may elect to instead pay Executive on the first day of each month of the COBRA Payment Period, a fully taxable cash payment equal to the COBRA premiums for that month, subject to applicable tax withholdings (such amount, the "Special Severance Payment"), for the remainder of the COBRA Payment Period. Executive may, but is not obligated to, use such Special Severance Payment toward the cost of COBRA premiums. If Executive becomes eligible for coverage under another employer's group health plan or otherwise ceases to be eligible for COBRA during the period provided in this clause, Executive must immediately notify the Company of such event, and all payments and obligations under this clause shall cease; and
- (I) If Executive's employment hereunder and the Employment Period are terminated during the Employment Period pursuant to Sections 4(a)(i), (iv), or (v) (and, for the avoidance of doubt, not pursuant to Section 4(a)(vi)), the Company shall accelerate the vesting of any then-unvested Company equity awards then held by Executive such that as of Executive's date of termination, Executive will be deemed vested in those equity awards that would have vested had Executive remained employed with the Company for an additional 12 months.

The amounts described in clauses (B), (C) and (E) of this Section 4(b)(iii) will be paid in a lump sum within sixty (60) days following the date of termination, provided that Executive (or, in the event of Executive's death, Executive's estate) has executed and delivered to the Company not later than thirty (30) calendar days following the date of termination a waiver and release of

claims in the form provided by the Company to Executive (or, in the event of Executive's death, Executive's estate) after Executive's termination (the "General Release") and the latest date on which the General Release is subject to revocation has expired. The Accrued Obligations shall be paid no later than as required by law or within thirty (30) days following the date of termination, whichever occurs earlier. As to any amount described in clause (B) or (C) or (E) of this Section 4(b)(iii) that constitutes "nonqualified deferred compensation" within the meaning of Code Section 409A and the regulations and guidance promulgated thereunder (collectively, "**Section 409A**"), if the sixty (60) day period begins in one calendar year and ends in a second (2nd) calendar year, payment shall always be paid in the second (2nd) calendar year. All payments of amounts described in clauses (B), (C) and (E) of this Section 4(b)(iii) are subject to clawback by the Company in the event of any knowing breach by Executive of the provisions of Sections 5, 6, 7, 8, 20 or 21 hereof. Such clawback shall apply to payments that would have been made to Executive after the date of a proven breach had payments been made monthly rather than in a lump sum.

(a) Limitation on Payments Hereunder. Except as otherwise expressly provided herein, Executive shall not be entitled to any other salary, bonuses, employee benefits, or compensation from the Company, its Affiliates, or Subsidiaries after the termination of the Employment Period, and all of Executive's rights to salary, bonuses, employee benefits, and other compensation hereunder which would have accrued or become payable after the termination of the Employment Period (other than vested retirement benefits accrued on or prior to the termination of the Employment Period or other amounts owing hereunder as of the date of such termination that have not yet been paid) shall cease upon such termination, other than those expressly required under applicable law (including the those under Title I, Part VI, of the Employee Retirement Income Security Act of 1974, as amended, and Section 4980B of the Code).

(b) Offsets. The Company may offset any amounts Executive owes to Company or any of its Affiliates or Subsidiaries against any amounts the Company owes Executive hereunder, to the extent permitted by Section 409A.

(c) Notice Period. During the period following delivery of notice of the Executive's termination, whether voluntarily by the Executive or by the Company without Cause pursuant to Section 4(a), and prior to the effective date of the Executive's termination, the Company may, in its sole discretion: (i) require the Executive to perform only such duties as it may allocate to the Executive; (ii) require the Executive not to perform any of the Executive's duties; (iii) to the extent practical given the Company's requirements under subsection (i) above, require the Executive not to have any contact with employees, clients or vendors of the Company as the Company shall determine; and (iv) exclude the Executive from the Company premises.

(d) Payment in Lieu of Notice. The Company may, at its absolute discretion, when terminating the Executive's employment without Cause pursuant to Sections 4(a)(iv), elect to notify the Executive in writing that it is exercising its right to dismiss the Executive with immediate effect and that it will be making a payment to the Executive in lieu of notice. The Company's payment in lieu of notice shall be equivalent to the Base Salary which would have been payable or have accrued during the Executive's notice period.

(e) Resignation Upon Termination. Upon termination of the Executive's employment for any reason, the Executive agrees and covenants that the Executive shall immediately tender a resignation to the Company for any position held by the Executive as an officer of Root, Inc. or any of its Subsidiaries or Affiliates or as a member of the board of directors or any committee thereof of Root, Inc. or any of its Subsidiaries or Affiliates.

5. Proprietary Information and Trade Secrets.

(a) Proprietary Information and Invention Agreement. Executive understands and acknowledges that during the course of employment by the Company, the Executive will have access to and learn about Proprietary Information and trade secrets (“Proprietary Information”) as outlined and defined in Executive’s Proprietary Information and Invention Agreement (“PII Agreement”, incorporated throughout this Agreement). Executive agrees that upon termination of employment, Executive’s obligations under the PII Agreement continue where applicable and that Executive must return all such Proprietary Information as outlined in the PII Agreement.

(b) Non-Use and Non-Disclosure. Executive agrees that during employment with the Company, Executive will not improperly use, disclose, or induce the Company to use, any proprietary information or trade secrets of any former or concurrent employer or other person or entity. Executive further agrees that Executive will not bring onto the premises of the Company or transfer onto the Company’s technology systems any unpublished document, proprietary information or trade secrets belonging to any such employer, person or entity unless consented to in writing by both the Company and such employer, person or entity.

(c) Permitted Governmental Disclosures. The federal Defend Trade Secrets Act of 2016 immunizes employees against criminal and civil liability under federal or state trade secret laws – under certain circumstances – if Executive discloses a trade secret for the purpose of reporting a suspected violation of law. Pursuant to such Act, immunity is available if Executive discloses a trade secret in either of these two circumstances: (1) Executive discloses the trade secret (a) in confidence, (b) directly or indirectly to a government official (federal, state or local) or to a lawyer, (c) solely for the purpose of reporting or investigating a suspected violation of law; or (2) in a legal proceeding, Executive discloses the trade secret in the complaint or other documents filed in the case, so long as the document is filed “under seal” (meaning that it is not accessible to the public). Further, nothing in this Employment Agreement prohibits Executive from reporting possible violations of federal law or regulation to any governmental agency or entity, including but not limited to the Department of Justice, the Securities and Exchange Commission, Congress, and any federal Inspector General, or from making other disclosures that are protected under the whistleblower provisions of federal law or regulation. Executive does not need prior authorization to make any such reports or disclosures and is not required to notify the Company or the Board that he has made such reports or disclosures.

(d) Third Party Information. Executive understands that the Company will receive from third parties confidential or proprietary information (“**Third Party Information**”) subject to a duty on the Company’s part to maintain the confidentiality of such information and to use it only for certain limited purposes. During the Employment Period and thereafter, and without in any way limiting the provisions of Section 5(a) above, Executive shall hold Third Party Information in the strictest confidence and will not disclose to anyone (other than personnel of the Company or its Subsidiaries and Affiliates who need to know such information in connection with their work for the Company or such Subsidiaries and Affiliates) or use, except in connection with Executive’s work for the Company, Third Party Information unless expressly authorized by a member of the Board in writing.

6. Non-Compete; Non-Solicitation

(a) Non-Competition. In further consideration of the compensation to be paid to Executive hereunder, Executive acknowledges that during the course of Executive’s employment with the Company and Affiliates he has and shall become familiar with the Company’s and its Affiliates’ corporate strategy, pricing, processes, and other market and financial information, know-how, trade secrets, and valuable customer, supplier, and employee relationships, and with other Proprietary Information and trade secrets contained herein and in

Executive's PII Agreement concerning the Company and its Affiliates, and that Executive's services have been and shall be of special, unique, and extraordinary value to the Company and its Subsidiaries and Affiliates. Accordingly, Executive agrees not to engage in the Restricted Activities during Executive's employment with the Company and for 12 months after the termination of Executive's employment for any reason.

Notwithstanding anything to the contrary in this Agreement, Executive may, directly or indirectly, own, solely as an investment, securities of any person or entity engaged in the business of the Company which are publicly traded on a national or regional stock exchange or on the over-the-counter market if Executive (i) is not a controlling person of, or a member of a group which controls, such person or entity and (ii) does not, directly or indirectly, own 5% or more of any class of securities of such person or entity.

This Section does not, in any way, restrict or impede the Executive from exercising protected rights to the extent that such rights cannot be waived by agreement or from complying with any applicable law or regulation or a valid order of a court of competent jurisdiction or an authorized government agency, provided that such compliance does not exceed that required by the law, regulation, or order.

(b) Non-Solicitation of Employees. The Executive agrees and covenants not to directly or indirectly through another person (i) induce or attempt to induce any employee of the Company to leave the employ of the Company or in any way interfere with the relationship between the Company and any employee, contractor or consultant thereof, or (ii) knowingly hire any person who was an employee of the Company at any time during the twelve (12) months prior to the termination of employment. This obligation, however, shall not affect any responsibility Executive may have as an employee of the Company with respect to the bona fide hiring and firing of Company personnel. This Section 6(b) shall apply during Executive's employment with the Company and for 12 months after the termination of Executive's employment for any reason

(c) Non-solicitation of Current and/or Prospective Customers. The Executive agrees and covenants not to directly or indirectly through another person (i) induce or encourage any vendor, supplier, customer, or Prospective Customer of the Company to cease doing business with or reduce its business with the Company or in any way interfere with the relationship between the Company and such vendor, supplier, customer or Prospective Customer (including by making disparaging remarks about the Company) or (ii) provide to such customers or Prospective Customers products and/or services similar to or competitive with those offered by the Company.

(d) Reformation. If, at the time of enforcement of this Section 6, a court shall hold that the duration, scope, or area restrictions stated herein are unreasonable under circumstances then existing, the parties agree that the maximum duration, scope, or area reasonable under such circumstances shall be substituted for the stated duration, scope, or area and that the court shall be allowed to revise the restrictions contained herein to cover the maximum period, scope, and area permitted by law.

(e) Executive's Acknowledgements. Executive acknowledges that Executive has carefully read this Agreement and has given careful consideration to the restraints imposed upon Executive by this Agreement, and is in full accord as to the necessity of such restraints for the reasonable and proper protection of the Proprietary Information, business strategies, employee and customer relationships, and goodwill of the Company and its Subsidiaries and Affiliates now existing or to be developed in the future. Executive expressly acknowledges and

agrees that each and every restraint imposed by this Agreement is reasonable with respect to subject matter, time period, and geographical area. Executive further acknowledges that although Executive's compliance with the covenants contained in Sections 5, 6 or 7 may prevent Executive from earning a livelihood in a business similar to the business of the Company, Executive's experience and capabilities are such that Executive has other opportunities to earn a livelihood and adequate means of support for Executive and Executive's dependents.

7. Enforcement. Because Executive's services are unique and because Executive has access to Proprietary Information and Work Product, the parties agree that the Company and its Subsidiaries and Affiliates will suffer irreparable harm from a breach or threatened breach of Sections 4, 5, 6, 8, 20 or 21 by Executive and that money damages would not be an adequate remedy for any such breach or threatened breach of this Agreement. In the event of any breach or threatened breach of this Agreement, the Company and its Subsidiaries and Affiliates, in addition to other rights and remedies existing in their favor, shall be entitled to specific performance and/or injunctive or other equitable relief from a court of competent jurisdiction in order to enforce, or prevent any violations of, the provisions hereof (without posting a bond or other security). In addition, in the event of an alleged breach of violation by Executive of Section 6, the Non-Compete Period and the Non-Solicit Period shall be extended automatically by the amount of time between the initial occurrence of the breach or violation and when such breach or violation has been duly cured.

8. Executive's Representations. Executive hereby represents and warrants to the Company that (a) the execution, delivery, and performance of this Agreement by Executive do not and shall not conflict with, breach, violate, or cause a default under any contract, agreement, instrument, order, judgment, or decree to which Executive is a party or by which Executive is bound; (b) Executive is not a party to or bound by any employment agreement, noncompete agreement, or confidentiality agreement with any other Person that would prohibit Executive's employment with the Company or restrict Executive's ability to fully perform Executive's duties for the Company; (c) upon the execution and delivery of this Agreement by the Company, this Agreement shall be the valid and binding obligation of Executive, enforceable in accordance with its terms; and (d) Executive is not subject to any pending, or to his knowledge any threatened, lawsuit, action, investigation, or proceeding involving Executive's prior employment or consulting work or the use of any information or techniques of any former employer or contracting party. Executive hereby acknowledges and represents that he has consulted with independent legal counsel regarding Executive's rights and obligations under this Agreement and that Executive fully understands the terms and conditions contained herein.

9. Survival. Sections 5 through 22 shall survive and continue in full force in accordance with their terms notwithstanding the termination of the Employment Period and this Agreement.

10. Notices. Any notice provided for in this Agreement shall be in writing and shall be either personally delivered, sent by reputable overnight courier service, or mailed by first class mail, return receipt requested, to the recipient at the address below indicated:

Notices to Executive:

Matt Bonakdarpour
[Address on file with
Company]

Notices to the Company:

Root, Inc.
80 E Rich St Suite 500
Columbus, Ohio 43215
Attention: Jon Allison, General Counsel (or equivalent)
Email: legal@joinroot.com

or such other address or to the attention of such other Person as the recipient party shall have specified by prior written notice to the sending party. Any notice under this Agreement shall be deemed to have been given when so delivered, sent, or mailed.

11. Severability. Whenever possible, each provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement is held to be invalid, illegal, or unenforceable in any respect under any applicable law or rule in any jurisdiction, such invalidity, illegality, or unenforceability shall not affect any other provision of this Agreement or any action in any other jurisdiction, but this Agreement shall be reformed, construed, and enforced in such jurisdiction as if such invalid, illegal, or unenforceable provision had never been contained herein.

12. Complete Agreement. This Agreement, together with the Proprietary Information and Invention Agreement signed by Executive, sets forth the entire agreement and understanding between the Company and Executive relating to the subject matter of this Agreement and supersedes all prior discussions or representations. This Agreement does not alter or modify any Company policies, procedures, or employment handbooks signed on or before the effective date of this Agreement. No modification of or amendment to this Agreement, nor any waiver of any rights under this Agreement, will be effective unless in writing signed by the General Counsel or Chief Executive Officer of the Company and Executive. Any subsequent change or changes in Executive's duties, salary, or compensation will not affect the validity or scope of this Agreement.

13. No Strict Construction. The language used in this Agreement shall be deemed to be the language chosen by the parties hereto to express their mutual intent, and no rule of strict construction shall be applied against any party.

14. Counterparts. This Agreement may be executed in separate counterparts (including by means of pdf signature page), each of which is deemed to be an original, and all of which taken together constitute one and the same agreement.

15. Successors and Assigns. This Agreement, including the covenants in paragraph 4 above, will be binding upon and inure to the benefit of (i) the Company and its successors and assigns, by merger or otherwise, and (ii) the Executive and the Executive's heirs and personal representatives. This Agreement is not assignable by the Executive. The Company may unilaterally assign its rights and obligations under this Agreement to any successor to Company's rights and obligations hereunder as a result of any change in control, merger, consolidation, restructuring or reorganization or to any other successor to all or substantially all of the securities, business and/or assets of the Company or any of its Affiliates, and Executive shall continue to be bound by the terms and conditions of this Agreement. In connection with any such assignment by Company, following such assignment, references to "Company" in this Agreement, shall mean the successor to all or substantially all of the securities, business and/or assets of Company or any of its Affiliates to whom this Agreement is assigned.

16. Choice of Law and Choice of Forum. All issues and questions concerning the construction, validity, enforcement, and interpretation of this Agreement and the exhibits and schedules hereto shall be governed by, and construed in accordance with, the laws of the State of Ohio, without giving effect to any choice of law or conflict of law rules or

provisions (whether of the State of Ohio or any other jurisdiction) that would cause the application of the laws of any jurisdiction other than the State of Ohio. Jurisdiction and venue of any dispute, action or proceeding relating to this Agreement, the employment of Executive, the termination of Executive's employment, or the validity, interpretation, performance, breach or termination of the Agreement shall be exclusively in the state or federal court located in Franklin County, Ohio.

17. Amendment and Waiver. The provisions of this Agreement may be amended or waived only with the prior written consent of the Company (as approved by the Board) and Executive, and no course of conduct or course of dealing or failure or delay by any party hereto in enforcing or exercising any of the provisions of this Agreement (including, without limitation, the Company's right to terminate the Employment Period with or without Cause) shall affect the validity, binding effect, or enforceability of this Agreement or be deemed to be an implied waiver of any provision of this Agreement.

18. Tax Matters; Code Section 409A.

(e) The Company and its respective Subsidiaries and Affiliates shall be entitled to report such income and deduct or withhold from any amounts owing from the Company or any of its Subsidiaries or Affiliates to Executive any federal, state, local, or foreign withholding taxes, excise tax, or employment taxes ("Taxes") imposed with respect to Executive's compensation or other payments and benefits from the Company or any of its Subsidiaries or Affiliates (including, without limitation, wages and bonuses). In the event the Company or any of its Subsidiaries or Affiliates does not make such deductions or withholdings, Executive shall indemnify the Company and its Subsidiaries and Affiliates for any amounts paid with respect to any such Taxes, together (if such failure to withhold was at the written direction of Executive) with any interest, penalties, and related expenses thereto.

(f) The intent of the parties is that payments and benefits under this Agreement comply with Section 409A; and, accordingly, to the maximum extent permitted, this Agreement shall be interpreted to be in compliance therewith. In no event whatsoever shall the Company or any of its Subsidiaries or Affiliates be liable for any additional tax, interest, or penalty that may be imposed on the Executive by Section 409A or damages for failing to comply with Section 409A with respect to this Agreement or otherwise.

(g) Notwithstanding the foregoing, a termination of employment shall not be deemed to have occurred for purposes of any provision of this Agreement providing for the payment of any amounts or benefits upon or following a termination of employment unless such termination is also a "separation from service" within the meaning of Section 409A and, for purposes of any such provision of this Agreement, references to a "termination," "termination of employment" or like terms shall mean "separation from service." Notwithstanding anything to the contrary in this Agreement, if Executive is deemed on the date of termination to be a "specified employee" within the meaning of that term under Section 409A(a)(2)(B), then with regard to any payment or the provision of any benefit that is considered "nonqualified deferred compensation" under Section 409A payable on account of a "separation from service," such payment or benefit shall not be made or provided until the date which is the earlier of (A) the expiration of the six (6)-month period measured from the date of such "separation from service" of Executive, and (B) the date of Executive's death, to the extent required under Section 409A. Upon the expiration of the foregoing delay period, all payments and benefits delayed pursuant to this Section 19(c) (whether they would have otherwise been payable in a single sum or in installments in the absence of such delay) shall be paid or reimbursed to Executive in a lump sum, without interest, and any remaining payments and benefits due under this Agreement shall be paid or provided in accordance with the normal payment dates specified for them herein.

(h) To the extent that reimbursements or other in-kind benefits under this Agreement constitute “nonqualified deferred compensation” for purposes of Section 409A, (A) all such expenses or other reimbursements hereunder shall be made on or prior to the last day of the taxable year following the taxable year in which such expenses were incurred by Executive; (B) any right to such reimbursement or in-kind benefits shall not be subject to liquidation or exchange for another benefit; and (C) no such reimbursement, expenses eligible for reimbursement, or in-kind benefits provided in any taxable year shall in any way affect the expenses eligible for reimbursement, or in-kind benefits to be provided, in any other taxable year.

(i) For purposes of Section 409A, Executive’s right to receive any installment payments pursuant to this Agreement shall be treated as a right to receive a series of separate and distinct payments. Whenever a payment under this Agreement specifies a payment period with reference to a number of days, the actual date of payment within the specified period shall be within the sole discretion of the Company, to the extent permitted under Section 409A.

(j) Notwithstanding any other provision of this Agreement to the contrary, in no event shall any payment under this Agreement that constitutes “nonqualified deferred compensation” for purposes of Section 409A be subject to offset by any other amount unless otherwise permitted by Section 409A.

19. Waiver of Jury Trial. AS A SPECIFICALLY BARGAINED FOR INDUCEMENT FOR EACH OF THE PARTIES HERETO TO ENTER INTO THIS AGREEMENT (AFTER HAVING THE OPPORTUNITY TO CONSULT WITH COUNSEL), EACH PARTY HERETO EXPRESSLY WAIVES THE RIGHT TO TRIAL BY JURY IN ANY LAWSUIT OR PROCEEDING RELATING TO OR ARISING IN ANY WAY FROM THIS AGREEMENT OR THE MATTERS CONTEMPLATED HEREBY.

20. Corporate Opportunity. Executive shall submit to the Company all material business, commercial, and investment opportunities or offers presented to Executive, or of which Executive becomes aware, at any time during the Employment Period or any period of at-will employment, which opportunities relate to the Company’s business (“**Corporate Opportunities**”). Unless approved by the Board, during the Employment Period or any period of at-will employment, Executive shall not accept or pursue, directly or indirectly, any Corporate Opportunities on Executive’s own behalf or for Executive’s personal benefit or for the benefit of any Person other than the Company.

21. Executive’s Cooperation. During the Employment Period and thereafter, Executive shall reasonably cooperate with the Company and its Subsidiaries and Affiliates in any internal investigation or administrative, regulatory, or judicial proceeding as reasonably requested by the Company or any Subsidiary or Affiliate (including, without limitation, Executive’s being available to the Company and its Subsidiaries and Affiliates upon reasonable notice for interviews and factual investigations, appearing at the Company’s or any Subsidiary’s or Affiliate’s request to give truthful and accurate testimony without requiring service of a subpoena or other legal process, volunteering to the Company and its Subsidiaries and Affiliates all pertinent information and turning over to the Company and its Subsidiaries and Affiliates all relevant documents which are or may come into Executive’s possession, all at times and on schedules that are reasonably consistent with Executive’s other permitted activities and commitments). In the event the Company or any Subsidiary or Affiliate requires Executive’s cooperation in accordance with this section, the Company shall pay Executive a per diem reasonably determined by the Board and reimburse Executive for reasonable expenses incurred in connection therewith (including reasonable transportation, lodging and meals, upon submission of receipts).

22. **Legal Advice.** The Executive acknowledges that he is entering into this Agreement of Executive's own accord and without coercion or pressure of any kind from the other party or from any third person and that he or she has been given the opportunity to obtain independent legal advice in connection with this Agreement.

23. **Definitions.**

(f) **Certain Definitions.** For purposes of this Agreement, the following definitions shall apply:

(i) **"Affiliate"** shall mean, any employer with which the Company would be considered a single employer under Section 414(b) or 414(c) of the Code (as defined below), applied using fifty percent (50%) as the percentage of ownership required under such Code sections, including (i) any Person (as defined below), any other Person directly or indirectly controlling, controlled by or under direct or indirect common control with, such specified Person and (ii) any Person that is a natural Person, the spouse, ancestors, or lineal descendants of such Person, any limited partnership or limited liability company controlled by such Person or such Person's spouse, ancestors, or lineal descendants or in which such Person or such Person's spouse, ancestors, or lineal descendants hold a majority interest, any trust established for the benefit of any of them and such Person's estate or legal representative.

(ii) **"Cause"** shall mean, with respect to Executive, one or more of the following: (i) commission of, or conviction of, a felony or a crime involving moral turpitude; (ii) commission of an act or omission to act with respect to the Company or any of its Affiliates or Subsidiaries or any of their customers or suppliers involving dishonesty, disloyalty, or fraud; (iii) conduct that brings or is reasonably likely to bring the Company or its Affiliates or Subsidiaries into public disgrace or disrepute; (iv) repeated failure to perform duties as reasonably directed by the Board; (v) gross negligence or willful misconduct with respect to the Company or any of its Affiliates or Subsidiaries; (vi) material breach of the Company's Code of Conduct as amended from time to time; (vii) any material breach by Executive of Section 4, 5, 6, 8, 20 or 21 of this Agreement; or (viii) the Executive relocates from the Company's principal office by more than fifty (50) miles without written Company approval. With respect to subsection (iv) herein, "Cause" shall only exist if Executive fails to cure the alleged infraction within thirty (30) days of receiving written notice from the Company; and if Executive remedies the condition within such thirty (30) day cure period, then no Cause shall be deemed to exist with respect to such condition.

(iii) **"Change in Control"** shall have the meaning ascribed in the Root, Inc. 2020 Equity Incentive Plan. For the avoidance of doubt, Caret Holdings, Inc. shall not be substituted for Root, Inc. in the definition of "Company" in such context.

(iv) **"Code"** shall mean the Internal Revenue Code of 1986, as amended.

(v) **"Disabled"** shall mean Executive's incapacity due to physical or mental illness or Executive is considered disabled under the Company's long-term disability insurance plans.

(vi) **“Good Reason”** shall mean, with respect to Executive’s resignation from employment, one or more of the following occurring: (i) a material reduction in Executive’s Base Salary or any other reduction in Executive’s Base Salary that is not otherwise uniformly applied to similarly situated employees; (ii) a material diminution in Executive’s duties, responsibilities or authority (provided that a change of Executive’s Supervisor shall not constitute a material reduction in job responsibilities, duties or authority); (iii) a material breach of this Employment Agreement by the Company; or (iv) the relocation of Executive’s principal office by more than fifty (50) miles. “Good Reason” shall only exist if the Executive provided written notice to the Company within sixty (60) days of the initial existence of the condition, describing the existence of such condition, and the Company shall thereafter have the right to remedy the condition within thirty (30) days of the date the Company received the written notice from the Executive. If the Company remedies the condition within such thirty (30) day cure period, then no Good Reason shall be deemed to exist with respect to such condition. If the Company fails to cure the alleged infraction within thirty (30) days of receiving written notice from Executive, then the Executive may deliver a notice of termination for Good Reason at any time within sixty (60) days following the expiration of such cure period.

(vii) **“Person”** shall mean any natural person, corporation, partnership (whether general or limited), limited liability company, association, custodian, nominee, trust, estate, joint venture, governmental authority, or other individual or entity.

(viii) **“Prospective Customer”** shall mean any prospect with whom Executive or a representative of Company for which Executive was aware has engaged in discussions to do business with the Company within the last twelve (12) months of Executive’s employment.

(ix) **“Restricted Activities”** shall mean activity in which the Executive contributes the Executive’s knowledge, directly or indirectly, in whole or in part, as an employee, employer, owner, operator, manager, advisor, consultant, contractor, agent, partner, director, stockholder, officer, volunteer, intern, or any other similar capacity to an entity, within the Restricted Territory, that is (1) a property and casualty insurance company offering products that are the same or similar to the Company; or (2) an entity doing or intending to do business with a property and casualty insurance company; and either (1) or (2) is engaged in the activity of implementing the framework for and/or processing telematics sensor data for the construction of predictive and/or explanatory signals related to behavior of an individual and/or motion of a vehicle while driving for use in insurance underwriting, rating or claims handling. Restricted Activity also includes activity that may require or inevitably require disclosure of trade secrets or Proprietary Information as defined in this Agreement or in the PII Agreement.

(x) **“Restricted Territory”** shall mean the United States because the type of work Executive is engaged can be performed, shared, utilized, developed, bought, sold, or accessed from anywhere to anywhere, in person or remotely.

(xi) **“Subsidiary”** shall mean, with respect to any Person, any corporation, partnership, limited liability company, association, joint venture, or other business entity of which more than fifty percent (50%) of the total voting power of shares of stock or other ownership interests entitled (without regard to

the occurrence of any contingency) to vote in the election of the Person (or, in the case of a partnership, limited liability company, or other similar entity, control of the general partnership, managing member, or similar interests) or Persons (whether directors, managers, trustees, or other Persons performing similar functions) having the power to direct or cause the direction of the management and policies thereof is at the time owned or controlled, directly or indirectly, by that Person or one or more of the other Subsidiaries of that Person or a combination thereof.

* * *

IN WITNESS WHEREOF, the parties hereto have executed this Employment Agreement effective as of the date first written above but signed on the date(s) indicated below.

CARET HOLDINGS, INC.

By: /s/ Alexander Timm

Name: Alexander Timm

Title: Chief Executive Officer

Date: 12/15/2021

Matt Bonakdarpour

Date: 12/7/2021

/s/ Matt Bonakdarpour

**FIRST AMENDMENT TO THE PARTIES'
COMMERCIAL AGREEMENT**

This First Amendment to the Commercial Agreement (“Amendment”) is entered into and effective this 13th day of May, 2022 (the “Effective Date”), by and between Caret Holdings, Inc. (“Company”), Carvana, LLC (“Dealer”), Carvana Insurance Services, LLC (“CIS”), and Carvana Group, LLC (“Parent”) (collectively, the entities Parent, CIS, and Dealer shall be referred to as “Carvana”). Carvana and Company shall be referred to as the Parties, and each a Party.

WHEREAS, Carvana and Company entered into the Commercial Agreement dated October 1, 2021, as amended or modified from time to time (the “Agreement”); and

WHEREAS, Carvana and Company wish to modify the Agreement to provide for the amended terms and conditions, as described herein.

NOW, THEREFORE, in consideration of the promises, mutual covenants, and agreements as described in the Agreement and this Amendment, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties hereto agree as follows:

1. Schedule 2 to the Commercial Agreement

The original Schedule 2 to the Commercial Agreement shall be deleted in its entirety, and replaced with a revised and amended Schedule 2 which is attached hereto as Exhibit A.

2. Schedule 3.1 to the Commercial Agreement

The defined term for “Attributable Auto Policies” set forth in Schedule 3.1 of the Commercial Agreement shall be deleted in its entirety and replaced with the following revised defined term:

“Attributable Auto Policies” means the number of new Company Policies, for which the policies have become effective, excluding brokered automobile insurance policies, attributed to Carvana in a given calendar month pursuant to Section 1(a) of Schedule 3. If a Carvana Customer returns their vehicle to Carvana and cancels their Company policy within seven (7) calendar days of the return of said vehicle to Carvana, that policy does not count towards Attributable Auto Policies.

3. Schedule 5 to the Commercial Agreement

Section 6 of Schedule 5 to the Commercial Agreement (Agency Agreement) shall be deleted in its entirety and replaced with the following:

“To the extent CIS possesses or otherwise stores, processes, or transmits cardholder data on behalf of Company, or to the extent that CIS could impact the security of Company's

cardholder data environment, CIS acknowledges responsibility for reasonably securing such data, which in no event shall be less than industry standard. CIS will provide materials and/or affirmations to Company demonstrating compliance, to the extent relevant, with the most current version of Payment Card Industry (PCI) Data Security Standard (DSS) published by the PCI Security Standards Council (PCI SSC), as may be applicable to or required of CIS as Company's service provider to assist with Company's provision of evidence of PCI DSS compliance. If CIS becomes aware that CIS, Agents, or Sub-Producers is not, or will not likely be, in compliance with applicable PCI DSS requirements, or CIS's materials and/or affirmations related thereto, for any reason, CIS will report in writing to Company within one (1) calendar day the non-compliance or likely non-compliance.”

[Signature page to follow]

IN WITNESS WHEREOF, the Parties acknowledge their receipt, review, understanding, and acceptance of this Addendum, effective as of the Effective Date.

Caret Holdings, Inc.

By: Daniel Rosenthal

By: /s/ Daniel Rosenthal

Name: Daniel Rosenthal

Title: CROO

Date: 5/17/2022

Carvana, LLC

By: Paul Breaux

By: /s/ Paul Breaux

Name: Paul Breaux

Title: General Counsel

Date: 5/13/2022

Carvana Insurance Services, LLC

By: Paul Breaux

By: /s/ Paul Breaux

Name: Paul Breaux

Title: General Counsel

Date: 5/13/2022

Carvana Group, LLC

By: Paul Breaux

By: /s/ Paul Breaux

Name: Paul Breaux

Title: General Counsel

Date: 5/13/2022

**Certification of Chief Executive Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Alexander Timm, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Root, 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: August 8, 2022

/s/ Alexander Timm

Alexander Timm

Chief Executive Officer and Director

(Principal Executive Officer)

**Certification of Chief Financial Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Robert Bateman, certify that:

- 1 I have reviewed this quarterly report on Form 10-Q of Root, 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: August 8, 2022

/s/ Robert Bateman

Robert Bateman

Chief Financial Officer

(Principal Financial Officer)

**Certification of Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

Pursuant to the requirements set forth in Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and Section 1350 of Chapter 63 of Title 18 of the United States Code ("18 U.S.C. 1350"), Alexander Timm, Chief Executive Officer of Root, Inc. (the "Company") and Robert Bateman, Chief Financial Officer of the Company, each hereby certifies that, to the best of his knowledge:

- 1 The Company's Quarterly Report on Form 10-Q for the period ended June 30, 2022 to which this certification is attached as Exhibit 32.1 (the "Periodic Report"), fully complies with the requirements of Section 13(a) or Section 15(d) of the Exchange Act; and
- 2 The information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 8, 2022

/s/ Alexander Timm

Alexander Timm

Chief Executive Officer and Director

(Principal Executive Officer)

/s/ Robert Bateman

Robert Bateman

Chief Financial Officer

(Principal Financial Officer)

This certification accompanies this Quarterly Report on Form 10-Q. The certification is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of Root, Inc. under the Securities Act of 1933, as amended, or the Exchange Act, whether made before or after the date of this Quarterly Report on Form 10-Q, irrespective of any general incorporation language contained in any such filing.