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 September 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	**84-2717903**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**
80 E. Rich Street, Suite 500 Columbus, Ohio	**43215**
(Address of principal executive offices)	**(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 ☒	Accelerated filer ☐
Non-accelerated filer ☐	Smaller reporting company ☐
	Emerging growth company ☐

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

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

As of November 2, 2022, the number of outstanding shares of the registrant's Class A common stock, par value $0.0001 per share, was 9.1 million and the number of outstanding shares of the registrant's Class B common stock, par value $0.0001 per share, was 5.0 million.

TABLE OF CONTENTS

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;
- 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;
- 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 ability to reduce operating losses and extend our capital runway;
- 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 efficiently or at all;
- 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;
- the impact of the COVID-19 pandemic and governmental responses thereto on our business and financial condition;
- our ability to attract, motivate and retain key personnel, or hire personnel, 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	
	September 30, 2022	December 31, 2021
	(in millions, except par value)	
Assets		
Investments:		
Fixed maturities available-for-sale, at fair value (amortized cost: $126.6 and $129.5 at September 30, 2022 and December 31, 2021, respectively)	$ 119.7	$ 129.9
Short-term investments (amortized cost: $0.4 and zero at September 30, 2022 and December 31, 2021, respectively)	0.4	—
Other investments	4.4	4.7
Total investments	124.5	134.6
Cash and cash equivalents	819.7	706.0
Restricted cash	1.0	1.0
Premiums receivable, net of allowance of $3.3 and $5.4 at September 30, 2022 and December 31, 2021, respectively	129.9	148.1
Reinsurance recoverable and receivable, net of allowance of $0.1 and $0.2 at September 30, 2022 and December 31, 2021, respectively	136.0	155.0
Prepaid reinsurance premiums	86.2	100.8
Other assets	86.9	73.8
Total assets	$ 1,384.2	$ 1,319.3
Liabilities, Redeemable Convertible Preferred Stock and Stockholders' Equity		
Liabilities:		
Loss and loss adjustment expense reserves	$ 294.2	$ 320.2
Unearned premiums	157.3	180.1
Long-term debt and warrants	293.9	—
Reinsurance premiums payable	110.4	101.6
Accounts payable and accrued expenses	40.1	29.1
Other liabilities	45.4	39.9
Total liabilities	941.3	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 September 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, 9.1 and 7.9 shares issued and outstanding at September 30, 2022 and December 31, 2021, respectively(1)	—	—
Class B common stock, $0.0001 par value, 269.0 shares authorized, 5.0 and 6.1 shares issued and outstanding at September 30, 2022 and December 31, 2021, respectively(1)	—	—
Additional paid-in capital	1,838.2	1,806.1
Accumulated other comprehensive (loss) income	(6.9)	0.4
Accumulated loss	(1,500.4)	(1,270.1)
Total stockholders' equity	330.9	536.4
Total liabilities, redeemable convertible preferred stock and stockholders' equity	$ 1,384.2	$ 1,319.3

(1) Reflects the 1-for-18 reverse stock split that became effective August 12, 2022. Refer to Note 2, "Basis of Presentation and Summary of Significant Accounting Policies."

See Notes to Condensed Consolidated Financial Statements - Unaudited

ROOT, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS - UNAUDITED

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(in millions, except per share data)			
Revenues:				
Net premiums earned	$ 68.6	$ 85.1	$ 221.6	$ 225.4
Net investment income	0.9	1.0	2.2	2.6
Net realized gains on investments	—	—	1.1	2.4
Fee and other income	4.2	7.7	14.6	21.8
Total revenues	73.7	93.8	239.5	252.2
Operating expenses:				
Loss and loss adjustment expenses	80.9	114.4	273.3	284.5
Sales and marketing	5.7	65.4	45.8	245.5
Other insurance expense (benefit)	1.1	(4.5)	(5.7)	(3.6)
Technology and development	14.3	18.0	46.1	49.3
General and administrative	26.4	27.4	86.3	69.8
Total operating expenses	128.4	220.7	445.8	645.5
Operating loss	(54.7)	(126.9)	(206.3)	(393.3)
Interest expense	(9.3)	(6.1)	(24.0)	(17.9)
Loss before income tax expense	(64.0)	(133.0)	(230.3)	(411.2)
Income tax expense	—	—	—	—
Net loss	(64.0)	(133.0)	(230.3)	(411.2)
Other comprehensive loss:				
Changes in net unrealized losses on investments	(2.3)	(0.5)	(7.3)	(4.0)
Comprehensive loss	$ (66.3)	$ (133.5)	$ (237.6)	$ (415.2)
Loss per common share: basic and diluted (both Class A and B)[1]	$ (4.54)	$ (9.57)	$ (16.45)	$ (29.80)
Weighted-average common shares outstanding: basic and diluted (both Class A and B)[1]	14.1	13.9	14.0	13.8

(1) Reflects the 1-for-18 reverse stock split that became effective August 12, 2022. Refer to Note 2, “Basis of Presentation and Summary of Significant Accounting Policies.”

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(1)			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				
								(in millions)			
Balance—June 30, 2022	14.1	$ 112.0	8.9	5.2	$ —	—	$ —	$ 1,829.0	$ (4.6)	$ (1,436.4)	$ 388.0
Net loss	—	—	—	—	—	—	—	—	—	(64.0)	(64.0)
Other comprehensive loss	—	—	—	—	—	—	—	—	(2.3)	—	(2.3)
Conversion of Class B to Class A	—	—	0.2	(0.2)	—	—	—	—	—	—	—
Common stock—share-based compensation expense	—	—	—	—	—	—	—	7.8	—	—	7.8
Warrant compensation expense	—	—	—	—	—	—	—	1.5	—	—	1.5
Warrants issuance costs	—	—	—	—	—	—	—	(0.1)	—	—	(0.1)
Balance—September 30, 2022	14.1	$ 112.0	9.1	5.0	$ —	—	$ —	$ 1,838.2	$ (6.9)	$ (1,500.4)	$ 330.9
Balance—January 1, 2022	14.1	$ 112.0	7.9	6.1	$ —	—	$ —	$ 1,806.1	$ 0.4	$ (1,270.1)	$ 536.4
Net loss	—	—	—	—	—	—	—	—	—	(230.3)	(230.3)
Other comprehensive loss	—	—	—	—	—	—	—	—	(7.3)	—	(7.3)
Conversion of Class B to Class A	—	—	1.1	(1.1)	—	—	—	—	—	—	—
Common stock—option exercises and restricted stock units vesting, net of shares withheld for employee taxes	—	—	0.1	—	—	—	—	0.4	—	—	0.4
Reclassification of early-exercised stock options from liabilities	—	—	—	—	—	—	—	0.1	—	—	0.1
Common stock—share-based compensation expense	—	—	—	—	—	—	—	21.8	—	—	21.8
Warrant compensation expense	—	—	—	—	—	—	—	10.3	—	—	10.3
Warrants issuance costs	—	—	—	—	—	—	—	(1.1)	—	—	(1.1)
Term Loan warrants issued	—	—	—	—	—	—	—	0.6	—	—	0.6
Balance—September 30, 2022	14.1	$ 112.0	9.1	5.0	$ —	—	$ —	$ 1,838.2	$ (6.9)	$ (1,500.4)	$ 330.9

(1) Reflects the 1-for-18 reverse stock split that became effective August 12, 2022. Refer to Note 2, "Basis of Presentation and Summary of Significant Accounting Policies."

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[1]			Treasury Stock					
	Shares	Amount	Class A Shares	Class B Shares	Amount	Shares	Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income	Accumulated Loss	Total Stockholders' Equity
								(in millions)			
Balance—June 30, 2021	—	$ —	6.3	7.7	$ —	0.3	$ (0.8)	$ 1,786.9	$ 2.1	$ (1,026.2)	$ 762.0
Net loss	—	—	—	—	—	—	—	—	—	(133.0)	(133.0)
Other comprehensive loss	—	—	—	—	—	—	—	—	(0.5)	—	(0.5)
Conversion of Class B to Class A	—	—	0.7	(0.7)	—	—	—	—	—	—	—
Common stock—option exercises and restricted stock units vesting, net of shares withheld for employee taxes	—	—	—	—	—	—	—	0.9	—	—	0.9
Reclassification of early-exercised stock options from liabilities	—	—	—	—	—	—	—	(0.9)	—	—	(0.9)
Common stock—share-based compensation expense	—	—	—	—	—	—	—	7.5	—	—	7.5
Balance—September 30, 2021	—	$ —	7.0	7.0	$ —	0.3	$ (0.8)	$ 1,794.4	$ 1.6	$ (1,159.2)	$ 636.0
Balance—January 1, 2021	—	$ —	3.3	10.7	$ —	0.3	$ (0.8)	$ 1,775.6	$ 5.6	$ (748.0)	$ 1,032.4
Net loss	—	—	—	—	—	—	—	—	—	(411.2)	(411.2)
Other comprehensive loss	—	—	—	—	—	—	—	—	(4.0)	—	(4.0)
Conversion of Class B to Class A	—	—	3.7	(3.7)	—	—	—	—	—	—	—
Common stock—option exercises and restricted stock units vesting, net of shares withheld for employee taxes	—	—	—	—	—	—	—	4.3	—	—	4.3
Reclassification of early-exercised stock options from liabilities	—	—	—	—	—	—	—	(0.2)	—	—	(0.2)
Common stock—share-based compensation expense	—	—	—	—	—	—	—	14.7	—	—	14.7
Balance—September 30, 2021	—	$ —	7.0	7.0	$ —	0.3	$ (0.8)	$ 1,794.4	$ 1.6	$ (1,159.2)	$ 636.0

(1) Reflects the 1-for-18 reverse stock split that became effective August 12, 2022. Refer to Note 2, "Basis of Presentation and Summary of Significant Accounting Policies."

See Notes to Condensed Consolidated Financial Statements - Unaudited

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

	Nine Months Ended September 30,	
	2022	2021
	(in millions)	
Cash flows from operating activities:		
Net loss	$ (230.3)	$ (411.2)
Adjustments to reconcile net loss to net cash used in operating activities:		
Share-based compensation	21.8	14.7
Warrant compensation expense	10.3	—
Depreciation and amortization	9.5	11.0
Bad debt expense	13.7	14.7
Payment-in-kind interest expense	—	9.3
Net realized gains on investments	(1.1)	(2.4)
Gain on lease modification	(0.2)	—
Change in fair value of equity securities	—	(0.4)
Changes in operating assets and liabilities:		
Premiums receivable	4.5	(60.4)
Reinsurance recoverable and receivable	19.0	(51.6)
Prepaid reinsurance premiums	14.6	(1.9)
Other assets	(11.1)	(1.6)
Losses and loss adjustment expenses reserves	(26.0)	63.5
Unearned premiums	(22.8)	53.8
Reinsurance premiums payable	8.8	(0.1)
Accounts payable and accrued expenses	17.5	(7.1)
Other liabilities	7.9	5.4
Net cash used in operating activities	(163.9)	(364.3)
Cash flows from investing activities:		
Purchases of investments	(30.8)	(10.4)
Proceeds from maturities, call and pay downs of investments	26.7	30.6
Sales of investments	7.1	70.2
Capitalization of internally developed software	(7.4)	(4.8)
Purchases of fixed assets	—	(2.3)
Purchases of indefinite-lived intangible assets and transaction costs	(1.3)	—
Net cash (used in) provided by investing activities	(5.7)	83.3
Cash flows from financing activities:		
Proceeds from exercise of stock options and restricted stock units, net of tax proceeds/(withholding)	0.3	3.0
Proceeds from issuance of debt and related warrants	286.0	—
Payment of preferred stock and related warrants issuance costs	(3.0)	—
Repayments of long-term debt	—	(0.7)
Net cash provided by financing activities	283.3	2.3
Net increase (decrease) in cash, cash equivalents and restricted cash	113.7	(278.7)
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	$ 820.7	$ 835.1

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.

Reverse Stock Split— In August 2022, a subcommittee of our Board of Directors approved a reverse stock split of our Class A and Class B common stock at a ratio of 1-for-18. On August 12, 2022, we filed a Certificate of Amendment to our Amended and Restated Certificate of Incorporation to effect a 1-for-18 reverse stock split of our Class A and Class B common stock. As a result of the reverse stock split, every 18 shares of our issued or outstanding pre-reverse split common stock of each class were combined into one share of common stock of such class. No fractional shares were issued upon the reverse stock split. On August 15, 2022, our Class A common stock began trading on a split-adjusted basis on the Nasdaq Stock Market.

In connection with the reverse stock split, there was no change to the shares authorized or in the par value per share of $0.0001. In addition, there was no change to the number of shares issued or outstanding for our Series A Preferred Stock. The conversion price for our Series A Preferred Stock was adjusted to $162.00 and the exercise price and number of warrant shares for each of our outstanding warrants were also proportionately adjusted. Accordingly, all historical per share data, number of shares outstanding and other common stock equivalents for the periods presented in the accompanying condensed consolidated financial statements and notes thereto have been adjusted retroactively, where applicable, to reflect the reverse stock split.

COVID-19—In March 2020, the World Health Organization declared COVID-19 to be a global pandemic. 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	
	September 30, 2022	December 31, 2021
	(dollars in millions)	
Cash and cash equivalents	$ 819.7	$ 706.0
Restricted cash	1.0	1.0
Total cash, cash equivalents and restricted cash shown in the condensed consolidated statements of cash flows	$ 820.7	$ 707.0

3. INVESTMENTS

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

	September 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	$ 12.6	$ —	$ —	$ (0.9)	$ 11.7
Municipal securities	20.3	—	—	(1.3)	19.0
Corporate debt securities	55.4	—	—	(3.1)	52.3
Residential mortgage-backed securities	4.4	—	—	(0.3)	4.1
Commercial mortgage backed securities	26.1	—	—	(1.2)	24.9
Other debt obligations	7.8	—	—	(0.1)	7.7
Total fixed maturities	126.6	—	—	(6.9)	119.7
Short-term investments	0.4	—	—	—	0.4
Total	$ 127.0	$ —	$ —	$ (6.9)	$ 120.1

	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 September 30, 2022 and December 31, 2021. 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 September 30, 2022 and December 31, 2021.

Other Investments

As of September 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 nine months ended September 30, 2022, respectively. We recorded the sale of one of our private equity investments within net realized gains on investments in our condensed consolidated statements of operations and comprehensive loss for the nine months ended September 30, 2022. There were no impairment losses recognized on private equity investments for the three and nine months ended September 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 September 30, 2022 and December 31, 2021:

	September 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	$ 4.2	$ (0.1)	$ 6.5	$ (0.8)	$ 10.7	$ (0.9)
Municipal securities	14.7	(0.8)	4.3	(0.5)	19.0	(1.3)
Corporate debt securities	47.6	(2.6)	4.7	(0.5)	52.3	(3.1)
Residential mortgage-backed securities	1.4	(0.1)	1.7	(0.2)	3.1	(0.3)
Commercial mortgage-backed securities	22.3	(0.9)	2.6	(0.3)	24.9	(1.2)
Other debt obligations	6.3	(0.1)	—	—	6.3	(0.1)
Total fixed maturities	96.5	(4.6)	19.8	(2.3)	116.3	(6.9)
Short-term investments	0.4	—	—	—	0.4	—
Total	$ 96.9	$ (4.6)	$ 19.8	$ (2.3)	$ 116.7	$ (6.9)

	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, available-for-sale fixed maturities and other investments that have been included in the condensed consolidated statements of operations and comprehensive loss for the three and nine months ended September 30, 2022 and 2021:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(dollars in millions)			
Realized gains on investments	$ —	$ —	$ 1.2	$ 2.5
Realized losses on investments	—	—	(0.1)	(0.1)
Net realized gains on investments	$ —	$ —	$ 1.1	$ 2.4

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

	September 30, 2022	
	Amortized Cost	Fair Value
	(dollars in millions)	
Due in one year or less	$ 22.9	$ 22.4
Due after one year through five years	80.8	76.0
Due five years through 10 years	10.8	10.0
Due after 10 years	12.5	11.7
Total	$ 127.0	$ 120.1

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(dollars in millions)			
Interest on bonds	$ 0.6	$ 0.6	$ 1.7	$ 1.9
Interest on deposits and cash equivalents	0.6	0.2	1.2	0.8
Other investments(1)	—	0.4	—	0.4
Total	1.2	1.2	2.9	3.1
Investment expense	(0.3)	(0.2)	(0.7)	(0.5)
Net investment income	$ 0.9	$ 1.0	$ 2.2	$ 2.6

(1) Unrealized gains resulting from observable price changes related to our private equity investments.

The following tables summarize the credit ratings of short-term investments and available-for-sale fixed maturity securities at September 30, 2022 and December 31, 2021:

	September 30, 2022		
S&P Global rating or equivalent	Amortized Cost	Fair Value	% of Total Fair Value
	(dollars in millions)		
AAA	$ 61.1	$ 57.8	48.1 %
AA+, AA, AA-, A-1	17.9	16.9	14.1
A+, A, A-	36.2	34.0	28.3
BBB+, BBB, BBB-	11.8	11.4	9.5
Total	$ 127.0	$ 120.1	100.0 %

	December 31, 2021		
S&P Global rating or equivalent	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 September 30, 2022 and December 31, 2021:

	September 30, 2022			
	Level 1	Level 2	Level 3	Total Fair Value
	(dollars in millions)			
Assets				
Fixed maturities:				
U.S. Treasury securities and agencies	$ 10.0	$ 1.7	$ —	$ 11.7
Municipal securities	—	19.0	—	19.0
Corporate debt securities	—	52.3	—	52.3
Residential mortgage-backed securities	—	4.1	—	4.1
Commercial mortgage-backed securities	—	24.9	—	24.9
Other debt obligations	—	7.7	—	7.7
Total fixed maturities	10.0	109.7	—	119.7
Short-term investments	—	0.4	—	0.4
Cash equivalents	124.6	—	—	124.6
Total assets at fair value	$ 134.6	$ 110.1	$ —	$ 244.7

	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. All significant inputs were observable in the active markets.

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 September 30, 2022 and December 31, 2021, the carrying amounts and fair values of these financial instruments were as follows:

	Carrying Amount as of September 30, 2022	Estimated Fair Value as of September 30, 2022	Carrying Amount as of December 31, 2021	Estimated Fair Value as of December 31, 2021
	(dollars in millions)			
Long-term debt	$ 293.9	$ 306.3	$ —	$ —

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:

	Nine Months Ended September 30, 2022	Nine Months Ended September 30, 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	273.5	293.8
Prior years	(0.2)	(9.3)
Total incurred	273.3	284.5
Net paid loss and LAE related to:		
Current year	155.5	150.4
Prior years	135.6	72.6
Total paid	291.1	223.0
Net loss and LAE reserves, September 30	222.9	219.1
Plus reinsurance recoverable on unpaid losses	71.3	81.6
Gross loss and LAE reserves, September 30	$ 294.2	$ 300.7

Incurred losses and LAE attributable to prior accident years was a decrease of $0.2 million and $9.3 million for the nine months ended September 30, 2022 and 2021, respectively. For the nine months ended September 30, 2022, the development of incurred losses and LAE related to prior periods was a result of lower-than-expected LAE on prior accident period claims, partially offset by higher-than-expected reported losses on property damage and collision claims due to inflation. For the nine months ended September 30, 2021, the development of incurred losses related to prior periods was primarily due to lower-than-expected reported losses on bodily injury claims, and higher than expected recoveries from subrogation and salvage from 2020 material damage claims.

6. REINSURANCE

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(dollars in millions)			
Premiums written:				
Direct	$ 139.6	$ 197.0	$ 443.9	$ 576.6
Assumed	11.1	7.6	34.1	7.6
Ceded	(81.0)	(107.5)	(264.5)	(306.8)
Net premiums written	$ 69.7	$ 97.1	$ 213.5	$ 277.4
Premiums earned:				
Direct	$ 144.5	$ 188.5	$ 469.3	$ 529.4
Assumed	10.8	0.9	31.5	0.9
Ceded	(86.7)	(104.3)	(279.2)	(304.9)
Net premiums earned	$ 68.6	$ 85.1	$ 221.6	$ 225.4
Losses and LAE incurred:				
Direct	$ 126.1	$ 193.7	$ 430.0	$ 504.6
Assumed	11.3	1.9	35.7	1.9
Ceded	(56.5)	(81.2)	(192.4)	(222.0)
Net losses and LAE incurred	$ 80.9	$ 114.4	$ 273.3	$ 284.5

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, 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 0.3 million shares of our Class A common stock at a strike price of $162.00 per share. Such warrants will expire on the later of the repayment in full of the Term Loan or January 27, 2027. The total fair value of these warrants at January 27, 2022 was $0.6 million.

The Term Loan contains debt covenants which, among other things, require cash and cash equivalents held in entities other than our insurance subsidiaries to be at least $200.0 million at all times. This threshold may be reduced to $150.0 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 $12.0 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, January 27, 2027 or the date that falls 12 months after the issuance of these warrants. As of September 30, 2022, the fair value of these 1.0% warrants was immaterial to our condensed consolidated financial statements.

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

	September 30, 2022	December 31, 2021
	(dollars in millions)	
Term Loan	$ 300.0	$ —
Accrued interest payable	6.5	—
Unamortized discount, debt issuance costs and warrants	(12.6)	—
Total	$ 293.9	$ —

8. INCOME TAXES

The consolidated effective tax rate was zero for the three and nine months ended September 30, 2022 and 2021, respectively. 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 September 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.

During 2022, we performed an estimated ownership change analysis and determined that we have experienced an ownership change under Section 382 of the Internal Revenue Code, or the Code. Accordingly, use of a portion of our net operating losses and tax credit carryforwards are subject to an annual limitation under Section 382 of the Code. 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 (the “January 2022 Restructuring”). As a result of the January 2022 Restructuring, we incurred severance, benefits and related costs, as well as accelerated expense for software that no longer has economic benefit. 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 recognized sublease income as an offset to amortization of the right-of-use asset. We do not expect to incur any material additional expenditures in future periods related to the January 2022 Restructuring.

The following table displays restructuring costs recorded in general and administrative expenses on the condensed consolidated statements of operations and comprehensive loss:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Restructuring costs:	(dollars in millions)			
Severance, benefits, and related costs[(1)]	$ —	$ —	$ 5.6	$ —
Real estate exit costs	—	—	2.1	—
Software costs	—	—	0.7	—
Total restructuring costs	$ —	$ —	$ 8.4	$ —

(1) Includes cash expenditures of $0.1 million and $3.5 million for the three and nine months ended September 30, 2022, respectively.

10. SHARE-BASED COMPENSATION

In August 2022, a subcommittee of our Board of Directors approved a reverse stock split of our Class A and Class B common stock at a ratio of 1-for-18, which became effective on August 12, 2022. Accordingly, all stock, equity award, warrant, and per share amounts have been adjusted to reflect the reverse stock split for all prior periods presented.

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 is 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 7.2 million shares of Class A common stock.

The following table provides the exercise price and shares issued, effected for the reverse stock split:

Warrants	Exercise Price	Shares Issued (in millions)
Short-Term		
Tranche 1	$ 180.00	2.4
Tranche 2	$ 198.00	3.2
Tranche 3	$ 216.00	1.6
Total Short-Term		7.2
Long-Term		
Tranche 1	$ 180.00	1.4
Tranche 2	$ 225.00	1.5
Tranche 3	$ 270.00	1.5
Tranche 4	$ 405.00	1.5
Tranche 5	$ 540.00	1.3
Total Long-Term		7.2

As of September 30, 2022, we determined the remaining unvested 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 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, and policies originating through the Integrated Platform. During the three months ended September 30, 2022, the Integrated Platform launched and as a result, tranche 1 of our short-term warrants vested. There were no exercises upon vesting and all warrants remain outstanding. All of these warrants are out-of-the-money and therefore have no intrinsic value as of September 30, 2022.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(dollars in millions)			
Warrant compensation expense:				
Sales and marketing	$ —	$ —	$ 8.8	$ —
Other insurance expense (benefit)	1.5	—	1.5	—
Total warrant compensation expense	$ 1.5	$ —	$ 10.3	$ —

As of September 30, 2022, there was $25.4 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

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 September 30, 2022, we had 1.6 million common shares authorized and available for issuance under the plan.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(dollars in millions)			
Share-based compensation expense:				
Loss and loss adjustment expenses	$ 0.2	$ —	$ 0.6	$ 0.6
Sales and marketing	0.3	0.4	0.7	0.6
Other insurance expense (benefit)	0.3	0.4	0.8	0.9
Technology and development	1.1	2.9	3.1	4.7
General and administrative	5.9	3.8	16.6	7.9
Total share-based compensation expense	$ 7.8	$ 7.5	$ 21.8	$ 14.7

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(dollars in millions)			
Share-based compensation expense:				
Restricted stock unit expense	$ 7.4	$ 6.1	$ 20.5	$ 10.9
Stock option expense	0.4	1.4	1.3	3.8
Total share-based compensation expense	$ 7.8	$ 7.5	$ 21.8	$ 14.7

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 nine months ended September 30, 2022, respectively.

As of September 30, 2022, there was $2.7 million and $55.5 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 nine months ended September 30, 2022 is as follows:

Restricted Stock Units	Nine Months Ended September 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	0.5	$	162.36	$	27.4
Granted	1.1		34.07		
Vested	(0.1)		180.18		3.0
Forfeited, expired or canceled	(0.2)		114.94		
Nonvested at September 30, 2022	1.3	$	53.90	$	10.2

Stock Options

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

Options	Nine Months Ended September 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	0.4	$	42.48	6.12	$	9.5
Granted	—		21.42			
Exercised	(0.1)		6.60			1.9
Forfeited, expired or canceled	(0.1)		83.60			
Outstanding and exercisable at September 30, 2022	0.2	$	39.28	5.99	$	0.4

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, or the Exchange Act, and Rule 10b-5 thereunder, and of Sections 11 and 15 of the Securities Act of 1933, or 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 nine months ended September 30, 2022 and 2021:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(dollars in millions)			
Beginning balance	$ (4.6)	$ 2.1	$ 0.4	$ 5.6
Other comprehensive loss before reclassifications	(2.3)	(0.5)	(7.4)	(1.6)
Net realized losses (gains) on investments reclassified from AOCI to net loss	—	—	0.1	(2.4)
Other comprehensive loss	(2.3)	(0.5)	(7.3)	(4.0)
Ending balance	$ (6.9)	$ 1.6	$ (6.9)	$ 1.6

13. LOSS PER SHARE

In August 2022, a subcommittee of our Board of Directors approved a reverse stock split of our Class A and Class B common stock at a ratio of 1-for-18, which became effective on August 12, 2022. Accordingly, all stock, equity award, warrant, and per share amounts have been adjusted to reflect the reverse stock split for all prior periods presented.

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 nine months ended September 30, 2022 and 2021:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(in millions, except per share amounts)			
Net loss	$ (64.0)	$ (133.0)	$ (230.3)	$ (411.2)
Weighted-average common shares outstanding: basic and diluted (both Class A and B)	14.1	13.9	14.0	13.8
Loss per common share: basic and diluted (both Class A and B)	$ (4.54)	$ (9.57)	$ (16.45)	$ (29.80)

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 September 30,	
	2022	2021
	(in millions)	
Options to purchase common stock	0.2	0.4
Nonvested shares subject to repurchase	0.1	0.1
Restricted stock units	1.3	0.5
Redeemable convertible preferred stock (as converted to common stock)	0.8	—
Warrants to purchase common stock	7.7	—
Total	10.1	1.0

14. GEOGRAPHICAL BREAKDOWN OF GROSS WRITTEN PREMIUM

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

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2022		2021		2022		2021	
	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
State	(dollars in millions)							
Texas	$ 26.2	17.4 %	$ 40.4	19.7 %	$ 89.5	18.7 %	$ 120.8	20.7 %
Georgia	15.0	10.0	21.6	10.6	48.8	10.2	61.3	10.5
Colorado	10.3	6.8	9.3	4.5	30.8	6.4	25.7	4.4
Louisiana	8.7	5.8	12.3	6.0	27.6	5.8	32.9	5.6
Pennsylvania	9.1	6.0	11.8	5.8	26.8	5.6	31.5	5.4
Utah	8.0	5.3	9.1	4.4	24.1	5.0	25.6	4.4
Nevada	7.3	4.8	9.5	4.6	23.0	4.8	26.0	4.5
South Carolina	4.5	3.0	8.0	3.9	16.4	3.4	20.6	3.5
Oklahoma	5.2	3.5	6.0	2.9	16.1	3.4	17.5	3.0
Indiana	4.7	3.1	6.0	2.9	14.3	3.0	17.2	2.9
All others states	51.7	34.3	70.6	34.7	160.6	33.7	205.1	35.1
Total	$ 150.7	100.0 %	$ 204.6	100.0 %	$ 478.0	100.0 %	$ 584.2	100.0 %

15. SUBSEQUENT EVENTS

On November 9, 2022, we initiated a company-wide involuntary workforce reduction involving approximately 160 employees, which represented approximately 20% of our workforce. The action was taken as part of our efforts to improve efficiency and operating costs, and prioritize resources to further strengthen our pricing and underwriting foundation and the continued development of our embedded products. A majority of the affected employees were notified on November 9, 2022, with most job eliminations effective in November 2022.

In the fourth quarter of 2022, we expect to recognize charges of approximately $10.5 million to $11.5 million in general and administrative expenses on the condensed consolidated statements of operations and comprehensive income for severance, benefits and related costs as a result of these actions. Approximately $7.0 million to $7.5 million of these charges are expected to result in cash expenditures in the same period. We also expect to incur approximately $8.0 million to $8.5 million of employee compensation expense, dependent upon continuous employment, recognized ratably through the fourth quarter of 2023, we expect a cash expenditure in the first quarter of 2024. We continue to review the potential impact of the realignment, including additional employee-related costs, and are unable to estimate any additional restructuring costs or charges at this time.

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 a direct-to-consumer model in which we currently acquire customers through mobile applications and our embedded platform.

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 through direct and embedded distribution channels, 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, at times, 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 a 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 our customers through the embedded platform, our website, 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 four years of bringing claims management in-house and are expected to improve as we further embed machine learning into our processes.

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 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.

In addition to our gross basis metrics, management uses adjusted earnings before interest, tax, depreciation, amortization, or adjusted EBITDA, as an integral part of managing our business. We believe adjusted EBITDA provides investors with useful insight into our business because such measure eliminates the effects of certain charges that are not directly attributable to our underlying operating performance. 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 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, supply chain disruptions, rising interest rates and a downturn in equity markets. There is a risk of inflation remaining elevated for an extended period, which could cause claims and claim expenses to increase, impact the performance of our investment portfolio or have other adverse effects. Rising interest rates and reduced equity values have increased the cost of capital and may limit our ability to raise additional capital. In addition, we have seen an increase in the value of used vehicles and replacement parts. These cost increases have resulted in greater claims severity while being partially offset by higher subrogation recoveries on damaged vehicles. 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 from net premiums earned, net investment income, net realized gains on investments, and fee and other income.

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 and unrealized gains from our private equity investments. 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 Gains on Investments

Net realized 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 expense (benefit), 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 are 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 to write more business. 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. Certain 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 within certain markets. 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 Expense (Benefit)

Other insurance expense (benefit) includes underwriting expenses, credit card and policy processing expenses, premium write-offs, insurance license expenses, warrant compensation expense related to our embedded channel, and Personnel Costs and Overhead related to actuarial and certain data science activities. Other insurance expense (benefit) also includes amortization of deferred acquisition costs like premium taxes and report costs related to the successful acquisition of a policy. Other insurance expense (benefit) 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. Certain warrant compensation expense is recognized on a pro-rata basis for policies originated from the Integrated Platform towards milestones as defined under the Carvana commercial agreement.

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. 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 organizational realignment. General and administrative expenses are expensed as incurred.

We expect general and administrative expenses to decrease as a percentage of total revenue 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 September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(dollars in millions, except premiums per policy)			
Policies in force				
Auto	255,279	380,836	255,279	380,836
Renters	6,964	9,143	6,964	9,143
Premiums per policy				
Auto	$ 1,150	$ 986	$ 1,150	$ 986
Renters	$ 139	$ 140	$ 139	$ 140
Premiums in force				
Auto	$ 587.1	$ 751.0	$ 587.1	$ 751.0
Renters	$ 1.0	$ 1.3	$ 1.0	$ 1.3
Gross written premium	$ 150.7	$ 204.6	$ 478.0	$ 584.2
Gross earned premium	$ 155.3	$ 189.4	$ 500.8	$ 530.3
Gross profit/(loss)	$ (8.3)	$ (16.1)	$ (28.1)	$ (28.7)
Gross margin	(11.3)%	(17.2)%	(11.7)%	(11.4)%
Net loss	$ (64.0)	$ (133.0)	$ (230.3)	$ (411.2)
Adjusted gross profit/(loss)	$ 0.5	$ (2.7)	$ (4.6)	$ 10.5
Direct contribution	$ 11.5	$ (10.5)	$ 17.7	$ 12.3
Adjusted EBITDA	$ (44.0)	$ (117.3)	$ (162.4)	$ (372.7)
Ratio of adjusted gross profit/(loss) to total revenue	0.7 %	(2.9)%	(1.9)%	4.2 %
Ratio of adjusted gross profit/(loss) to gross earned premium	0.3 %	(1.4)%	(0.9)%	2.0 %
Ratio of direct contribution to total revenue	15.6 %	(11.2)%	7.4 %	4.9 %
Ratio of direct contribution to gross earned premium	7.4 %	(5.5)%	3.5 %	2.3 %
Gross loss ratio	77.9 %	92.7 %	83.2 %	85.2 %
Gross LAE ratio	10.5 %	10.6 %	9.8 %	10.3 %
Gross accident period loss ratio	79.5 %	92.8 %	81.9 %	86.5 %

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 policies drive our revenue, brand awareness, our market penetration, and generates additional data to continue to improve the functioning of our platforms.

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 fluctuations 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 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 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 expense (benefit) 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 expense (benefit). 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 expense (benefit). 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 a 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.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(dollars in millions)			
Numerator: Adjusted gross profit/(loss)	$ 0.5	$ (2.7)	$ (4.6)	$ 10.5
Denominator: total gross earned premium	$ 155.3	$ 189.4	$ 500.8	$ 530.3
Ratio of adjusted gross profit/(loss) to gross earned premium	0.3 %	(1.4)%	(0.9)%	2.0 %

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.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(dollars in millions)			
Numerator: direct contribution	$ 11.5	$ (10.5)	$ 17.7	$ 12.3
Denominator: total gross earned premium	$ 155.3	$ 189.4	$ 500.8	$ 530.3
Ratio of direct contribution to gross earned premium	7.4 %	(5.5)%	3.5 %	2.3 %

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.

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 the LAE ratio as it has a direct impact on our results regardless of our reinsurance strategy.

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.

Results of Operations

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

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

	Three Months Ended September 30,			
	2022	2021	$ Change	% Change
	(dollars in millions)			
Revenues:				
Net premiums earned	$ 68.6	$ 85.1	$ (16.5)	(19.4)%
Net investment income	0.9	1.0	(0.1)	(10.0)%
Fee and other income	4.2	7.7	(3.5)	(45.5)%
Total revenues	73.7	93.8	(20.1)	(21.4)%
Operating expenses:				
Loss and loss adjustment expenses	80.9	114.4	(33.5)	(29.3)%
Sales and marketing	5.7	65.4	(59.7)	(91.3)%
Other insurance expense (benefit)	1.1	(4.5)	5.6	124.4 %
Technology and development	14.3	18.0	(3.7)	(20.6)%
General and administrative	26.4	27.4	(1.0)	(3.6)%
Total operating expenses	128.4	220.7	(92.3)	(41.8)%
Operating loss	(54.7)	(126.9)	72.2	N.M.
Interest expense	(9.3)	(6.1)	(3.2)	52.5 %
Loss before income tax expense	(64.0)	(133.0)	69.0	N.M.
Income tax expense	—	—	—	— %
Net loss	(64.0)	(133.0)	69.0	N.M.
Other comprehensive loss:				
Changes in net unrealized losses on investments	(2.3)	(0.5)	(1.8)	(100.0)%
Comprehensive loss	$ (66.3)	$ (133.5)	$ 67.2	N.M.

N.M. - Percentage change not meaningful

Revenue

Net Premiums Earned

Net premiums earned decreased $16.5 million, or 19.4%, to $68.6 million for the three months ended September 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 primarily attributable to rate actions.

During the three months ended September 30, 2022 and 2021, we ceded approximately 55.8% 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.

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 September 30, 2022 and 2021:

	Three Months Ended September 30,			
	2022	2021	$ Change	% Change
	(dollars in millions)			
Gross written premium	$ 150.7	$ 204.6	$ (53.9)	(26.3)%
Ceded written premium	(81.0)	(107.5)	26.5	(24.7)%
Net written premium	69.7	97.1	(27.4)	(28.2)%
Gross earned premium	155.3	189.4	(34.1)	(18.0)%
Ceded earned premium	(86.7)	(104.3)	17.6	(16.9)%
Net earned premium	$ 68.6	$ 85.1	$ (16.5)	(19.4)%

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 16.6% increase in premium per policy for automobile insurance primarily attributable to rate actions.

Fee and Other Income

Fee income decreased $3.5 million, or 45.5%, to $4.2 million for the three months ended September 30, 2022 compared to the same period ended in 2021. The decrease was primarily due to a reduction in fee revenue from distributing web and app policy inquiry leads to third parties of $1.7 million as a result of reducing marketing expenditures. In addition, there was a decrease of $1.7 million in installments fees due to lower policies in force.

Operating Expenses

Loss and Loss Adjustment Expenses

Loss and LAE decreased $33.5 million, or 29.3%, to $80.9 million for the three months ended September 30, 2022 compared to the same period ended in 2021. The decrease was primarily driven by lower policies in force for the three months ended September 30, 2022 compared to the same period in 2021.

Gross accident period loss ratios decreased to 79.5% from 92.8% for the three months ended September 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. We experienced a 10% decrease in claim frequency partially offset by a 7% increase in severity per claim for the three months ended September 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 $59.7 million, or 91.3%, to $5.7 million for the three months ended September 30, 2022 compared to the same period in 2021. The decrease was primarily due to a decline in performance marketing of $43.4 million, branding and advertising of $8.9 million, marketing partnership of $3.0 million and content development of $1.6 million. The reduction in sales and marketing expense is due to a shift in direct marketing strategy in response to changing macroeconomic factors and competitive environment.

Other Insurance Expense (Benefit)

Other insurance expense (benefit) increased $5.6 million, or 124.4%, to an expense of $1.1 million for the three months ended September 30, 2022 compared to the same period in 2021. The increase was primarily driven by a $9.7 million decrease in ceding commission contra-expense, partially offset by a $4.9 million decrease in underwriting costs, both of which were results of the decrease in gross written premium.

Technology and Development

Technology and development expense decreased $3.7 million, or 20.6%, to $14.3 million for the three months ended September 30, 2022 compared to the same period in 2021. The decrease was primarily driven by a $2.6 million decrease in personnel and overhead related costs as a result of a decrease in headcount. In addition, there was a $1.8 million decrease in share-based compensation expense compared to the same period in 2021 relating to our equity incentive plan. This was partially offset by an increase of $1.2 million in software development expense, as we continue to invest in developing and improving our technology platforms and infrastructure.

Comparison of the Nine Months Ended September 30, 2022 and 2021

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

	Nine Months Ended September 30,			
	2022	2021	$ Change	% Change
	(dollars in millions)			
Revenues:				
Net premiums earned	$ 221.6	$ 225.4	$ (3.8)	(1.7)%
Net investment income	2.2	2.6	(0.4)	(15.4)%
Net realized gains on investments	1.1	2.4	(1.3)	(54.2)%
Fee and other income	14.6	21.8	(7.2)	(33.0)%
Total revenues	239.5	252.2	(12.7)	(5.0)%
Operating expenses:				
Loss and loss adjustment expenses	273.3	284.5	(11.2)	(3.9)%
Sales and marketing	45.8	245.5	(199.7)	(81.3)%
Other insurance benefit	(5.7)	(3.6)	(2.1)	(58.3)%
Technology and development	46.1	49.3	(3.2)	(6.5)%
General and administrative	86.3	69.8	16.5	23.6 %
Total operating expenses	445.8	645.5	(199.7)	(30.9)%
Operating loss	(206.3)	(393.3)	187.0	N.M.
Interest expense	(24.0)	(17.9)	(6.1)	34.1 %
Loss before income tax expense	(230.3)	(411.2)	180.9	N.M.
Income tax expense	—	—	—	— %
Net loss	(230.3)	(411.2)	180.9	N.M.
Other comprehensive loss:				
Changes in net unrealized losses on investments	(7.3)	(4.0)	(3.3)	82.5 %
Comprehensive loss	$ (237.6)	$ (415.2)	$ 177.6	N.M.

N.M. - Percentage change not meaningful

Revenue

Net Premiums Earned

Net premiums earned decreased $3.8 million, or 1.7%, to $221.6 million, for the nine months ended September 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 nine months ended September 30, 2022 and 2021, we ceded approximately 55.8% and 57.5% 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 nine months ended September 30, 2022 and 2021:

	Nine Months Ended September 30,			
	2022	2021	$ Change	% Change
	(dollars in millions)			
Gross written premium	$ 478.0	$ 584.2	$ (106.2)	(18.2)%
Ceded written premium	(264.5)	(306.8)	42.3	(13.8)%
Net written premium	213.5	277.4	(63.9)	(23.0)%
Gross earned premium	500.8	530.3	(29.5)	(5.6)%
Ceded earned premium	(279.2)	(304.9)	25.7	(8.4)%
Net earned premium	$ 221.6	$ 225.4	$ (3.8)	(1.7)%

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 16.6% increase in premium per policy for automobile insurance primarily attributable to rate actions.

Fee and Other Income

Fee income decreased $7.2 million, or 33.0%, to $14.6 million for the nine months ended September 30, 2022 compared to the same period ended in 2021. The decrease was primarily due to a reduction in fee revenue from distributing web and app policy inquiry leads to third parties of $4.7 million as a result of reducing marketing expenditures. In addition, there was a decrease of $2.5 million in installment fees due to lower policies in force.

Operating Expenses

Loss and Loss Adjustment Expenses

Loss and LAE decreased $11.2 million, or 3.9%, to $273.3 million for the nine months ended September 30, 2022 compared to the same period in 2021. The decrease was primarily due to lower policies in force for the nine months ended September 30, 2022 compared to the same period in 2021.

Gross accident period loss ratios decreased to 81.9% from 86.5% for the nine months ended September 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 an 11% increase in severity per claim and 4% decrease in claim frequency for the nine months ended September 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 $199.7 million, or 81.3%, to $45.8 million for the nine months ended September 30, 2022 compared to the same period in 2021. The decrease was primarily due to a decline in performance marketing of $171.7 million and branding and advertising of $34.9 million. The reduction in sales and marketing expense is due to a shift in direct marketing strategy in response to changing macroeconomic factors and competitive environment. This was partially offset by $8.8 million of warrant compensation expense related to the completion of the Integrated Platform pursuant to the Carvana commercial agreement and by $4.7 million in content development as we focus on diversifying our marketing channels compared to the prior year period.

General and Administrative

General and administrative increased $16.5 million, or 23.6%, to $86.3 million for the nine months ended September 30, 2022 compared to the same period in 2021. The increase was driven by $8.4 million of restructuring costs related to an organizational realignment and an increase of $6.6 million in share-based compensation expenses relating to our equity incentive plan.

Non-Operating Expenses

Interest Expense

Interest expense increased $6.1 million, or 34.1%, to $24.0 million for the nine months ended September 30, 2022 compared to the same period ended in 2021. The increase was primarily due to a $9.3 million increase in debt interest expense as a result of higher outstanding debt as of September 30, 2022 compared to the same period in 2021. This was partially offset by a decrease of $3.0 in amortization of discounts on warrants related to Term Loan B, which was early extinguished in 2021.

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 nine months ended September 30, 2022 and 2021:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(dollars in millions)			
Total revenue	$ 73.7	$ 93.8	$ 239.5	$ 252.2
Loss and loss adjustment expenses	(80.9)	(114.4)	(273.3)	(284.5)
Other insurance (expense) benefit	(1.1)	4.5	5.7	3.6
Gross profit/(loss)	$ (8.3)	$ (16.1)	$ (28.1)	$ (28.7)
Gross margin	(11.3)%	(17.2)%	(11.7)%	(11.4)%
Less:				
Net investment income	$ (0.9)	$ (1.0)	$ (2.2)	$ (2.6)
Net realized gains on investments	—	—	(1.1)	(2.4)
Adjustments from other insurance expense[1]	9.7	14.4	26.8	44.2
Adjusted gross profit/(loss)	0.5	(2.7)	(4.6)	10.5
Ceded earned premium	86.7	104.3	279.2	304.9
Ceded loss and LAE	(56.5)	(81.2)	(192.4)	(222.0)
Net ceding commission and other[2]	(19.2)	(30.9)	(64.5)	(81.1)
Direct contribution	11.5	(10.5)	17.7	12.3
Gross earned premium	$ 155.3	$ 189.4	$ 500.8	$ 530.3
Ratio of adjusted gross profit/(loss) to total revenue	0.7 %	(2.9)%	(1.9)%	4.2 %
Ratio of adjusted gross profit/(loss) to gross earned premium	0.3 %	(1.4)%	(0.9)%	2.0 %
Ratio of direct contribution to total revenue	15.6 %	(11.2)%	7.4 %	4.9 %
Ratio of direct contribution to gross earned premium	7.4 %	(5.5)%	3.5 %	2.3 %

(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 nine months ended September 30, 2022 and 2021:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(dollars in millions)			
Net loss	$ (64.0)	$ (133.0)	$ (230.3)	$ (411.2)
Adjustments:				
Interest expense	8.5	4.4	22.0	12.8
Income tax expense	—	—	—	—
Depreciation and amortization	2.2	3.8	7.5	11.0
Share-based compensation	7.8	7.5	19.7	14.7
Warrant compensation expense	1.5	—	10.3	—
Restructuring costs[1]	—	—	8.4	—
Adjusted EBITDA	$ (44.0)	$ (117.3)	$ (162.4)	$ (372.7)

(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 nine months ended September 30, 2022, respectively. This also includes $0.1 million and $1.4 million in depreciation and amortization for the three and nine months ended September 30, 2022, respectively. For further information on restructuring costs, see Note 9, “Restructuring Costs,” 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 September 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 September 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 September 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 September 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

In August 2022, a subcommittee of our Board of Directors approved a reverse stock split of our Class A and Class B common stock at a ratio of 1-for-18, which became effective on August 12, 2022. Accordingly, all stock, equity award, warrant, and per share amounts have been adjusted to reflect the reverse stock split for all prior periods presented.

On January 26, 2022, we closed on a $300.0 million five-year term loan, or Term Loan. 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 0.3 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 September 30, 2022, we had $819.7 million in cash and cash equivalents, of which $629.2 million was held outside of regulated insurance entities. We also had $120.1 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, loss cost trends, the continuing market adoption of offerings on our platform, operating costs, 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 at the time. On November 9, 2022, we initiated a company-wide involuntary workforce reduction involving approximately 160 employees, which represented approximately 20% of our workforce. The action was taken as part of our efforts to improve efficiency and operating costs, and prioritize resources to further strengthen our pricing and underwriting foundation and the continued development of our embedded products. We believe this action will help extend our capital runway. We expect to record charges of approximately \$10.5 million to \$11.5 million in general and administrative expenses in the fourth quarter of 2022 for severance, benefits and related costs as a result of these actions. Approximately \$7.0 million to \$7.5 million of these charges are expected to result in cash expenditures in the same period. We also expect to incur approximately \$8.0 million to \$8.5 million of employee compensation expense, dependent upon continuous employment, recognized ratably through the fourth quarter of 2023, we expect a cash expenditure in the first quarter of 2024. We are continuing to review the potential impact of the reductions, including additional employee-related costs, and are unable to estimate any additional restructuring costs or charges at this time.

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 organizational realignments refer to Note 9, “Restructuring Costs,” and Note 15, “Subsequent Events,” 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 \$200.0 million at all times. This threshold may be reduced to \$150.0 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 \$12.0 million.

Cash Flows

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

	Nine Months Ended September 30,	
	2022	**2021**
	(in millions)	
Net cash used in operating activities	$ (163.9)	$ (364.3)
Net cash (used in) provided by investing activities	(5.7)	83.3
Net cash provided by financing activities	283.3	2.3

Net cash used in operating activities for the nine months ended September 30, 2022 was \$163.9 million compared to \$364.3 million of net cash used in operating activities for the nine months ended September 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 reduction in sales and marketing expense due to a shift in direct marketing strategy in response to changing macroeconomic factors and competitive environment. In addition, timing of cash receipts and payments related to reinsurance activity, and timing of premium receipts and claim payments contributed to the decrease in cash used during the nine months ended September 30, 2022 compared to the same period in 2021.

Net cash used in investing activities for the nine months ended September 30, 2022 was \$5.7 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 nine months ended September 30, 2021 was \$83.3 million, primarily due to proceeds from sales, maturities, calls and pay downs of investments.

Net cash provided by financing activities for the nine months ended September 30, 2022 was $283.3 million, primarily due to proceeds from our Term Loan. Net cash provided by financing activities for the nine months ended September 30, 2021 was $2.3 million primarily due to proceeds from employees exercising stock options, net of tax proceeds (withholding), which was 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. 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 nine months ended September 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 Accounting Standards Codification 740, *Income Taxes*, or ASC 740. 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.

During 2022, we performed an estimated ownership change analysis 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 September 30, 2022.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended September 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 1A, “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.

We rely on highly skilled and experienced personnel and if we are unable to attract, retain or motivate key personnel or hire qualified personnel, our business may be seriously harmed. In addition, the loss of key senior management personnel could harm our business and future prospects.

Our performance largely depends on the talents and efforts of highly skilled individuals. Our future success depends on our continuing ability to identify, hire, develop, motivate and retain highly skilled and experienced personnel and, if we are unable to hire and train a sufficient number of qualified employees for any reason, we may not be able to maintain or implement our current initiatives, or our business may contract and we may lose market share. We have implemented involuntary workforce reductions in the past, which may have harmed our reputation and relationship with our employees and may make it more difficult for us to recruit top talent, and we may implement workforce reductions in the future to support other business objectives. We have experienced the effects of the current competitive labor market and our workforce reductions and have responded by increasing wages and/or benefits in certain circumstances and provided cash and equity to retain certain employees in order to attract and retain employees, all of which may continue to negatively impact our results of operations. Moreover, certain of our competitors or other insurance or technology businesses may seek to hire our employees. We cannot assure you that our cash and equity incentives and other compensation and benefits will provide adequate incentives to attract, retain and motivate employees in the future, particularly if the market price of our Class A common stock does not increase or declines further. In addition, our ability to attract, retain and motivate employees may be impacted by our recent workforce reductions. If we do not succeed in attracting, retaining and motivating highly qualified personnel, our business may be seriously harmed.

We depend on our senior management, including Alexander Timm, our Chief Executive Officer and co-founder, Daniel Rosenthal, our Chief Revenue and Operating Officer, and Robert Bateman, our Chief Financial Officer, as well as other key personnel. We have experienced turnover among our senior management and employees. We may not be able to retain the services of any of our senior management or other key personnel, as their employment is at-will and they could leave at any time. If we lose the services of one or more of our senior management and other key personnel, including as a result of our workforce reductions or our business results, we may not be able to successfully manage our business, meet competitive challenges or achieve our business objectives. Further, to the extent that our business grows, we will need to attract and retain additional qualified management personnel in a timely manner, and we may not be able to do so. Our future success depends on our continuing ability to identify, hire, develop, motivate, retain and integrate highly skilled personnel in all areas of our organization.

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[1]	Average price paid per share[1]	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
7/1/2022 - 7/31/2022	—	$ —	—	
8/1/2022 - 8/31/2022	—	$ —	—	
9/1/2022 - 9/30/2022	71	$ 130.50	—	

____

(1) Reflects the 1-for-18 reverse stock split that became effective August 12, 2022. Refer to Note 2, "Basis of Presentation and Summary of Significant Accounting Policies."

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, our Term Loan 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

On November 9, 2022, we initiated a company-wide involuntary work force reduction involving approximately 160 employees, which represented approximately 20% of our workforce. The action was taken as part of our efforts to improve efficiency and operating costs, and prioritize resources to further strengthen our pricing and underwriting foundation and the continued development of our embedded products. We believe this action will help extend our capital runway. A majority of the affected employees were notified on November 9, 2022, with most job eliminations effective in November 2022.

In the fourth quarter of 2022, we expect to record charges of approximately $10.5 million to $11.5 million in general and administrative expenses for severance, benefits and related costs as a result of these actions. Approximately $7.0 million to $7.5 million of these charges are expected to result in cash expenditures in the same period. We also expect to incur approximately $8.0 million to $8.5 million of employee compensation expense, recognized ratably through the fourth quarter of 2023, for which we expect a cash expenditure in the first quarter of 2024. We are continuing to review the potential impact of the reduction, including additional employee-related costs, and are unable to estimate any additional restructuring costs or charges at this time.

Item 6. Exhibits.

(a) Exhibits.

Exhibit Number	Description of Exhibit	Incorporation by Reference				Filed Herewith
		Form	SEC File Number	Exhibit	Filing Date	
3.1	Amended and Restated Certificate of Incorporation of Root, Inc.	8-K	001-39658	3.1	October 30, 2020	
3.2	Certificate of Amendment to Amended and Restated Certificate of Incorporation of Root, Inc.	8-K	001-39658	3.1	August 15, 2022	
3.3	Amended and Restated Bylaws of Root, Inc.	10-Q	001-39658	3.2	August 12, 2021	
3.4	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#	First Amendment to 2020 Employee Stock Purchase Plan					X
10.2#	First Amendment to 2020 Equity Incentive Plan					X
10.3#	First Amendment to 2015 Amended and Restated Equity Incentive Plan					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
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

# 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.

SIGNATURES

Pursuant to the requirements of the Exchange Act of 1934, the registrant has duly caused this Quarterly Report on Form 10-Q to be signed on its behalf by the undersigned.

	Root, Inc.	
Date: November 9, 2022	By:	/s/ Alexander Timm
		Alexander Timm
		Chief Executive Officer and Director
		(*Principal Executive Officer*)
	Root, Inc.	
Date: November 9, 2022	By:	/s/ Robert Bateman
		Robert Bateman
		Chief Financial Officer
		(*Principal Financial Officer*)
	Root, Inc.	
Date: November 9, 2022	By:	/s/ Megan Binkley
		Megan Binkley
		Chief Accounting Officer
		(*Principal Accounting Officer*)

Exhibit 10.1

FIRST AMENDMENT TO
2020 EMPLOYEE STOCK PURCHASE PLAN

WHEREAS, the Board of Directors (the “Board”) of Root, Inc. (the “Company”) has adopted the 2020 Employee Stock Purchase Plan (the “2020 ESPP”); and

WHEREAS, the Board adopted the 2020 ESPP, effective as of October 18, 2020; and

WHEREAS, on June 7, 2022, the Company’s stockholders approved a reverse stock split of the Company’s common stock; and

WHEREAS, the Board delegated to a subcommittee of the Board authority to approve the final split ratio; and

WHEREAS, on August 1, 2022, a subcommittee of the Board approved a one-for-eighteen reverse stock split effective as of 5:00 p.m. eastern time on August 12, 2022; and

WHEREAS, Section 12 of the 2020 ESPP permits the Board to amend the 2020 ESPP from time to time, subject only to certain limitations specified therein, none of which are applicable to this amendment; and

WHEREAS, this amendment will not require stockholder approval because it relates to a capitalization adjustment; and

WHEREAS, the Board and the Compensation Committee authorized any officer of the Company to adopt such amendment on behalf of the Board; and

NOW, THEREFORE, the following amendment is hereby made part of the 2020 ESPP, effective as of August 12, 2022:

The introductory sentence of Section 2(a) is hereby deleted in its entirety and replaced with the following:

(a) **Share Reserve**. Subject to the provisions of Section 11(a) relating to Capitalization Adjustments, the maximum number of shares of Class A Common Stock that may be issued under the Plan will not exceed 277,777 shares of Class A Common Stock, plus the number of shares of Class A Common Stock that are automatically added on January 1st of each year for a period of up to ten years, commencing on the first January 1 following the year in which the IPO Date occurs and ending on (and including) January 1, 2030, in an amount equal to the lesser of (i) 1% of the total number of shares of Capital Stock outstanding on December 31st of the preceding calendar year, and (ii) 416,666 shares of Class A Common Stock. Notwithstanding the foregoing, the Board may act prior to the first day of any calendar year to provide that there will be no January 1st increase in the share reserve for such calendar year or that the increase in the share reserve for such calendar year will be a lesser number of shares of Class A Common Stock than would otherwise occur pursuant to the preceding sentence. For the avoidance of doubt, up to the maximum number of shares of Class A Common Stock reserved under this Section 3(a) may be used to satisfy purchases of Class A Common Stock under the 423 Component and any remaining portion of such maximum number of shares may be used to satisfy purchases of Class A Common Stock under the Non-423 Component.

IN WITNESS WHEREOF, the Company has executed this First Amendment to the 2020 Employee Stock Purchase Plan.

Root, Inc.

By: /s/ Alexander Timm
Name: Alexander Timm
Title: Chief Executive Officer
Date: August 12, 2022

Exhibit 10.2

FIRST AMENDMENT TO
2020 EQUITY INCENTIVE PLAN

WHEREAS, the Board of Directors (the “Board”) of Root, Inc. (the “Company”) has adopted the 2020 Equity Incentive Plan (the “2020 Plan”) for the benefit of the 2020 Plan participants and to provide incentives to attract, retain and motivate eligible persons whose present and potential contributions are important to the success of the Company, its parent and subsidiaries, by offering them an opportunity to participate in the Company’s future performance through equity awards; and

WHEREAS, the Board adopted the 2020 Equity Incentive Plan, effective as of October 18, 2020; and

WHEREAS, the Board determined that there shall be no new equity grants issued under the 2015 Plan after October 19, 2020 and all future equity grants are to be issued under the 2020 Plan; and

WHEREAS, on June 7, 2022, the Company’s stockholders approved a reverse stock split of the Company’s common stock; and

WHEREAS, the Board delegated to a subcommittee of the Board authority to approve the final split ratio; and

WHEREAS, on August 1, 2022, a subcommittee of the Board approved a one-for-eighteen reverse stock split effective as of 5:00 p.m. eastern time on August 12, 2022; and

WHEREAS, Section 7(b) of the 2020 Plan permits the Board to amend the 2020 Plan from time to time, subject only to certain limitations specified therein, none of which are applicable to this amendment; and

WHEREAS, this amendment will not require stockholder approval because it does not represent a material revision to the 2020 Plan; and

WHEREAS, the Board and the Compensation Committee authorized any officer of the Company to adopt such amendment on behalf of the Board; and

NOW, THEREFORE, the following amendment is hereby made part of the 2020 Plan, effective as of August 12, 2022:

The introductory sentence of Section 2(a) is hereby deleted in its entirety and replaced with the following:

(a) **Share Reserve**. Subject to adjustment in accordance with Section 2(c) and any adjustments as necessary to implement any Capitalization Adjustments, the aggregate number of shares of Class A Common Stock that may be issued pursuant to Awards will not exceed 2,291,546 shares, which number is the sum of: (i) 1,388,888 new shares, plus (ii) a number of shares of Class A Common Stock equal to the Prior Plan's Available Reserve, plus (iii) a number of shares of Class A Common Stock equal to the number of Returning Shares, if any, as such shares become available from time to time. In addition, subject to any adjustments as necessary to implement any Capitalization Adjustments, such aggregate number of shares of Class A Common Stock will automatically increase on January 1 of each year for a period of ten years commencing on January 1, 2021 and ending on (and including) January 1, 2030, in an amount equal to 4%) of the total number of shares of Capital Stock outstanding on December 31 of the preceding year; provided, however, that the Board may act prior to January 1st of a given year to provide that the increase for such year will be a lesser number of shares of Class A Common Stock.

IN WITNESS WHEREOF, the Company has executed this First Amendment to the 2020 Equity Incentive Plan.

Root, Inc.

By: /s/ Alexander Timm
Name: Alexander Timm
Title: Chief Executive Officer
Date: August 12, 2022

Exhibit 10.3

FIRST AMENDMENT TO
AMENDED AND RESTATED
2015 EQUITY INCENTIVE PLAN

WHEREAS, the Board of Directors (the “Board”) of Root, Inc. (the “Company”) has adopted the Amended and Restated 2015 Equity Incentive Plan (the “2015 Plan”) for the benefit of the 2015 Plan participants and to provide incentives to attract, retain and motivate eligible persons whose present and potential contributions are important to the success of the Company, its parent and subsidiaries, by offering them an opportunity to participate in the Company’s future performance through equity awards; and

WHEREAS, the Board adopted the 2020 Equity Incentive Plan, effective as of October 18, 2020; and

WHEREAS, the Board determined that there shall be no new equity grants issued under the 2015 Plan after October 19, 2020 and all future equity grants are to be issued under the 2020 Plan; and

WHEREAS, on June 7, 2022, the Company’s stockholders approved a reverse stock split of the Company’s common stock; and

WHEREAS, the Board delegated to a subcommittee of the Board authority to approve the final split ratio; and

WHEREAS, on August 1, 2022, a subcommittee of the Board approved a one-for-eighteen reverse stock split effective as of 5:00 p.m. eastern time on August 12, 2022; and

WHEREAS, Section 21 of the 2015 Plan permits the Board to amend the 2015 Plan from time to time, subject only to certain limitations specified therein, none of which are applicable to this amendment; and

WHEREAS, this amendment will not require stockholder approval because it does not represent a material revision to the 2015 Plan; and

WHEREAS, the Board and the Compensation Committee authorized any officer of the Company to adopt such amendment on behalf of the Board; and

NOW, THEREFORE, the following amendment is hereby made part of the 2015 Plan, effective as of August 12, 2022:

1. The introductory sentence of Section 2.1 is hereby deleted in its entirety and replaced with the following new sentence to decrease the aggregate number of shares of common stock issuable thereunder:

2.1 Number of Shares Available. Subject to Sections 2.2 and 18 hereof, the total number of Shares reserved and available for grant and issuance pursuant to this Plan will be 2,520,552 Shares or such lesser number of Shares as permitted by applicable law.

2. Section 5.10 is hereby deleted in its entirety and replaced with the following

5.10 No Disqualification. Notwithstanding any other provision in this Plan, no term of this Plan relating to ISOs will be interpreted, amended or altered, nor will any discretion or authority granted under this Plan be exercised, so as to disqualify this Plan under Section 422 of the Code or, without the consent of the Participant, to disqualify any Participant's ISO under Section 422 of the Code. In no event shall the total number of Shares issued (counting each reissuance of a Share that was previously issued and then forfeited or repurchased by the Company as a separate issuance) under the Plan upon exercise of ISOs exceed 333,333 Shares (adjusted in proportion to any adjustments under Section 2.2 hereof) over the term of the Plan.

IN WITNESS WHEREOF, the Company has executed this First Amendment to the 2015 Amended and Restated Equity Incentive Plan.

Root, Inc.

By: /s/ Alexander Timm
Name: Alexander Timm
Title: Chief Executive Officer
Date: August 12, 2022

EXHIBIT 31.1

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: November 9, 2022

/s/ Alexander Timm

Alexander Timm
Chief Executive Officer and Director
(Principal Executive Officer)

EXHIBIT 31.2

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: November 9, 2022

/s/ Robert Bateman
Robert Bateman
Chief Financial Officer
(*Principal Financial Officer*)

EXHIBIT 32.1

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 September 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: November 9, 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.