

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 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 No. 001-39484



METROMILE, INC.  
(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of  
incorporation or organization)

84-4916134

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

425 Market Street #700  
San Francisco, California

(Address of principal executive offices)

94105

(Zip Code)

(888) 242-5204

(Registrant's telephone number, including area code)

N/A

(Former name or former address, if changed since last report)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock	MILE	The Nasdaq Capital Market
Warrants	MILEW	The Nasdaq Capital Market

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

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

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

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

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

The number of shares of the registrant's common stock, \$0.0001 par value per share, outstanding as of May 6, 2022 was 130,419,773.

**METROMILE, INC.**  
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## CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). All statements, other than statements of present or historical fact included in this Quarterly Report on Form 10-Q are forward-looking statements. Any statements that refer to projections, forecasts or other characterizations of future events or circumstances, including any underlying assumptions, are forward-looking statements. We have based these forward-looking statements on our current expectations and projections about future events. Forward-looking statements in this Quarterly Report on Form 10-Q may include, for example, statements about:

- our ability to recognize the anticipated benefits of the Proposed Transaction with Lemonade, Inc. (as defined herein), which may be affected by, among other things, competition and the ability of the combined business to grow and manage growth profitably;
- our financial and business performance, including financial projections and business metrics and any underlying assumptions thereunder;
- changes in our strategy, future operations, financial position, estimated revenues and losses, projected costs, prospects and plans;
- potential disruptions to our ongoing business operations caused by the announcement, pendency or completion of the Proposed Transaction with Lemonade, Inc. (as defined herein);
- our ability to consummate the Proposed Transaction with Lemonade, Inc (as defined herein). and realize the anticipated benefits thereof;
- the implementation, market acceptance and success of our business model;
- our ability to scale in a cost-effective manner;
- developments and projections relating to our competitors and industry;
- the impact of health epidemics, including the COVID-19 pandemic, on our business and the actions we may take in response thereto;
- our expectations regarding our ability to obtain and maintain intellectual property protection and not infringe on the rights of others;
- expectations regarding the time during which we will be an emerging growth company;
- our future capital requirements and sources and uses of cash;
- our ability to obtain funding for our future operations;
- our business, expansion plans and opportunities; and
- the outcome of any known and unknown litigation and regulatory proceedings.

In some cases, you can identify forward-looking statements by terminology such as "anticipate," "continue," "could," "estimate," "expect," "intends," "may," "might," "plan," "possible," "potential," "predict," "project," "seek," "should," "target," "will," "would" or the negative of such terms or other similar expressions. Further, statements that "we believe" and similar statements reflect our beliefs and opinions on the relevant subject. These statements are based upon information available to us as of the date of this Quarterly Report on Form 10-Q, and while we believe such information forms a reasonable basis for such statements, such information may be limited or incomplete, and our statements should not be read to indicate that we have conducted an exhaustive inquiry into, or review of, all potentially available relevant information. These forward-looking statements and statements about our beliefs are subject to known and unknown risks, uncertainties and assumptions about us that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. These risks and uncertainties include the following:

- The announcement and pendency of the mergers contemplated by the Proposed Transaction (as defined herein) may result in disruptions to our business.
- The mergers in the Proposed Transaction (as defined herein) may not be completed within the intended timeframe, or at all, and the failure to complete the mergers could adversely affect our business, results of operations, financial condition, and the market price of our common stock.
- We have a history of net losses and could continue to incur substantial net losses in the future;
- We may lose existing customers or fail to acquire new customers
- We may require additional capital to support business growth or to satisfy our regulatory capital and surplus requirements, and this capital might not be available on acceptable terms, if at all;
- The COVID-19 pandemic has caused disruption to our operations and may negatively impact our business, key metrics, and results of operations in numerous ways that remain unpredictable;
- Severe weather and other catastrophic events, including the effects of climate change, are unpredictable and may have a material adverse effect on our financial results and financial condition;

- We rely on telematics, mobile technology and its digital platform to collect data points that we evaluate in pricing and underwriting insurance policies, managing claims and customer support, and improving business processes, and to the extent regulators prohibit or restrict this collection or use of this data, our business could be harmed;
- Regulatory changes may limit our ability to develop or implement our telematics-based pricing model and/or may eliminate or restrict the confidentiality of our proprietary technology;
- We expect a number of factors to cause our results of operations to fluctuate on a quarterly and annual basis, which may make it difficult to predict future performance;
- Denial of claims or our failure to accurately and timely pay claims could materially and adversely affect our business, financial condition, results of operations, brand and prospects;
- Unexpected increases in the frequency or severity of claims may adversely affect our results of operations and financial condition;
- Failure to maintain our risk-based capital ("RBC") at the required levels could adversely affect our ability to maintain regulatory authority to conduct our business;
- We are subject to stringent and changing privacy and data security laws, regulations, and standards related to data privacy and security, and our actual or perceived failure to comply with such obligations could harm our reputation, subject us to significant fines and liability, or adversely affect our business;
- If we are unable to underwrite risks accurately or charge competitive yet profitable rates to our customers, our business, results of operations and financial condition will be adversely affected;
- Litigation and legal proceedings filed by or against us and our subsidiaries could have a material adverse effect on our business, results of operations and financial condition;
- The insurance business, including the market for automobile, renters' and homeowners' insurance, is historically cyclical in nature, and we may experience periods with excess underwriting capacity and unfavorable premium rates, which could adversely affect our business;
- We are subject to extensive regulation and potential further restrictive regulation may increase our operating costs and limit our growth; and
- Our actual incurred losses may be greater than our loss and loss adjustment expense ("LAE") reserves, which could have a material adverse effect on our financial condition and results of operations.

Additional discussion of the risks, uncertainties and other factors described above, as well as other risks and uncertainties material to our business, can be found under "Risk Factors" in Part II, Item 1A of the Company's 2021 Annual Report on Form 10-K and "Risk Factors" in Part II, Item 1A of this Quarterly Report on Form 10-Q, and we encourage you to refer to that additional discussion. Given these risks, uncertainties and other factors, you should not place undue reliance on these forward-looking statements. Also, these forward-looking statements represent our plans, objectives, estimates, expectations and intentions only as of the date of this filing. You should read this report completely and with the understanding that our actual future results and the timing of events may be materially different from what we expect, and we cannot otherwise guarantee that any forward-looking statement will be realized. We hereby qualify all of our forward-looking statements by these cautionary statements.

Except as otherwise required by applicable law, we disclaim any duty to update any forward-looking statements, all of which are expressly qualified by the statements in this section, to reflect events or circumstances after the date of this Quarterly Report on Form 10-Q. We caution you that these forward-looking statements are subject to numerous risks and uncertainties, most of which are difficult to predict and many of which are beyond our control.

## PART I

### ITEM 1. FINANCIAL STATEMENTS

#### METROMILE, INC. CONSOLIDATED BALANCE SHEETS *(In thousands, except share and per share amounts)*

	March 31, 2022 (unaudited)	December 31, 2021
<b>Assets</b>		
Investments		
Marketable securities - restricted (amortized cost of \$67,613 and \$62,741)	\$ 67,149	\$ 62,625
Total investments	67,149	62,625
Cash and cash equivalents	84,339	120,940
Restricted cash and cash equivalents	31,978	42,881
Receivable for securities	6,551	—
Premiums receivable	18,522	16,839
Reinsurance recoverable on paid loss	2,694	—
Reinsurance recoverable on unpaid loss	4,408	—
Prepaid reinsurance premium	359	—
Prepaid expenses and other assets	27,416	21,677
Deferred policy acquisition costs, net	1,204	1,433
Telematics devices, improvements and equipment, net	12,169	13,654
Website and software development costs, net	21,971	25,866
Intangible assets	7,500	7,500
Assets held for sale	9,253	—
<b>Total assets</b>	<b>\$ 295,513</b>	<b>\$ 313,415</b>
<b>Liabilities, Convertible Preferred Stock and Stockholders' Equity</b>		
<b>Liabilities</b>		
Loss and loss adjustment expense reserves	\$ 76,916	\$ 73,438
Ceded reinsurance premium payable	8,798	—
Payable to carriers - premiums and LAE, net	315	340
Unearned premium reserve	16,924	15,726
Deferred revenue	—	5,601
Accounts payable and accrued expenses	8,421	10,820
Payable for securities	—	422
Warrant liability	1,025	1,156
Other liabilities	19,319	19,524
Liabilities held for sale	6,156	—
<b>Total liabilities</b>	<b>137,874</b>	<b>127,027</b>
Commitments and contingencies ( <a href="#">Note 8</a> )		
<b>Stockholders' equity</b>		
Common stock, \$0.0001 par value; 640,000,000 shares authorized as of March 31, 2022, and December 31, 2021; 130,183,262 and 128,221,885 shares issued and outstanding as of March 31, 2022 and December 31, 2021.	13	13
Accumulated paid-in capital	775,443	769,525
Accumulated other comprehensive loss	(464)	(116)
Accumulated deficit	(617,353)	(583,034)
<b>Total stockholders' equity</b>	<b>157,639</b>	<b>186,388</b>
<b>Total liabilities, convertible preferred stock and stockholders' equity</b>	<b>\$ 295,513</b>	<b>\$ 313,415</b>

See notes to consolidated financial statements.

**METROMILE, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
*(In thousands, except share and per share amounts)*

	Three Months Ended March 31,	
	2022	2021
<b>Revenue</b>	<b>(unaudited)</b>	
Premiums earned, net	\$ 19,165	\$ 1,125
Investment income	45	36
Other revenue	1,489	16,115
<b>Total revenue</b>	<b>20,699</b>	<b>17,276</b>
<b>Costs and expenses</b>		
Losses and loss adjustment expenses	22,060	12,263
Policy servicing expense and other	5,283	4,443
Sales, marketing and other acquisition costs	6,459	47,294
Research and development	4,277	3,650
Amortization of capitalized software	3,368	2,651
Other operating expenses	13,702	8,589
<b>Total costs and expenses</b>	<b>55,149</b>	<b>78,890</b>
<b>Loss from operations</b>	<b>(34,450)</b>	<b>(61,614)</b>
<b>Other expense</b>		
Interest expense	—	15,876
(Decrease) increase in fair value of stock warrant liability	(131)	26,137
<b>Total other expense</b>	<b>(131)</b>	<b>42,013</b>
<b>Loss before taxes</b>	<b>(34,319)</b>	<b>(103,627)</b>
Income tax benefit	—	—
<b>Net loss</b>	<b>\$ (34,319)</b>	<b>\$ (103,627)</b>
<b>Net loss per share, basic and diluted</b>	<b>\$ (0.27)</b>	<b>\$ (1.37)</b>
Weighted-average shares used in computing basic and diluted net loss per share	128,715,031	75,791,557

See notes to consolidated financial statements.

**METROMILE, INC.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**  
*(In thousands)*

	Three Months Ended March 31,	
	2022	2021
	(unaudited)	
Net loss	\$ (34,319)	\$ (103,627)
Unrealized net loss on marketable securities	(348)	(9)
Total comprehensive loss	\$ (34,667)	\$ (103,636)

*See notes to consolidated financial statements.*

**METROMILE, INC.**  
**CONSOLIDATED STATEMENTS OF CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY**  
*(dollars in thousands)*

	Convertible Preferred Stock		Common Stock			Note Receivable	Accumulated Other Comprehensive Income	Accumulated Deficit	Total
	Shares	Amount	Shares	Amount	APIC				
<b>Balance as of December 31, 2020</b>	<b>67,728,286</b>	<b>\$ 304,469</b>	<b>8,854,978</b>	<b>\$ 1</b>	<b>\$ 5,482</b>	<b>\$ (415)</b>	<b>\$ 11</b>	<b>\$ (366,575)</b>	<b>\$ (361,496)</b>
Retroactive application of recapitalization	1,048,328	—	137,061	—	—	—	—	—	—
<b>As adjusted, beginning of period</b>	<b>68,776,614</b>	<b>304,469</b>	<b>8,992,039</b>	<b>1</b>	<b>5,482</b>	<b>(415)</b>	<b>11</b>	<b>(366,575)</b>	<b>(361,496)</b>
Stock-based compensation	—	—	—	—	3,208	—	—	—	3,208
Exercises and vested portion of stock options	—	—	1,089,670	—	2,059	—	—	—	2,059
Conversion of promissory note	—	—	—	—	(415)	415	—	—	—
RSUs withheld for tax purposes	—	—	—	—	(422)	—	—	—	(422)
Unrealized net loss on marketable securities	—	—	—	—	—	—	(9)	—	(9)
Exercise of convertible preferred stock warrants	3,974,655	132,718	—	—	—	—	—	—	—
Conversion of preferred stock to common	(72,751,269)	(437,187)	72,751,269	7	437,187	—	—	—	437,194
Business Combination and PIPE financing	—	—	43,894,156	4	290,953	—	—	—	290,957
Net loss	—	—	—	—	—	—	—	(103,627)	(103,627)
<b>Balance as of March 31, 2021</b>	<b>—</b>	<b>\$ —</b>	<b>126,727,134</b>	<b>\$ 12</b>	<b>\$ 738,052</b>	<b>\$ —</b>	<b>\$ 2</b>	<b>\$ (470,202)</b>	<b>\$ 267,864</b>
<b>Balance as of December 31, 2021</b>	<b>—</b>	<b>—</b>	<b>128,221,885</b>	<b>\$ 13</b>	<b>\$ 769,525</b>	<b>\$ —</b>	<b>\$ (116)</b>	<b>\$ (583,034)</b>	<b>\$ 186,388</b>
401K match with MILE stock	—	—	110,364	—	553	—	—	—	553
Vesting of common stock from early exercises	—	—	—	—	107	—	—	—	107
Stock-based compensation	—	—	1,851,013	—	5,258	—	—	—	5,258
Unrealized net loss on marketable securities	—	—	—	—	—	—	(348)	—	(348)
Net loss	—	—	—	—	—	—	—	(34,319)	(34,319)
<b>Balance as of March 31, 2022</b>	<b>—</b>	<b>\$ —</b>	<b>130,183,262</b>	<b>\$ 13</b>	<b>\$ 775,443</b>	<b>\$ —</b>	<b>\$ (464)</b>	<b>\$ (617,353)</b>	<b>\$ 157,639</b>

See notes to consolidated financial statements.

**METROMILE, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
*(in thousands)*

	Three Months Ended March 31,	
	2022	2021
	(unaudited)	
<b>Cash flows from operating activities:</b>		
Net loss	\$ (34,319)	\$ (103,627)
Adjustments to reconcile net loss to cash used in operating activities:		
Depreciation and amortization	5,255	4,023
Stock-based compensation	5,258	3,208
Change in fair value of warrant liability	(131)	26,137
Telematics devices unreturned	244	265
Amortization of debt issuance costs	—	11,695
Noncash interest and other expense	638	3,752
Changes in operating assets and liabilities:		
Premiums receivable	(1,683)	(2,678)
Reinsurance recoverable on paid loss	(2,694)	5,707
Reinsurance recoverable on unpaid loss	(4,408)	25,247
Prepaid reinsurance premium	(359)	7,351
Prepaid expenses and other assets	(7,443)	(2,972)
Deferred transaction costs	—	3,581
Deferred policy acquisition costs, net	(54)	(1,437)
Accounts payable and accrued expenses	(1,939)	1,400
Ceded reinsurance premium payable	8,798	(15,765)
Loss and loss adjustment expense reserves	3,478	4,488
Payable to carriers - premiums and LAE, net	(25)	47
Unearned premium reserve	1,198	2,189
Deferred revenue	305	(649)
Other liabilities	(100)	(1,325)
<b>Net cash used in operating activities</b>	<b>(27,981)</b>	<b>(29,363)</b>
<b>Cash flows from investing activities:</b>		
Purchases of telematics devices, improvements, and equipment	(12)	(126)
Payments relating to capitalized website and software development costs	(5,188)	(1,551)
Net change in payable/(receivable) for securities	(6,973)	822
Purchase of securities	(11,970)	(4,211)
Sales and maturities of marketable securities	7,013	5,805
<b>Net cash (used in) provided by investing activities</b>	<b>(17,130)</b>	<b>739</b>
<b>Cash flow from financing activities:</b>		
Proceeds from notes payable	—	2,015
Payment on notes payable	—	(69,351)
Proceeds from merger with INSU II, net of issuance costs	—	336,469
Proceeds from exercise of common stock options and warrants	—	4,349
<b>Net cash provided by financing activities</b>	<b>—</b>	<b>273,482</b>
Net (decrease) increase in cash, cash equivalents, restricted cash and restricted cash equivalents including cash classified within assets held for sale	(45,111)	244,858
Less: Net increase in cash classified within assets held for sale	2,393	—
Net (decrease) increase in cash, cash equivalents, restricted cash and restricted cash equivalents	(47,504)	244,858
Cash, cash equivalents, restricted cash and restricted cash equivalents at beginning of period	163,821	50,188
<b>Cash, cash equivalents, restricted cash and restricted cash equivalents at end of period</b>	<b>\$ 116,317</b>	<b>\$ 295,046</b>
<b>Supplemental cash flow data:</b>		
Cash paid for interest	\$ —	\$ 3,164
<b>Non-cash investing and financing transactions:</b>		
Transaction costs in accrued liabilities at period end	\$ —	\$ 2,598
Warrants assumed from Business Combination	\$ —	\$ 45,516
Net exercise of preferred stock warrants	\$ —	\$ 56,160
Net exercise of promissory note	\$ —	\$ 415
Capitalized website and software development costs included in accrued liabilities	\$ 231	\$ 137
Capitalized stock-based compensation	\$ 758	\$ 171
Reclassification of liability to equity for vesting of stock options	\$ 107	\$ 284

See notes to consolidated financial statements.

**METROMILE, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

## 1. Overview and Basis of Presentation

Metromile, Inc. (together with its consolidated subsidiaries, the "Company") formerly known as INSU Acquisition Corp. II ("INSU"), was incorporated in Delaware on October 11, 2018. INSU was formed for the purpose of effecting a merger, capital stock exchange, asset acquisition, stock purchase, reorganization or similar business combination with one or more businesses.

The registration statement for INSU's initial public offering ("IPO") was declared effective on September 2, 2020. On September 8, 2020 INSU consummated the IPO of 23,000,000 units ("Units"), and, with respect to the shares of Class A common stock, par value \$0.0001 (the "Class A Common Stock") included in the Units sold (the "Public Shares"), which included the full exercise by the underwriters of their over-allotment option in the amount of 3,000,000 Units, at \$10.00 per Unit, generating gross proceeds of \$230.0 million. Simultaneously with the closing of the IPO, INSU consummated the sale of 540,000 units (the "Placement Units"), at a price of \$10.00 per Placement Unit in a private placement to the sponsor and Cantor Fitzgerald & Co. ("Cantor"), generating gross proceeds of \$5.4 million. Transaction costs amounted to \$14.2 million, consisting of \$4.0 million in cash underwriting fees, \$9.8 million of deferred underwriting fees and \$0.4 million of other offering costs. Following the closing of the IPO on September 8, 2020, \$230.0 million (\$10.00 per Unit) from the net proceeds of the sale of the Units in the IPO and the sale of the Placement Units was placed in a trust account (the "Trust Account"), which was invested in U.S. government securities, within the meaning set forth in Section 2(a)(16) of the Investment Company Act of 1940, as amended (the "Investment Company Act"), with a maturity of 185 days or less, or in money market funds meeting certain conditions under Rule 2a-7 of the Investment Company Act, as determined by INSU.

### Enterprise Business Solutions Held for Sale

As of March 31, 2022, the Company had committed to a plan to sell its Enterprise Business Solutions segment and as such the assets and liabilities have been classified as held for sale in the Company's consolidated balance sheets beginning with the period ended March 31, 2022. The business does not meet the criteria to be classified as a discontinued operation; therefore, the results are reflected within continuing operations on the consolidated statements of operations. For additional information related to the held for sale business, please see Note 16, Business Disposition.

### Acquisition of Metromile, Inc. by Lemonade, Inc.

On November 8, 2021, the Company entered into an Agreement and Plan of Merger (the "Agreement") with Lemonade, Inc., a Delaware corporation ("Lemonade"), Citrus Merger Sub A, Inc., a Delaware corporation and a wholly-owned subsidiary of Lemonade ("Acquisition Sub I") and Citrus Merger Sub B, LLC, a Delaware limited liability company and wholly owned subsidiary of Lemonade ("Acquisition Sub II"), pursuant to which (i) Acquisition Sub I will merge with and into Metromile (the "First Merger" and the effective time of the First Merger, the "First Effective Time"), with Metromile continuing as the surviving entity (the "Initial Surviving Corporation"), and (ii) the Initial Surviving Corporation will merge with and into Acquisition Sub II (the "Second Merger"), with Acquisition Sub II continuing as the surviving entity as a wholly owned subsidiary of Lemonade (the First Merger, the Second Merger and the other transactions contemplated by the Agreement, collectively, the "Proposed Transaction"). The Proposed Transaction implies a fully diluted equity value of approximately \$500 million, or an enterprise value of about \$340 million net of unrestricted cash and cash equivalents as September 30, 2021. In accordance with the Agreement, at the First Effective Time, each share of our common stock issued and outstanding immediately prior to the First Effective Time will be converted into the right to receive 0.05263 (the "Exchange Ratio") validly issued, fully paid and non-assessable shares of common stock of Lemonade, par value \$0.00001 per share ("Lemonade Common Stock"). The Proposed Transaction is conditioned on customary closing conditions, including receipt of applicable regulatory approvals, and is expected to close in the second quarter of 2022. The applicable waiting period for the Proposed Transaction under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, has expired and on February 1, 2022, the Proposed Transaction was approved by our stockholders.

For additional information related to the Proposed Transaction, please see Note 4, Business Combinations included in this Quarterly Report on Form 10-Q, the Company's Annual Report on Form 10-K for the year ended December 31, 2021, the Company's Current Report on Form 8-K filed with the SEC on November 9, 2021 as well as the proxy statement/prospectus filed with the SEC on December 29, 2021.

### Business Combination

On February 9, 2021, the Company consummated a merger pursuant to that certain Agreement and Plan of Merger and Reorganization, dated November 24, 2020, and as amended on January 12, 2021 and February 8, 2021 (the "Merger Agreement"), by and among INSU, INSU II Merger Sub Corp., a Delaware corporation and a direct wholly owned subsidiary of INSU ("Merger Sub") and MetroMile, Inc., a Delaware corporation ("Legacy Metromile"), pursuant to which, among other things, Merger Sub merged with and into Legacy Metromile, with Legacy Metromile surviving the merger as a wholly owned subsidiary of the Company (the "Merger," and together with the other transactions contemplated by the Merger Agreement, the "Business Combination"). In connection with the closing of the Business Combination (the "Closing"), the Company changed its name to Metromile, Inc., and Legacy Metromile changed its name to Metromile Operating Company. Unless the context indicates otherwise, references to "INSU" refer to the historical operations of INSU prior to the Closing, and references to the "Company," "Metromile" and "Metromile Operating Company" refer to the historical operations of Legacy Metromile and its consolidated subsidiaries prior to the Closing and the business of the combined company and its subsidiaries following the Closing.

The Merger was accounted for as a reverse recapitalization in accordance with accounting principles generally accepted in the United States (“GAAP”). Under this method of accounting, INSU, who was the legal acquirer, is treated as the “acquired” company for financial reporting purposes and Metromile Operating Company is treated as the accounting acquirer. This determination was primarily based on the fact that Metromile Operating Company’s stockholders prior to the Merger have a majority of the voting power of the Company, Metromile Operating Company’s senior management now comprise substantially all of the senior management of the Company, the relative size of Metromile Operating Company compared to the Company, and that Metromile Operating Company’s operations comprise the ongoing operations of the Company. Accordingly, for accounting purposes, the Merger is treated as the equivalent of a capital transaction in which Metromile Operating Company issued stock for the net assets of INSU, which are stated at historical cost, with no goodwill or other intangible assets recorded, and Metromile Operating Company’s financial statements became those of the Company.

Pursuant to the Amended and Restated Certificate of Incorporation of the Company, at the closing, each share of INSU’s Class B Common Stock, par value \$0.0001 per share (the “Class B Common Stock”), converted into one share of INSU’s Class A Common Stock. After the Closing and following the effectiveness of the Second Amended and Restated Certificate of Incorporation of the Company, each share of Class A Common Stock was automatically reclassified, redesignated and changed into one validly issued, fully paid and non-assessable share of the Company’s Common Stock, par value \$0.0001 per share (the “Common Stock”), without any further action by the Company or any stockholder thereof.

On February 9, 2021, a number of purchasers (each, a “Subscriber”) purchased from the Company an aggregate of 17,000,000 shares of Common Stock (the “PIPE Shares”), for a purchase price of \$10.00 per share and an aggregate purchase price of \$170.0 million, pursuant to separate subscription agreements (each, a “Subscription Agreement”) entered into effective as of November 24, 2020. Pursuant to the Subscription Agreements, the Company gave certain registration rights to the Subscribers with respect to the PIPE Shares. The sale of PIPE Shares was consummated concurrently with the Closing.

#### **Description of Business after the Business Combination**

The Company, through Metromile Operating Company and its wholly owned subsidiary, Metromile Insurance Services LLC (the “GA Subsidiary”), sells pay-per-mile auto insurance to consumers in eight states: California, Washington, Oregon, Illinois, Pennsylvania, Virginia, New Jersey, and Arizona. Metromile Operating Company has a wholly owned subsidiary, Metromile Insurance Company (the “Insurance Company”), which focuses on property and casualty insurance. In January 2019, Metromile Operating Company formed Metromile Enterprise Solutions, LLC (“Enterprise”), a wholly owned subsidiary, which focuses on selling its insurance solution technology to third party customers.

The Insurance Company provides auto insurance to customers with premiums based on a flat rate plus an adjustable rate based on actual miles driven. To record miles driven, the GA Subsidiary may provide drivers with a telematics device, the Metromile Pulse, which plugs into a car’s on-board diagnostic system to capture mileage.

The GA Subsidiary acts as a full-service insurance General Agent (“GA”). As a full-service GA, the subsidiary provides all policy pricing, binding, and servicing (payments and customer service) for the policyholders. Until late 2016, the GA Subsidiary underwriting carrier was National General Insurance (“NGI”) and its related carriers. The GA Subsidiary began transitioning NGI-issued policies upon renewal in late 2016 to the Insurance Company and has only a small number of policies with NGI as of March 31, 2022. Policies underwritten by the Insurance Company are binded by the GA as well as through a network of independent agents.

NGI handles claims for the GA Subsidiary’s policies underwritten by NGI and its related carriers, for which it pays NGI a fee for the LAE. NGI bears the risk of loss under these policies. Accordingly, the Company has no exposure to claims that would require an accrual for those NGI-related losses.

The Insurance Company bears risk of loss under all insurance policies it underwrites. The financial statements include reserves for future claims based on actuarial estimates for the Insurance Company. The Loss and LAE reserves as of March 31, 2022 (unaudited) and December 31, 2021 were \$76.9 million and \$73.4 million, respectively.

#### **Basis of Presentation**

The accompanying interim unaudited consolidated financial statements have been prepared in accordance GAAP and in accordance with the rules and regulations of the U.S. Securities and Exchange Commission (“SEC”). References to the Accounting Standard Codification (“ASC”) and Accounting Standard Updates (“ASU”) included hereinafter refer to the Accounting Standards Codification and Updates established by the Financial Accounting Standards Board (“FASB”) as the source of authoritative GAAP. The consolidated financial statements include the accounts of Metromile, Inc. and its subsidiaries, all of which are wholly owned. All intercompany accounts and transactions have been eliminated in consolidation.

These unaudited consolidated financial statements should be read in conjunction with the Company’s consolidated financial statements and related notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2021 (“the Company’s 2021 Annual Report”).

#### **Liquidity and Capital Resources**

Consistent with 2021, the Company’s liquidity and capital resources were not materially impacted by COVID-19 and related economic conditions during the first three months of 2022.

While these impacts have moderated since the beginning of the pandemic, there remains a risk that previous disruptions could return or new issues emerge as time amidst the pandemic perpetuates. The Company will continue to monitor and proactively adapt to the changing conditions and effects of COVID-19, but given the continued uncertainty about the duration or magnitude of the pandemic, it is not possible to reliably estimate the impact on the Company's financial condition, operations, and workforce.

#### **Reclassifications**

Reclassifications have been made to the prior year balances to conform to the current year presentation. In particular, accounts receivable, and digital assets, net have been combined with prepaid expenses and other assets into a single line on the consolidated balance sheets and consolidated statements of cash flows. The reclassifications had no effect on stockholders' deficit or net loss after taxes as previously reported.

#### **Unaudited Interim Financial Information**

The accompanying interim consolidated balance sheets as of March 31, 2022, the interim consolidated statements of operations, comprehensive loss, convertible preferred stock and stockholders' (deficit) equity for the three months ended March 31, 2021 and 2022, and cash flows for the three months ended March 31, 2021 and 2022 are unaudited. These unaudited interim consolidated financial statements are presented in accordance with the rules and regulations of the SEC and do not include all disclosures normally required in annual consolidated financial statements prepared in accordance with GAAP. In management's opinion, the unaudited interim consolidated financial statements have been prepared on the same basis as the annual financial statements and include all adjustments, which include only normal recurring adjustments, necessary for the fair presentation of the Company's financial position as of March 31, 2022 and the Company's consolidated results of operations for the three months ended March 31, 2021 and 2022, and cash flows for the three months ended March 31, 2021 and 2022. The results of operations for the periods presented are not necessarily indicative of the results to be expected for the full fiscal year or any other future interim or annual periods.

#### **Use of Estimates**

The preparation of consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and the accompanying notes. On an ongoing basis, the Company's management evaluates estimates, including those related to contingent assets and liabilities as of the date of the financial statements as well as the reported amounts of revenue and expense during the reporting period. The Company's principal estimates include: unpaid losses and LAE reserves; the fair value of investments; the fair value of stock-based awards; the fair value of the warrant liability; premium refunds to policyholders; reinsurance recoverable on unpaid loss; and the valuation allowance for income taxes. Because of uncertainties associated with estimating the amounts, timing and likelihood of possible outcomes, actual results could differ materially from these estimates.

There have been no material changes to our significant accounting policies from our audited consolidated financial statements included in the Company's 2021 Annual Report except as set forth below:

#### **Discontinued Operations and Held for Sale**

A business is classified as held for sale when management having the authority to approve the action commits to a plan to sell the business, the sale is probable to occur during the next 12 months at a price that is reasonable in relation to its current fair value and certain other criteria are met. A business classified as held for sale is recorded at the lower of its carrying amount or estimated fair value less cost to sell. When the carrying amount of the business exceeds its estimated fair value less cost to sell, a loss is recognized and updated each reporting period as appropriate. The results of operations of business classified as held for sale are reported as discontinued operations if the disposal represents a strategic shift that will have a major effect on the entity's operations and financial results.

#### **Adoption of Accounting Standards**

For information regarding accounting standards that the Company adopted during the periods presented, see Note 1 of notes to the consolidated financial statements in the Company's 2021 Annual Report.

### **Recently Issued Accounting Pronouncements**

#### **Reference Rate Reform**

In March 2020, FASB issued ASU 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting, which provides optional expedients and exceptions to contract modifications and hedging relationships that reference LIBOR or another reference rate expected to be discontinued. The standard is effective upon issuance through December 31, 2022 and may be applied at the beginning of the interim period that includes March 12, 2020 or any date thereafter. The Company is currently evaluating this new standard and the impact it will have on its consolidated financial statements.

This standard may be elected and applied prospectively over time from March, 2020 through December 31, 2022 as reference rate reform activities occur. The Company is evaluating the method of adoption and impact of the standard on its consolidated financial statements and related disclosures.

## **Government Assistance**

In November 2021, the FASB issued ASU 2021-10, Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistance. This update requires annual disclosures about transactions with a government that are accounted for by applying a grant or contribution accounting model by analogy. This standard is effective for annual periods beginning after December 15, 2021. Early adoption is permitted. The amendments should be applied either (1) prospectively to all transactions within the scope of the amendments that are reflected in financial statements at the date of initial application and new transactions that are entered into after the date of initial application or (2) retrospectively to those transactions. The Company is currently evaluating the impact of these amendments on its consolidated financial statements.

## **2. Fair Value of Financial Instruments**

Topic 820, *Fair Value Measurements*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Topic 820 also establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 — Quoted prices in active markets for identical assets or liabilities.

Level 2 — Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

An asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying Consolidated Balance Sheet, as well as the general classification of such instruments pursuant to the valuation hierarchy.

### ***Cash and Cash Equivalents***

The Company's cash and cash equivalents are demand and money market accounts and other highly liquid investments with an original maturity of three months or less. Demand and money market accounts are at stated values. Fair values for other cash equivalents are classified as Level 1 and are based upon appropriate valuation methodology.

### ***Marketable Securities — Available-for-sale***

The Company classifies highly liquid money market funds, U.S. Treasury bonds and certificates of deposit within Level 1 of the fair value hierarchy because they are valued based on quoted market prices in active markets and upon models that take into consideration such market-based factors as recent sales, risk-free yield curves, and prices of similarly rated bonds. Commercial paper, corporate bonds, corporate debt securities, repurchase agreements, and asset backed securities are classified within Level 2 because they are valued using inputs other than quoted prices that are directly or indirectly observable in the market, including readily available pricing sources for the identical underlying security which may not be actively traded. The Company did not hold any securities classified within Level 3 as of March 31, 2022 (unaudited) and December 31, 2021.

Assets measured on a recurring basis at fair value, primarily related to marketable securities, included in the consolidated balance sheets as of March 31, 2022 (unaudited) and December 31, 2021 are set forth below (in thousands):

	Fair Value Measurement at March 31, 2022 (unaudited)			
	Level 1	Level 2	Level 3	Total
<b>Cash equivalents</b>				
Money market accounts	\$ 79,039	\$ —	\$ —	\$ 79,039
<b>Total cash equivalents</b>	<b>\$ 79,039</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 79,039</b>
<b>Restricted cash equivalents</b>				
Money market accounts	\$ 14,662	\$ —	\$ —	\$ 14,662
Certificates of deposits	3,031	—	—	3,031
<b>Total restricted cash equivalents</b>	<b>\$ 17,693</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 17,693</b>
<b>Marketable securities - restricted</b>				
Corporate debt securities	\$ —	\$ 2,738	\$ —	\$ 2,738
U.S. treasury and agency securities	37,693	1,956	—	39,649
Commercial paper	—	18,550	—	18,550
Asset backed securities	—	6,212	—	6,212
<b>Total marketable securities - restricted</b>	<b>\$ 37,693</b>	<b>\$ 29,456</b>	<b>\$ —</b>	<b>\$ 67,149</b>

	Fair Value Measurement at December 31, 2021			
	Level 1	Level 2	Level 3	Total
<b>Cash equivalents</b>				
Money market accounts	\$ 113,402	\$ —	\$ —	\$ 113,402
<b>Total cash equivalents</b>	<b>\$ 113,402</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 113,402</b>
<b>Restricted cash equivalents</b>				
Money market accounts	\$ 19,569	\$ —	\$ —	\$ 19,569
Certificates of deposits	3,331	—	—	3,331
<b>Total restricted cash equivalents</b>	<b>\$ 22,900</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 22,900</b>
<b>Marketable securities - restricted</b>				
Corporate debt securities	\$ —	\$ 2,545	\$ —	\$ 2,545
U.S. treasury securities	33,295	1,986	—	35,281
Commercial paper	—	16,081	—	16,081
Asset backed securities	—	8,718	—	8,718
<b>Total marketable securities - restricted</b>	<b>\$ 33,295</b>	<b>\$ 29,330</b>	<b>\$ —</b>	<b>\$ 62,625</b>

#### Public and Private Warrants

At the Closing, Metromile Operating Company acquired the net liabilities from INSU, including warrants exercisable for common stock. The Company estimated the fair value of warrants exercisable for common stock measured at fair value on a recurring basis at the respective dates using the public trading price, for the Public warrants, and the Black-Scholes option valuation model, for the Private placement warrants (together with the public warrants, the "Warrants"), respectively. The Black-Scholes option valuation model inputs are based on the estimated fair value of the underlying common stock at the valuation measurement date, the remaining contractual term of the warrant, the risk-free interest rates, the expected dividends, and the expected volatility of the price of the Company's underlying stock. These estimates, especially the expected volatility, are highly judgmental and could differ materially in the future.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. The Company considers its Public warrants to be Level 1 liabilities as it uses publicly and readily available information to measure the fair value of the warrants. For the Company's Private placement warrants, while the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date and as such are classified as Level 2 liabilities.

The table below sets forth a summary of changes in the fair value of the Company's Level 1, Level 2, and Level 3 liabilities for the year ended December 31, 2021 and the three months ended March 31, 2022 (unaudited) (in thousands):

<b>Balance at December 31, 2020</b>	<b>\$ 83,652</b>
Increase in fair value of warrants	47,062
Exercise of preferred stock warrants prior to Business Combination	(130,714)
Public and Private placement Warrants acquired in Business Combination	45,623
Decrease in fair value of Public and Private placement Warrants	(44,467)
<b>Balance at December 31, 2021</b>	<b>\$ 1,156</b>
Decrease in fair value of warrants	(131)
<b>Balance at March 31, 2022</b>	<b>\$ 1,025</b>

The fair value of the Private placement warrants was determined using the Black-Scholes option valuation model using the following assumptions for values as of March 31, 2022:

	Estimated Fair Value of Warrants as of March 31, 2022 (in thousands)	Exercise Price (in whole dollars)	Dividend Yield	Volatility	Risk-Free Interest Rate	Expected Term (in years)
Private placement warrants	\$ 28.8	\$ 11.50	0 %	75 %	2.44 %	3.86

In connection with the Merger, each of the Metromile Operating Company convertible preferred stock warrants outstanding as of December 31, 2020 was exercised for shares of Metromile Operating Company common stock. Therefore, there were no convertible preferred stock warrants outstanding after the Closing.

Through the three months ended March 31, 2022 and 2021 (unaudited), there were no transfers to or from any Level. The carrying amounts of accounts payable, accrued expenses and notes payable approximate their fair values because of the relatively short periods until they mature or are required to be settled.

### 3. Marketable Securities

The Company has investments in certain debt securities that have been classified as available-for-sale and recorded at fair value. These investments are included in both assets for securities with a maturity of one-year or less and assets for securities with a maturity of more than one-year. These securities are held in the Insurance Company and shown as restricted given that the transfer of these assets is subject to the approval of the state regulators. As of March 31, 2022 (unaudited) and December 31, 2021, deposits with various states consisted of bonds, cash and cash equivalents with carrying values of \$5.2 million in both periods.

Following the adoption of accounting guidance for credit losses on January 1, 2021, when marketable securities are in an unrealized loss position and the Company does not record an intent-to-sell impairment, the Company will record an allowance for credit losses ("ACL") for the portion of the unrealized loss due to a credit loss. Any remaining unrealized loss on a fixed maturity after recording an ACL is the non-credit amount and is recorded in other comprehensive income (loss) ("OCI"). The ACL is the excess of the amortized cost over the greater of the Company's best estimate of the present value of expected future cash flows or the security's fair value. The ACL cannot exceed the unrealized loss and, therefore, it may fluctuate with changes in the fair value of the fixed maturity if the fair value is greater than the Company's best estimate of the present value of expected future cash flows. The initial ACL and any subsequent changes are recorded in net realized capital gains and losses. The ACL is written off against the amortized cost in the period in which all or a portion of the related fixed maturity is determined to be uncollectible. For further information refer to Note 1, Basis of Presentation and Significant Accounting Policies in the Company's 2021 Annual Report.

As of December 31, 2021 and March 31, 2022 (unaudited), the Company did not recognize credit losses.

The amortized cost and fair value of investments in fixed maturities classified as available-for-sale as of March 31, 2022 (unaudited) and December 31, 2021 are presented below (in thousands):

	As of March 31, 2022 (Unaudited)				
	Amortized Cost	ACL	Unrealized Gain	Unrealized Loss	Estimated Fair Value
Marketable securities - restricted					
Corporate debt securities	\$ 2,741	\$ —	\$ —	\$ (3)	\$ 2,738
U.S. treasury and agency securities	40,088	—	—	(439)	39,649
Commercial paper	18,550	—	—	—	18,550
Asset backed securities	6,234	—	—	(22)	6,212
<b>Total marketable securities - restricted</b>	<b>\$ 67,613</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ (464)</b>	<b>\$ 67,149</b>

	As of December 31, 2021				
	Amortized Cost	ACL	Unrealized Gain	Unrealized Loss	Estimated Fair Value
Marketable securities - restricted					
Corporate debt securities	\$ 2,547	\$ —	\$ —	\$ (2)	\$ 2,545
U.S. treasury securities	35,385	—	—	(104)	35,281
Commercial paper	16,081	—	—	—	16,081
Asset backed securities	8,728	—	—	(10)	8,718
<b>Total marketable securities - restricted</b>	<b>\$ 62,741</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ (116)</b>	<b>\$ 62,625</b>

The amortized cost and estimated fair value of marketable securities as of March 31, 2022 (unaudited) and December 31, 2021 and are shown below by contractual maturity (in thousands):

	As of March 31, 2022 (unaudited)	
	Amortized Cost	Estimated Fair Value
Due within one year	\$ 52,471	\$ 52,298
Due between one to five years	15,142	14,851
	<b>\$ 67,613</b>	<b>\$ 67,149</b>

  

	As of December 31, 2021	
	Amortized Cost	Estimated Fair Value
Due within one year	\$ 41,603	\$ 41,596
Due between one to five years	21,138	21,029
	<b>\$ 62,741</b>	<b>\$ 62,625</b>

The following table summarizes, for all fixed maturities classified as available-for-sale in an unrealized loss position at March 31, 2022, the aggregate fair value and gross unrealized loss by length of time those securities have been continuously in an unrealized loss position. The fair value amounts reported in the tables are estimates that are prepared using the process described in Note 2, Fair Value. The Company also relies upon estimates of several factors in its review and evaluation of individual investments, using the process described in Note 1, Basis of Presentation and Significant Accounting Policies in the Company's 2021 Annual Report in determining whether a credit loss impairment exists.

	As of March 31, 2022 (unaudited)					
	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Marketable securities - restricted						
Corporate debt securities	\$ 732	\$ (3)	\$ —	\$ —	\$ 732	\$ (3)
U.S. treasury and agency securities	39,649	(439)	—	—	39,649	(439)
Commercial paper	1,006	—	—	—	1,006	—
Asset backed securities	6,212	(22)	—	—	6,212	(22)
Total in an unrealized loss position	\$ 47,599	\$ (464)	\$ —	\$ —	\$ 47,599	\$ (464)

  

	As of December 31, 2021					
	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Marketable securities - restricted						
Corporate debt securities	\$ 737	\$ (2)	\$ —	\$ —	\$ 737	\$ (2)
U.S. treasury and agency securities	31,809	(104)	—	—	31,809	(104)
Commercial paper	1,808	—	—	—	1,808	—
Asset backed securities	8,716	(10)	—	—	8,716	(10)
Total in an unrealized loss position	\$ 43,070	\$ (116)	\$ —	\$ —	\$ 43,070	\$ (116)

#### 4. Business Combination

##### INSU

As described in Note 1, Basis of Presentation and Significant Accounting Policies, the Merger with INSU was consummated on February 9, 2021 (the "Closing Date"). For financial accounting and reporting purposes under GAAP, the Business Combination was accounted for as a reverse acquisition and recapitalization, with no goodwill or other intangible asset recorded. As a result, the historical operations of Metromile Operating Company are deemed to be those of the Company. Thus, the financial statements included in this report reflect (i) the historical operating results of Metromile Operating Company prior to the Business Combination; (ii) the combined results of the Company and Metromile Operating Company following the Business Combination; (iii) the assets and liabilities of Metromile Operating Company at their historical cost; and (iv) the Company's equity structure for all periods presented.

In accordance with guidance applicable to these circumstances, the equity structure has been restated in all comparative periods up to the Closing Date, to reflect the number of shares of the Company's common stock issued to Metromile Operating Company stockholders in connection with the recapitalization transaction. As such, the shares and corresponding capital amounts and earnings per share related to Metromile Operating Company redeemable convertible preferred stock and Metromile Operating Company common stock prior to the Business Combination have been retroactively restated as shares reflecting the exchange ratio established in the Merger Agreement. Activity within the statement of stockholder's equity for the issuances and repurchases of Metromile Operating Company redeemable preferred stock, were also retroactively converted to Metromile Operating Company common stock.

The following table reconciles the elements of the Business Combination to the consolidated statement of cash flows and the consolidated statement of stockholders' equity for the three months ended March 31, 2021 (dollars in thousands).

	Recapitalization
Cash – INSU's trust and cash (net of redemptions)	\$ 229,925
Cash – PIPE	170,000
Less transaction costs and advisory fees paid	31,456
Less cash payments to Metromile Operating Company stockholders	32,000
Net Business Combination and PIPE financing	336,469
Less non-cash net liabilities assumed from INSU	45,516
Net contributions from Business Combination and PIPE Financing	\$ 290,953

	Number of Shares
INSU Class A Common stock, outstanding prior to Business Combination	23,540,000
INSU Class B Common stock, outstanding prior to Business Combination	6,669,667
Less redemption of INSU shares	8,372
Common stock of INSU	30,201,295
Shares issued in PIPE	17,000,000
Business Combination and PIPE financing shares	47,201,295
Metromile Operating Company shares <sup>(1)</sup>	79,525,839
Total shares of common stock immediately after Business Combination	126,727,134

(1) The number of Metromile Operating Company shares was determined from the 78,313,665 shares of Metromile Operating Company common and preferred stock outstanding immediately prior to the closing of the Business Combination, which are presented net of the common and preferred stock redeemed, converted at the Exchange Ratio of 1.01547844. All fractional shares were rounded down.

## Lemonade

As described above in Note 1, Basis of Presentation and Significant Accounting Policies the Company and Lemonade have entered into the Agreement, pursuant to which Lemonade will acquire the Company in an all-stock transaction that implies a fully diluted equity value of approximately \$500 million, as of November 5, 2021 which was the last full trading day prior to public announcement of the Proposed Transaction, or an enterprise value of about \$340 million net of unrestricted cash and cash equivalents as of September 30, 2021.

In accordance with the Agreement, at the First Effective Time, each share of the Company's common stock issued and outstanding immediately prior to the First Effective Time will be converted into the right to receive 0.05263 (the "Exchange Ratio") validly issued, fully paid and non-assessable shares of common stock of Lemonade, par value \$0.00001 per share ("Lemonade Common Stock").

At the First Effective Time, (i) each Metromile stock option that is held by an individual who, as of November 8, 2021, was not employed or providing services to the Company or its subsidiaries shall be cancelled and converted into the right to receive an amount in cash, without interest, equal to the product of (A) the excess, if any, of the product of (1) the average of the volume weighted average trading prices per share of Lemonade common stock on NYSE on each of the 20 consecutive trading days ending on (and including) the trading day that is three trading days prior to the First Effective Time multiplied by the Exchange Ratio (the "Per Metromile Share Price"), over the (2) the per share exercise price of such Metromile stock option, multiplied by (B) the total number of shares subject to such Metromile stock option; (ii) each other Metromile stock option shall be assumed by Lemonade and automatically converted into a stock option to acquire number of shares of Lemonade common stock (rounded down to the nearest whole share) equal to the product of (A) the number of shares subject to the Metromile stock option and (B) the Exchange Ratio, with an exercise price per share of Lemonade common stock (rounded up to the nearest whole cent) equal to (1) the per share exercise price of the Metromile stock option divided by (2) the Exchange Ratio; (iii) each award of Metromile restricted stock units that (A) is held by any non-employee director of Metromile or (B) vests based on the achievement of one or more performance criteria shall be cancelled and converted automatically into the right to receive an amount in cash equal to the Per Metromile Share Price in respect of each share of common stock underlying such Metromile restricted stock units (in the case of performance-based Metromile restricted stock units, based on actual performance); (iv) each other award of Metromile restricted stock units shall be assumed by Lemonade and automatically converted into an award of Lemonade restricted stock units covering a number of shares of Lemonade common stock equal to (A) the number of shares of Metromile common stock underlying such Metromile restricted stock units multiplied by (B) the Exchange Ratio; and (v) each Metromile warrant exercisable for shares of the Company's common stock shall be assumed by Lemonade and converted into a corresponding warrant denominated in shares of Lemonade Common Stock (with the number of warrants and exercise price being adjusted based on the Exchange Ratio). Except as otherwise set forth above, each Metromile stock option, restricted stock unit award, and warrant assumed by Lemonade shall continue to have the same terms and conditions as applied immediately prior to the First Effective Time.

The consummation of the Proposed Transaction is subject to the satisfaction or waiver of certain closing conditions, some of which have been completed, including among others (i) the effectiveness of the registration statement on Form S-4 registering the shares of Lemonade Common Stock issuable in the Proposed Transaction and absence of any stop order or proceedings by the SEC with respect thereto; (ii) the adoption of the Agreement by holders of a majority of the outstanding shares of the Company's common stock; (iii) the expiration or early termination of any applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended; (iv) receipt of other material regulatory consents and approvals; (v) the approval for listing on the New York Stock Exchange of the shares of Lemonade Common Stock to be issued pursuant to the Agreement; (vi) the absence of governmental restraints or prohibitions preventing the consummation of the Proposed Transaction; (vii) subject to specified materiality standards, the truth and accuracy of the representations and warranties made by each party; (viii) the compliance with or performance by the other party in all material respects of the covenants in the Agreement; and (ix) the absence of a material adverse effect on each party.

Upon the consummation of the Proposed Transaction, the Company will cease to be a publicly traded company. The Company has agreed to various customary covenants and agreements, including, among others, agreements to conduct business in the ordinary course during the period between the execution of the agreement and the effective time of the

Proposed Transaction. The Company does not believe these restrictions will impact the Company's ability to meet its ongoing costs of operations, working capital needs, or capital expenditure requirements.

As of March 31, 2022 (unaudited), the Company has incurred \$3.8 million in transaction costs, \$0.3 million in the three months ended March 31, 2022 (unaudited) and the remainder in 2021, in connection with the Proposed Transaction. Transaction costs are expensed as incurred and included within Other operating expenses of the consolidated statements of operations.

## 5. Deferred Policy Acquisition Costs, Net

Deferred policy acquisition costs, net ("DPAC") consists of the following (in thousands):

	March 31, 2022 (unaudited)	December 31, 2021
Deferred policy acquisition costs	\$ 11,655	\$ 11,533
Deferred ceding commission	(181)	(114)
Accumulated amortization	(10,270)	(9,986)
Deferred policy acquisition costs, net	<u>\$ 1,204</u>	<u>\$ 1,433</u>

For the three months ended March 31, 2022 and 2021 (unaudited), total amortization expense was approximately \$0.3 million and \$0.4 million, respectively. During all periods presented the amortization expense was included as part of sales, marketing and other acquisition costs in the Company's consolidated statements of operations.

## 6. Loss and Loss Adjustment Expense Reserves

The following table provides a reconciliation of the beginning and ending reserve balances for losses and LAE, net of reinsurance recoverable, for the three months ended March 31, 2021 and 2022 (unaudited) (in thousands):

	Three Months Ended March 31,	
	2022	2021
	(unaudited)	
<b>Balance at January 1</b>	<b>\$ 73,438</b>	<b>\$ 57,093</b>
Less reinsurance recoverable	—	(33,941)
<b>Net balance at January 1</b>	<b>73,438</b>	<b>23,152</b>
<b>Incurred related to:</b>		
Current year	21,874	9,566
Prior years	96	2,664
<b>Total incurred</b>	<b>21,970</b>	<b>12,230</b>
<b>Paid related to:</b>		
Current year	8,035	695
Prior years	14,865	(18,200)
<b>Total paid</b>	<b>22,900</b>	<b>(17,505)</b>
<b>Net balance at end of period</b>	<b>72,508</b>	<b>52,887</b>
Plus reinsurance recoverable	4,408	8,694
<b>Balance at end of period</b>	<b>\$ 76,916</b>	<b>\$ 61,581</b>

These reserve estimates are generally the result of ongoing analysis of recent loss development trends and emerging historical experience. Original estimates are increased or decreased as additional information becomes known regarding individual claims. In setting reserves, the Company reviewed its loss data to estimate expected loss development. Management believes that the use of sound actuarial methodology applied to its analyses of historical experience provides a reasonable estimate of future losses. However, actual future losses may differ from the Company's estimates.

and future events beyond the control of management, such as changes in law, judicial interpretations of law and inflation, may favorably or unfavorably impact the ultimate settlement of the Company's losses and LAE.

The anticipated effect of inflation is implicitly considered when estimating liabilities for losses and LAE. While anticipated price increases due to inflation are considered in estimating the ultimate claim costs, the increase in average severities of claims is caused by a number of factors that vary with the individual type of policy written. Future average severities are projected based on historical trends adjusted for implemented changes in underwriting standards, policy provisions, and general economic trends.

The estimation of unpaid losses and LAE reserves is based on existing factors at the date of estimation.

Accordingly, future events may result in ultimate losses and LAE significantly varying from a reasonable provision as of the date of estimation. Unfavorable development of claims in future years could result in a significant negative impact on operations, stockholders' surplus, and risk-based capital. Such development, if not offset by other increases in stockholders' surplus, could result in the insurance departments of the state of domicile taking regulatory actions against the Company.

During the three months ended March 31, 2022 (unaudited), the Company experienced unfavorable development on losses and LAE from current and prior accident years as a result of higher severity from loss cost trends for the current year. The Company has not had any unfavorable prior year claim experience on retrospectively rated policies. In 2021, the Company experienced unfavorable development on losses and LAE from prior accident years as a result of higher severity for the injury coverages. The Company has not had any unfavorable prior year claim experience on retrospectively rated policies.

## 7. Reinsurance

During the periods presented, the Company used reinsurance contracts to protect itself from losses due to concentration of risk and to manage its operating leverage ratios. As of December 31, 2021, the Company had commuted all of its reinsurance agreements. For further discussion of the reinsurance agreements in place as of March 31, 2021, see Note 10, Reinsurance of Notes to Consolidated Financial Statements included in the Company's 2021 Form 10-K Annual Report.

Effective January 1, 2022, the Company entered into an agreement with Swiss Reinsurance America Corporation ("Swiss Re") and Mapfre Re, Compañia de Reaseguros, S.A ("Mapfre"). On a prospective basis, under the terms of the transaction, 30% of the Company's gross written premiums, losses, and certain LAE expenses are ceded to the reinsurers through June 30, 2023.

The insurance company was not relieved of its primary obligations to policyholders as a result of any reinsurance agreements. Failure of reinsurers to honor their obligations could result in losses to the Company. The credit risk associated with the Company's reinsurance contracts was mitigated by carefully selecting its reinsurers and monitoring their financial strength ratings. The 2022 reinsurance counterparties and their A.M. Best financial strength ratings are as follows: Swiss Re (A+) and, Mapfre (A).

Reinsurance recoverables are presented on the consolidated balance sheets net of the allowance for estimated uncollectible reinsurance ("ACL"), if any. As of March 31, 2022, no ACL is required on these balances. The Company estimates the ACL based on the amount of reinsurance recoverables exposed to loss multiplied by estimated factors for the probability of default and the amount of loss given default. The probability of default is assigned based on each reinsurer's credit rating. Of the total reinsurance recoverables at March 31, 2022, all were rated by A.M. Best Company. Credit ratings are reviewed on a quarterly basis and any significant changes are reflected in an updated estimate. The loss given default factors are based on a study of historical recovery rates for general creditors as estimated through multiple economic cycles.

The effect of the Company's reinsurance agreements on premiums, loss and LAE related to the insurance company for the three months ended March 31, 2022 (unaudited) and the year ended December 31, 2021 is as follows (in thousands):

	<b>March 31, 2022 (unaudited)</b>				
	<b>Premium Written</b>	<b>Premium Earned</b>	<b>Unearned Premium</b>	<b>Losses and LAE Incurred</b>	<b>Loss and LAE Reserves</b>
Direct	\$ 29,328	\$ 28,131	\$ 16,924	\$ 29,072	\$ 76,916
Ceded	(8,798)	(8,440)	(359)	(7,102)	(4,408)
Net	\$ 20,530	\$ 19,691	\$ 16,565	\$ 21,970	\$ 72,508

  

	<b>December 31, 2021</b>				
	<b>Premium Written</b>	<b>Premium Earned</b>	<b>Unearned Premium</b>	<b>Losses and LAE Incurred</b>	<b>Loss and LAE Reserves</b>
Direct	\$ 110,719	\$ 111,063	\$ 15,726	\$ 102,991	\$ 73,438
Ceded	(19,411)	(33,080)	—	(14,701)	—
Net	\$ 91,308	\$ 77,983	\$ 15,726	\$ 88,290	\$ 73,438

## 8. Leases, Commitments, and Contingencies

### Leases

Metromile has non-cancellable and cancellable operating lease agreements for two real estate locations in Tempe, Arizona and its corporate headquarters in San Francisco, California with various expiration dates through 2030. The right-of-use asset as of March 31, 2022 (unaudited) was \$13.8 million and is included in Prepaid expenses and other assets on the consolidated balance sheets. The lease liability as of March 31, 2022 (unaudited) was \$18.4 million and is included in Other liabilities in the consolidated balance sheets. Metromile does not recognize a right-of-use asset and lease liability arising from leases with a term of 12 months or less. The Company's lease payments consisted primarily of fixed rental payments for the right to use the underlying leased assets over the lease terms. The Company is responsible for operating expenses over base operating expenses as defined in each lease agreement. The weighted average remaining lease term and the weighted average discount rate of the Company's operating leases is 7.3 years and 5.1% at March 31, 2022 (unaudited). The weighted average remaining lease term does not include any renewal options at the election of the Company.

### Litigation

#### Shareholder Matters

The Company and/or its current and/or former directors and/or executive officers are named as defendants in a number of lawsuits initiated by putative holders of Metromile, Inc. common stock. Following the Agreement and announcement thereof, multiple complaints were filed against the Company and certain current and former officers and directors alleging that the Company's disclosures concerning the Lemonade transaction were incomplete. The Company also received demands to inspect its books and records under Delaware General Corporation Law Section 220, and one stockholder commenced litigation to enforce inspection rights. All of the foregoing complaints have been voluntarily dismissed as moot, with the plaintiffs reserving their rights to seek a fee in connection with each respective litigation. At this time an estimate of the probable loss or range of loss cannot be made.

## 9. Stockholders' Equity

### Common Stock

As of March 31, 2022 (unaudited), the Company had authorized a total of 640,000,000 shares for issuance as common stock. As of March 31, 2022 (unaudited), the Company had 130,183,262 shares of common stock issued and outstanding.

### Preferred Stock

As of March 31, 2022 (unaudited), the Company had authorized a total of 10,000,000 shares for issuance as preferred stock. The Company's board of directors has the authority to issue preferred stock and to determine the rights, privileges, preferences, restrictions, and voting rights of those shares. As of March 31, 2022, the Company had no shares of preferred stock outstanding.

## 10. Public and Private Warrants

As of March 31, 2022 (unaudited), the Company had 7,666,646 public warrants and 180,000 private placement warrants outstanding. Each whole warrant entitles the registered holder to purchase one share of common stock at a

price of \$11.50 per share, subject to adjustment, at any time commencing on September 8, 2021, which was the later of 30 days after the completion of the Business Combination or 12 months from INSU's IPO closing date. The public warrants will expire on the fifth anniversary of the Business Combination, or earlier upon redemption or liquidation.

The Company may call the public warrants for redemption:

- in whole or in part;
- at a price of \$0.01 per warrant;
- Upon a minimum of 30 days' prior written notice of redemption; and
- if, and only if, the last reported closing price of the ordinary shares equals or exceeds \$18.00 per share for any 20 trading days within a 30-trading day period on the third trading day prior to the date on which the Company sends the notice of redemption to the warrant holders.

If the Company calls the public warrants for redemption, management will have the option to require all holders that wish to exercise the public warrants to do so on a "cashless basis," as described in the warrant agreement.

The exercise price and number of shares of common stock issuable upon exercise of the warrants may be adjusted in certain circumstances including in the event of a share dividend, recapitalization, reorganization, merger or consolidation. However, the warrants will not be adjusted for issuance of common stock at a price below its exercise price.

## 11. Stock Option Plans

### Restricted Stock Units ("RSUs")

During the three months ended March 31, 2022 (unaudited), the Company granted 819,227 restricted stock units ("RSUs") under the 2021 Plan which are conditional based on continued employment or service for a specified period. Compensation cost related to RSU grants is recognized on a straight-line basis over the vesting period and is calculated using the closing price per share of the Company's common stock on the grant date. For the three months ended March 31, 2022 (unaudited), the Company recorded compensation expense of \$5.0 million related to non-performance based RSUs.

A summary of the Company's RSUs as of March 31, 2022 (unaudited) is presented in the table below:

	Number of RSUs	Weighted-Average Fair Value
<b>Balance at December 31, 2021</b>	<b>7,241,980</b>	<b>\$ 8.19</b>
Granted	819,227	1.28
Vested	(496,366)	10.15
Forfeited	(620,551)	6.03
<b>Balance at March 31, 2022</b>	<b>6,944,290</b>	<b>\$ 7.43</b>

As of March 31, 2022 (unaudited), there was \$48.3 million of total unrecognized compensation cost related to RSUs. That cost is expected to be recognized over a weighted-average period of 2.55 years. The total grant date fair value of shares vested during the three months ended March 31, 2022 (unaudited) was \$5.0 million.

### Performance Based Awards

As of December 31, 2020, the Company had issued 150,000 outstanding performance-based awards ("PSUs") to Dan Preston, Metromile's Chief Executive Officer ("CEO"). As of the Closing, the performance-based provision was achieved for the outstanding performance-based awards as the Company completed a change in control event, and the Company recognized the expense related to these PSUs on the Closing date as there were no remaining vesting provisions. As a result, the Company recorded \$2.5 million in stock-based compensation expense for the three months ended March 31, 2021 (unaudited).

During 2021, the Company issued 2,216,870 PSUs, net of forfeitures, most of which each have a term of five years subject to continuous services by each holder. One third of PSUs that vest are based on a specific number of policies in force achieved by the Company. One third of the PSUs that vest are based on the Company achieving positive operating cash flow for a period of at least one financial quarter. One third of the PSUs vest based on a market condition of the Company achieving a specific price per share for at least 20 days in a 30-day trading window. Once the performance targets are met, the PSUs that relate to the specific performance target vest immediately. For the three months ended March 31, 2022 (unaudited), the Company had recorded \$0.1 million in expense from the PSUs related to the market condition. None of the performance conditions were probable of being satisfied as of March 31, 2022 and, therefore, there is no unrecognized stock compensation related to PSUs. The Company did not grant any PSUs in the three months ended March 31, 2022 (unaudited).

### 2011 Stock Plan

In 2011, the Company's Board of Directors adopted the 2011 Equity Incentive Plan (the "2011 Plan"). The 2011 Plan provides for the granting of stock options to officers, directors, employees, and consultants of the Company. Options granted under the 2011 Plan may be Incentive Stock Options ("ISO") or non-statutory Stock Options ("NSO") as determined by the Board of Directors at the time of the option grant. The remaining unallocated shares reserved under the 2011 Plan were cancelled and no new awards will be granted under the 2011 Plan. Awards outstanding under the 2011 Plan were assumed by the Company upon the closing and continue to be governed by the terms of the 2011 Plan.

### 2021 Stock Plan

In connection with the Closing, the Company adopted the 2021 Equity Incentive Plan (the "2021 Plan"), under which 38,018,247 shares of common stock were initially reserved for issuance for ISOs. The 2021 Plan allows for the issuance of ISOs, NSOs, restricted stock awards, stock appreciation rights, restricted stock units ("RSUs"), and performance awards. The Board of Directors determines the period over which options become exercisable and options generally vest over a four-year period. The 2021 Plan became effective immediately following the closing.

The Company uses the Black-Scholes option pricing model to estimate the fair value of each option grant on the date of grant or modification. The Company amortizes the estimated fair value to stock compensation expense using the straight-line method over the vesting period of the option. The following is a description of the significant assumptions used in the option pricing model:

- **Expected term** — The expected term is the period of time when granted options are expected to be outstanding. In determining the expected term of options, the Company utilized the midpoint between the vesting date and contractual expiration date.
- **Volatility** — Because the Company's stock has limited trading history, the Company calculates volatility by using the historical stock prices of comparable public companies.
- **Risk-free interest rate** — The Company bases the risk-free interest rate used in the Black-Scholes option valuation model on the rate of treasury securities with the same term as the options.
- **Forfeiture rate** — The weighted average forfeiture rate of unvested options.
- **Expected dividends** — The Company does not have plans to pay cash dividends in the future. Therefore, the Company uses an expected dividend yield of zero in the Black-Scholes option valuation model.

There were no options granted during the three months ended March 31, 2022 (unaudited). The following assumptions were used to estimate the value of options granted during the year ended December 31, 2021:

	Year ended December 31, 2021
Forfeiture rate	26.2 %
Volatility	62.00 %
Expected term (years)	5.33
Risk-free interest rate	0.53 %
Expected dividends	—

### Stock Option Activity

The following table summarizes the activity of the Company's stock option plan as of March 31, 2022 (unaudited):

	Stock Number of Options	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (in thousands)
<b>Outstanding as of December 31, 2021</b>	<b>2,374,504</b>	<b>\$ 3.00</b>	<b>8.25</b>	<b>\$ 375</b>
Options granted	—	\$ —		
Options exercised	—	\$ —		
Options cancelled or expired and returned to plan	(717,331)	\$ 3.00		
<b>Outstanding as of March 31, 2022</b>	<b>1,657,173</b>	<b>\$ 3.01</b>	<b>7.94</b>	<b>\$ —</b>
Vested and exercisable to vest as of March 31, 2022	723,575	\$ 2.98	7.71	—
<b>Vested and expected as of March 31, 2022</b>	<b>1,440,785</b>	<b>\$ 3.00</b>	<b>7.90</b>	<b>\$ —</b>

The fair value of stock options granted are recognized as compensation expense in the consolidated statements of operations over the related vesting periods. As of March 31, 2022 (unaudited), there was approximately \$1.2 million of unrecognized stock-based compensation cost related to stock options granted under the Plan, respectively, which is expected to be recognized over an average period of 1.95 years.

The following table illustrates stock-based compensation expense for employee and non-employee RSUs and options for the three months ended March 31, 2022 and 2021 (unaudited) (in thousands).

	Three Months Ended March 31,	
	2022	2021
	(unaudited)	
Cost of revenues	\$ 304	\$ 41
Research and development	883	226
Sales and marketing	344	17
Other operating expenses	3,727	2,924
Total stock-based compensation	\$ 5,258	\$ 3,208

## 12. Income Taxes

The consolidated effective tax rate for both the three months ended March 31, 2022 and 2021 (unaudited), was 0%. The main driver of the difference between the federal statutory tax rate of 21% and the effective tax rate for both periods was primarily related to a full valuation allowance against the deferred tax assets.

## 13. Segment and Geographic Information

The Company operates in the following two reportable segments, which are the same as its operating segments:

- *Insurance Services*. Providing insurance policies for automobile owners
- *Enterprise Business Solutions*. Providing access to its developed technology under SaaS arrangements along with professional services to third party customers.

Operating segments are based upon the nature of the Company's business and how its business is managed. The Company's Chief Operating Decision Maker ("CODM") is its CEO. The CODM uses the Company's operating segment financial information to evaluate segment performance and to allocate resources. The CODM does not evaluate the performance of the Company's assets on a segment basis for internal management reporting and, therefore, such information is not presented.

Contribution is used, in part, to evaluate the performance of, and allocate resources to, each of the segments. Segment contribution is segment revenue less the related costs of revenue and sales and marketing expenses. It excludes certain operating expenses that are not allocated to segments because they are separately managed at the consolidated corporate level. These unallocated costs include stock-based compensation expense, research and development expenses, and general and administrative expenses such as legal and accounting.

The assets and liabilities of the Enterprise Business Solutions segment have been classified as held for sale in the Company's consolidated balance sheets as of March 31, 2022. As the Enterprise Business Solutions operations do not qualify for presentation as a discontinued operation, operating results from the segment will continue to be reported in continuing operations on the consolidated statements of operations for the period ended March 31, 2022. Refer to Note 16, Business Disposition, for further information

The following table summarizes the operating results of the Company's reportable segments (in thousands):

	Three Months Ended March 31,	
	2022	2021
	(unaudited)	
<b>Revenue:</b>		
Insurance services	\$ 19,503	\$ 16,228
Enterprise business solutions	1,196	1,048
<b>Total revenue</b>	<b>\$ 20,699</b>	<b>\$ 17,276</b>
<b>Contribution:</b>		
Insurance services	\$ (4,419)	\$ (1,863)
Enterprise business solutions	(1,113)	(732)
<b>Total contribution</b>	<b>\$ (5,532)</b>	<b>\$ (2,595)</b>

The following table provides a reconciliation of the Company's total reportable segments' contribution to its total loss from operations (in thousands):

	Three Months Ended March 31,	
	2022	2021
	(unaudited)	
Total segment contribution	\$ (5,532)	\$ (2,595)
Ceded premium, losses and LAE	1,293	(2,905)
Other income	522	1,147
Policy services expenses and other	1,606	371
Sales, marketing, and other acquisition costs	6,340	47,167
Research and development	2,351	2,006
Amortization of capitalized software	3,368	2,651
Other operating expenses	13,438	8,582
<b>Loss from operations</b>	<b>\$ (34,450)</b>	<b>\$ (61,614)</b>
Total other expense	(131)	42,013
<b>Loss before taxes</b>	<b>\$ (34,319)</b>	<b>\$ (103,627)</b>

#### Geographical Breakdown of Direct Earned Premiums

Direct earned premium by state is as follows (in thousands):

	Three Months Ended March 31,	
	2022	2021
	(unaudited)	
California	\$ 15,760	\$ 15,146
Washington	3,585	2,985
New Jersey	2,682	2,459
Oregon	1,816	1,796
Illinois	1,138	1,041
Arizona	1,759	1,268
Pennsylvania	635	657
Virginia	756	470
<b>Total premiums earned</b>	<b>\$ 28,131</b>	<b>\$ 25,822</b>

## 14. Net Loss per Share

Net loss per share calculations and potentially dilutive security amounts for all periods prior to the Merger have been retrospectively adjusted to the equivalent number of shares outstanding immediately after the Merger to effect the reverse recapitalization. Historically, reported weighted average shares outstanding have been multiplied by 1.01547844, which is the share exchange ratio established by the Merger Agreement.

The following table sets forth the computation of basic and diluted net loss per share attributable to the Company's common stockholders:

	Three months ended March 31,	
	2022	2021
<b>Numerator:</b>	<b>(unaudited)</b>	
Net loss attributable to common stockholders (\$ in thousands)	\$ (34,319)	\$ (103,627)
<b>Denominator:</b>		
Weighted average common shares outstanding - basic and diluted	128,715,031	75,791,557
<b>Net loss per share attributable to common stockholders - basic and diluted</b>	<b>\$ (0.27)</b>	<b>\$ (1.37)</b>

As the Company has reported net loss for each of the periods presented, all potentially dilutive securities are antidilutive. The following potential outstanding shares of Common Stock were excluded from the computation of diluted net loss per share attributable to common stockholders for the periods presented because including them would have been antidilutive:

	As of March 31,	
	2022	2021
	<b>(unaudited)</b>	
Convertible preferred stock	—	—
Outstanding stock options - Stock Plan	1,657,173	4,595,624
Warrants for preferred stock	—	—
Warrants for common stock	7,846,667	7,846,667
Restricted stock units	9,161,160	8,333
Total anti-dilutive securities	18,665,000	12,450,624

## 15. Related-Party Transactions

In August 2014, the Company loaned the CEO \$0.4 million with interest at 3.09% and adjusted to 1.5% in April 2020, which was used to early exercise stock options issued to the CEO and was due at the earlier of one year after termination of employment, upon an Initial Public Offering or change in control, or ten years from the date issued. The loan was full recourse, and also collateralized by the underlying shares of common stock. For accounting under GAAP, the note receivable is presented as contra-equity in the accompanying consolidated balance sheets. This loan was paid in full in February 2021 and is no longer outstanding.

In March 2018, the Company entered into an agreement with a third party under which the Company developed proprietary software solutions and provides access to and use of such software solutions and related services. In July 2018, the third party became an investor of the Company as part of the Series E convertible preferred stock Financing. During both the three months ended March 31, 2022 and 2021 (unaudited), the Company recognized \$1.0 million of revenue from the investor. The Company had \$1.5 million and \$0 million in accounts receivable balances from the investor as of March 31, 2022 (unaudited) and December 31, 2021, respectively. The Company continues to enter into contracts with the investor related to the Company's Enterprise Business Solutions (see Note 13, Segment and Geographic Information).

An executive of Hudson, who the Company entered into a Note Purchase and Security Agreement with in 2021 (see Note 11, Notes Payable, net in the Company's 2021 Annual Report on Form 10-K), is on the Company's Board of Directors. This loan was repaid in March 2021 and is no longer outstanding.

## 16. Business Disposition

### Sale of Metromile Enterprise

As of March 31, 2022, the Company committed to a plan to sell its Enterprise Business Solutions segment. The assets and liabilities of Enterprise Business Solutions have been classified as held for sale in the Company's consolidated balance sheets beginning with the period ended March 31, 2022. Revenues and earnings are not material to the Company's Consolidated Results of Operations for the three months ended March 31, 2022 and 2021 (unaudited). Under GAAP accounting guidance, only disposals of components of an entity that represent a strategic shift and that have a major

effect on a reporting entity's operations and financial results are reported as discontinued operations. Because Metromile's primary business continues to be property and casualty insurance, as well as the immaterial expected impact on the Company's ongoing results of operations, the sale of Enterprise Business Solutions was not reported as a discontinued operation. The business does not meet the criteria to be classified as a discontinued operation; therefore, the results are reflected within continuing operations on the consolidated statement of operations.

The pending sale did not result in an estimated loss on the sale, and as such, no accrual for the estimated before tax loss is included as a reduction of the carrying value of assets held for sale in the Company's Condensed consolidated balance sheets as of March 31, 2022 (unaudited).

The carrying value of assets and liabilities to be transferred in connection with the sale is as follows:

	<b>March 31, 2022</b>
	<b>(unaudited)</b>
<b>Assets</b>	
Cash and cash equivalents	2,393
Prepaid expenses and other assets	1,705
Website and software development costs, net	5,155
<b>Total assets</b>	<b>\$ 9,253</b>
<b>Liabilities</b>	
Deferred revenue	5,906
Accounts payable and accrued expenses	250
<b>Total liabilities</b>	<b>\$ 6,156</b>

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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### Overview

At its core, insurance financially protects the insured customer from the occurrence of specific future events. If these events can be more accurately estimated, using data and data science, then the insurance provided can be more accurately priced — lower likelihood events would cause the price of insurance to go down and higher likelihood events would cause the price of insurance to go up. The proliferation of sensor data, from cars, mobile phones, and elsewhere, means we have a greater ability to estimate the likelihood of future events and, thus, help many customers who are overpaying for insurance save money.

We founded Metromile in 2011 to realize this opportunity and tackle the broken auto insurance industry. With data science as our foundation, we offer our insurance customers real time, personalized auto insurance policies, priced and billed by the mile, with rates based on precisely how and how much they actually drive, instead of using the industry standard approximations and estimates that make prices unfair for most customers.

Through our digitally native offering, built around the needs of the modern driver, we believe our per-mile insurance policies save our customers, on average, 47% over what they were paying their previous auto insurer. We base this belief on data our customers self-reported in 2018 with respect to premiums paid to providers before switching to Metromile.

We believe the opportunity for our personalized per-mile insurance product is significant. Federal Highway Administration data indicates that approximately 35% of drivers drive more than half the total miles driven. We believe there is a correlation between the number of miles driven and the number of insurable losses. An October 2016 report by the Insurance Information Institute noted that the increase in claims frequency appears directly linked to the increase in the number of miles driven. Notwithstanding the relationship between miles driven and claims, auto insurance premiums have historically been priced based on a driver's "class" — and drivers are charged the same basic premium rate as others in their class no matter the actual miles driven. In the traditional pricing model, a driver's age, credit score, accident history, and geography influence the premium paid more than the actual miles driven. Thus, the 35% of drivers who account for more than half the total miles driven are not paying premiums based on how often they are behind the wheel and increasing the potential for an insurable loss claim. We believe the traditional pricing model is inherently unfair to the majority of drivers — the 65% of drivers who drive less than half the miles driven — as they are effectively subsidizing the minority of drivers who are high-mileage drivers. By offering auto insurance using a per-mile rate and then billing each customer monthly based on their actual miles driven, we are able to provide significant savings to the 65% of drivers who drive less than half the miles driven. Customers can simply use their connected car or use The Pulse to share their data with us — which includes miles driven, and in certain states where permitted by insurance regulators (four of the eight in which we currently operate), driving habits, such as phone use, speeding, hard-braking, accelerating, cornering, and location. Our customers are able to choose when and how to drive and share this information with us to realize these data driven savings every day.

The U.S. auto insurance market is massive, dominated by insurers stuck on legacy technology infrastructure who offer antiquated services. U.S. personal auto insurers write approximately \$250 billion of premiums each year, with no carrier currently achieving more than 20% market share. We believe we are strategically positioned to succeed as industry incumbents struggle to meet the significant structural changes underway in an increasingly digital world. The advent of mobile phones has revolutionized modern mobility, while connected and autonomous technologies are drastically

changing consumer relationships. As we scale and accumulate more data, we believe that we can deliver increasingly better service, pricing and experiences for customers across all stages of the policy lifecycle.

Additionally, with the per-mile insurance that Metromile provides, customers are incentivized to drive less and choose more environmentally friendly transportation methods. We found that after customers switch to per-mile insurance, they tend to decrease their overall miles driven. Not only does this equate to a lower bill, but also a significant reduction in carbon emissions.

### Recent Developments

On November 8, 2021, we entered into an Agreement and Plan of Merger (the "Agreement") with Lemonade, Inc., a Delaware corporation ("Lemonade"), Citrus Merger Sub A, Inc., a Delaware corporation and a wholly-owned subsidiary of Lemonade ("Acquisition Sub I") and Citrus Merger Sub B, LLC, a Delaware limited liability company and wholly owned subsidiary of Lemonade ("Acquisition Sub II"), pursuant to which (i) Acquisition Sub I will merge with and into Metromile (the "First Merger" and the effective time of the First Merger, the "First Effective Time"), with Metromile continuing as the surviving entity (the "Initial Surviving Corporation"), and (ii) the Initial Surviving Corporation will merge with and into Acquisition Sub II (the "Second Merger"), with Acquisition Sub II continuing as the surviving entity as a wholly owned subsidiary of Lemonade (the First Merger, the Second Merger and the other transactions contemplated by the Agreement, collectively, the "Proposed Transaction"). The Proposed Transaction implies a fully diluted equity value of approximately \$500 million, or an enterprise value of about \$340 million net of unrestricted cash and cash equivalents as September 30, 2021. In accordance with the Agreement, at the First Effective Time, each share of our common stock issued and outstanding immediately prior to the First Effective Time will be converted into the right to receive 0.05263 (the "Exchange Ratio") validly issued, fully paid and non-assessable shares of common stock of Lemonade, par value \$0.00001 per share ("Lemonade Common Stock"). Although the applicable waiting period for the Proposed Transaction under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, has expired and we have received approval of the Proposed Transaction from our stockholders, the Proposed Transaction is conditioned on certain additional customary closing conditions, including receipt of applicable regulatory approvals, and is expected to close in the second quarter of 2022.

For additional information related to the Proposed Transaction, please see Note 1, Basis of Presentation and Significant Accounting Policies to our Consolidated Financial Statements and our Current Report on Form 8-K filed with the SEC on November 9, 2021 as well as the proxy statement/prospectus filed with the SEC on December 29, 2021.

### Our Model

The traditional auto insurance industry is focused on charging customers static insurance rates based on a "class" of driver, which is determined based on a set of variables that approximate and estimate risk. The traditional approach requires little ongoing customer engagement and requires manual claims servicing, which results in lower gross margins. In contrast, our model is digitally native, automated, and built using predictive models. Our product provides customized rates for each individual driver, using telematics data and proprietary predictive models to assess risk and determine pricing for each customer, while billing customers based on their actual miles driven. We have automated the claims approval process, resulting in higher margins, and reduced fraud rates through real-time reporting from telematics devices, resulting in lower loss ratios.

We have experienced strong growth since inception; however, our focus has been on prioritizing unit economics rather than solely focusing on revenue growth through increased net losses. Our priority has been on developing a durable business advantage.

Total revenue increased from \$17.3 million for the three months ended March 31, 2021 to \$20.7 million for the three months ended March 31, 2022. Our gross profit/(loss), defined as total revenue as adjusted for losses and LAE, policy servicing expense and other and amortization of capitalized software, and which is impacted by our reinsurance arrangements, decreased from \$(2.1) million for the three months ended March 31, 2021 to \$(10.1) million for the three months ended March 31, 2022. Our accident period contribution profit/(loss), a non-GAAP financial measure that excludes from gross profit/(loss) the results of prior period development on loss and LAE, decreased from \$2.4 million for the three months ended March 31, 2021 to \$(4.5) million for the three months ended March 31, 2022 largely due to an increase in losses, despite an increase in direct written and earned premium for both periods. Accident period refers to the period in which the loss occurs, and estimates are made to determine the ultimate expected cost of that loss. These estimates are reassessed each subsequent period, and the movement from the initial estimate of that accident period is known as prior period development. We view accident period contribution margin as the most relevant metric of current product profitability and use accident period contribution margin to consistently evaluate the variable contribution to our business from insurance operations from period to period based on the most current product profitability. Contribution profit/(loss), a non-GAAP financial measure that includes the results of prior period development accident period contribution profit/(loss), decreased from \$(1.9) million for the three months ended March 31, 2021 to \$(4.4) million for the three months ended March 31, 2022. We use contribution profit/(loss) as a key measure of our progress towards profitability and to consistently evaluate the variable contribution to our business from insurance operations from period to period. See the section entitled "*— Non-GAAP Financial Measures*" for additional information regarding our use of accident period contribution profit/(loss) and contribution profit/(loss) and a reconciliation to the most comparable GAAP measure.

### Reinsurance

We review our need to obtain reinsurance to help manage our exposure to property and casualty insurance risks.

The reinsurance arrangement covering the periods May 1, 2017 to April 30, 2018 and May 1, 2018 to April 30, 2019 covered 85% of our renewal policies and beginning May 1, 2019, the reinsurance arrangements expanded to also include new policies. Thus, from May 1, 2019 through April 30, 2021, we ceded a larger percentage of our premium than in prior periods, resulting in a significant decrease in our revenues as reported under GAAP. In addition, under the reinsurance agreements from various years, LAE was ceded at a fixed rate ranging from 3% to 6% of ceded earned premium. In February 2021, we commuted 67% of our reinsurance program, resulting in 34.2% of the book being ceded as of March 2021. As of March 31, 2022 we have commuted the remainder of the aforementioned agreements, and entered into new reinsurance programs effective January 2022 with Swiss Reinsurance America Corporation ("Swiss Re") and Mapfre Re, Compania de Reaseguros, S.A ("Mapfre"). For additional information, please see Note 7, Reinsurance, to our consolidated financial statements.

As we change our reinsurance arrangements, whereby the terms and structures may vary widely, our prior results, impacted by reinsurance, may not be a good indicator of future performance, including the fluctuations experienced in gross profit. Thus, we use accident period contribution profit/(loss) and contribution profit/(loss) as key measures of our performance.

### Key Performance Indicators

We regularly review key operating and financial 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 financial and operational measures are useful in evaluating our performance, in addition to our financial results prepared in accordance with GAAP. See the section entitled "*— Non-GAAP Financial Measures*" for additional information regarding our use of accident period contribution profit/(loss), contribution profit/(loss), accident period loss ratio and accident period LAE ratio and a reconciliation to the most comparable GAAP measures.

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

	Three Months Ended March 31,	
	2022	2021
	(\$ in millions, except for Direct Earned Premium per Policy)	
Policies in Force (end of period)	101,294	95,958
Direct Earned Premium per Policy (annualized)	\$ 1,142	\$ 1,100
Direct Written Premium	\$ 29.3	\$ 28.0
Direct Earned Premium	\$ 28.1	\$ 25.8
Gross Profit/(Loss)	\$ (10.1)	\$ (2.1)
Gross Margin	(48.4)%	(12.0)%
Accident Period Contribution Profit/(Loss)	\$ (4.5)	\$ 2.4
Accident Period Contribution Margin	(16.1)%	9.1 %
Contribution Profit/(Loss)	\$ (4.4)	\$ (1.9)
Contribution Margin	(15.6)%	(7.1)%
Direct Loss Ratio	86.5 %	78.6 %
Direct LAE Ratio	16.4 %	14.4 %
Accident Period Loss Ratio	85.1 %	65.1 %
Accident Period LAE Ratio	18.3 %	11.5 %

### Policies in Force

We define policies in force as the number of current and active policyholders as of the period end date. We view policies in force as an important metric to assess our financial performance because policy growth drives our revenue growth, increases brand awareness and market penetration, generates additional data to continue to improve the performance of our platform, and provides key data to assist strategic decision making for our company.

### Direct Earned Premium per Policy

We define direct earned premium per policy as the ratio of direct earned premium divided by the average policies in force for the period, presented on an annualized basis. We view premiums per policy as an important metric because it is a reliable indicator of revenue earned in any given period, and growth in this metric would be a clear indicator of the growth of the business. However, as evidenced by the substantial reduction in miles driven during the COVID-19 pandemic, near-term fluctuations in miles driven can lead to fluctuations in direct earned premium. Thus, we refer to policies in force as a more stable indicator of overall growth. Direct earned premium excludes the impact of premiums

ceded to reinsurers such that it reflects the actual business volume and direct economic benefit generated from our customer acquisition efforts. Additionally, premiums ceded to reinsurers can change based on the type and mix of reinsurance structures we use.

**Direct Written Premium**

We define direct written premium as the total amount of direct premiums on policies that were bound during the period. Direct written premium is a standard insurance metric and is included here for consistency. However, given that much of our premium is written and earned as customer miles are driven (i.e., customers are billed based on true use), unlike our competitors that write all premium up-front, we believe earned premium is a more meaningful comparison to other insurers. Direct written premium excludes mileage-based premium that has not yet been earned. It also excludes the impact of premiums ceded to reinsurers such that it reflects the actual business volume and direct economic benefit generated from our customer acquisition efforts. Additionally, premiums ceded to reinsurers can change based on the type and mix of reinsurance structures we use.

**Direct Earned Premium**

We define direct earned premium as the amount of direct premium that was earned during the period. Premiums are earned over the period in which insurance protection is provided, which is typically six months. We view direct earned premium as an important metric because it allows us to evaluate our growth prior to the impact of ceded premiums to our reinsurance partners. It is the primary driver of our consolidated GAAP revenues and represents the result of our sustained customer acquisition efforts. As with direct written premium, direct earned premium excludes the impact of premiums ceded to reinsurers to manage our business, and therefore should not be used as a substitute for net earned premium, total revenue, or any other measure presented in accordance with GAAP.

**Gross Profit(Loss)**

Gross profit/(loss) is defined as total revenue minus losses and LAE, policy servicing expense and other, and amortization of capitalized software. Gross margin is equal to gross profit/(loss) divided by total revenue. Gross profit/(loss) includes the effects of reinsurance, thereby increasing volatility of this measure without corresponding changes in the underlying business or operations.

**Contribution Profit(Loss) and Accident Period Contribution Profit(Loss)**

Contribution profit/(loss), a non-GAAP financial measure, is defined as gross profit/(loss), excluding the effects of reinsurance arrangements on both total revenue and losses and LAE and excludes enterprise software revenues, investment income earned at the holding company, amortization of internally developed software, and devices, while including bad debt, report costs and other policy servicing expenses. Accident period contribution profit/(loss), a non-GAAP financial measure, further excludes the results of prior period development on losses and LAE. We believe the resulting calculations are inclusive of the variable costs of revenue incurred to successfully service a policy, but without the volatility of reinsurance. We use contribution profit/(loss) as a key measure of our progress towards profitability and to consistently evaluate the variable contribution to our business from insurance operations from period to period because it is the result of direct earned premiums, plus investment income earned at the insurance company, minus direct losses, direct LAE, premium taxes, bad debt, payment processing fees, data costs, underwriting reports, and other costs related to servicing policies. Accident period contribution profit/(loss) further excludes the results of prior period development on loss and LAE, thereby providing the most accurate view of the performance of our underlying insurance product, which drives our growth investment decisions and is a strong indicator of future loss performance.

See the section entitled “— Non-GAAP Financial Measures” for a reconciliation of total revenue to accident period contribution profit/(loss) and contribution profit/(loss).

**Contribution Margin and Accident Period Contribution Margin**

Contribution margin, a non-GAAP financial measure, is defined as contribution profit/(loss) divided by adjusted revenue. Adjusted revenue, a non-GAAP financial measure, is defined as total revenue, excluding the net effect of our reinsurance arrangements, revenue attributable to our enterprise segment, interest income generated outside of our insurance company, and bad debt expense. We view contribution margin as an important metric because it most closely correlates to the economics of our core underlying insurance product and measures our progress towards profitability. Accordingly, we use this non-GAAP financial measure to consistently evaluate the variable contribution to our business from insurance operations from period to period. Accident period contribution margin, a non-GAAP financial measure, is defined as accident period contribution profit/(loss) divided by adjusted revenue. We view accident period contribution margin as an important metric as it excludes the results of prior period development on loss and LAE, thereby providing the most meaningful view of the performance of our current underlying insurance product, which drives our growth investment decisions and is a strong indicator of future loss performance.

See the section entitled “— Non-GAAP Financial Measures” for a reconciliation of total revenue to contribution profit/(loss) and accident period contribution profit/(loss).

### **Direct and Accident Period Loss Ratio**

We define direct loss ratio expressed as a percentage, as the ratio of direct losses to direct earned premium. Direct loss ratio excludes LAE. We view direct loss ratio as an important metric because it allows us to evaluate losses and LAE separately prior to the impact of reinsurance.

We define accident period loss ratio as direct loss ratio excluding prior accident period development on losses. We view accident period loss ratio as an important metric because it allows us to evaluate the expected ultimate losses, including losses not yet reported, for the most recent accident period.

### **Direct and Accident Period LAE Ratio**

We define direct LAE ratio expressed as a percentage, as the ratio of direct LAE to direct earned premium. We view the direct LAE ratio as an important metric because it allows us to evaluate losses and LAE separately prior to the impact of reinsurance. We actively monitor the direct LAE ratio as it has a direct impact on our results regardless of our reinsurance strategy.

We define the accident period LAE ratio as the direct LAE ratio excluding prior quarter development on LAE. We view accident period LAE ratio as an important metric because it allows us to evaluate the expected ultimate LAE, including LAE for claims not yet reported, for the most recent accident period.

## **Recent Developments Affecting Comparability**

### **Business Combination with INSU**

In February 2021, we completed the Merger, pursuant to which Metromile Operating Company (formerly MetroMile, Inc.) became our wholly owned direct subsidiary. The Merger was accounted for as a reverse recapitalization in accordance with GAAP. Under this method of accounting, although INSU was the legal acquirer, INSU is treated as the "acquired" company for financial reporting purposes and Metromile Operating Company is treated as the accounting acquirer. This determination was primarily based on the fact that Metromile Operating Company's stockholders prior to the Merger have a majority of our voting power, Metromile Operating Company's senior management now comprise substantially all of our senior management, the relative size of Metromile Operating Company compared to our company, and that Metromile Operating Company's operations comprise our ongoing operations. Accordingly, for accounting purposes, the Merger is treated as the equivalent of a capital transaction in which Metromile Operating Company issued stock for our net assets, which are stated at historical cost, with no goodwill or other intangible assets recorded, and Metromile Operating Company's financial statements became the Company's financial statements.

In connection with the Business Combination, we received approximately \$310.0 million of cash, which we used to repay certain indebtedness as described herein. We expect to use our cash on hand for working capital and general corporate purposes. We may also use the proceeds for the acquisition of, or investment in, technologies, solutions, or businesses that complement our business.

### **COVID-19 Impact**

In March 2020, the World Health Organization declared COVID-19 a global pandemic. We are closely monitoring the impact of the COVID-19 pandemic on all aspects of our business. We have taken measures in response to the ongoing COVID-19 pandemic, including closing our offices and implementing a work from home policy for our nationwide workforce; implementing additional safety policies and procedures for our employees; and restricting employee travel and in-person meetings. We may take further actions that alter our business operations as may be required by federal, state, or local authorities or that we determine are in the best interests of our employees, customers, and stockholders.

For the three months ended March 31, 2022, we generated \$28.1 million in direct earned premium, an increase of \$2.3 million or 9%, as compared to \$25.8 million for the three months ended March 31, 2021. This increase was primarily due to a year-over-year increase in direct earned premium per policy, which is a reflection of both miles driven and growth in the business. Based on internal data, miles driven increased by 17% for the first three months of 2022 as compared to the same period in 2021. We believe that the potential long-term impacts of COVID-19, as more companies embrace work from home policies, represent an opportunity for us to increase our customer base as drivers continue to look for value-driven insurance solutions that provide the same or a better quality product that aligns to their own driving behaviors.

The future impact of the COVID-19 pandemic on our operational and financial performance will depend on certain developments, including the duration and spread of the pandemic, impact on our customers and their spending habits, impact on our marketing efforts, and effect on our suppliers, all of which are uncertain. Public and private sector policies and initiatives to reduce the transmission of COVID-19 and disruptions to our operations and the operations of our third-party suppliers, along with the related global slowdown in economic activity, may result in decreased revenues and increased costs. Impacts on our revenue and costs may continue through the duration of this crisis. It is possible that the COVID-19 pandemic, the measures taken by federal, state, or local authorities and businesses affected and the resulting economic impact may materially and adversely affect our business, results of operations, cash flows and financial positions as well as our customers.

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

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

***Our Ability to Attract New Customers***

Our long-term growth will depend, in large part, on our continued ability to attract new customers to our platform. Our growth strategy is centered around accelerating our existing position in markets that we already serve, expanding into new markets nationally across the United States, developing new strategic partnerships with key players in the automotive industry.

***Our Ability to Retain Customers***

Turning our customers to lifetime customers is key to our success. We realize increasing value from each customer retained as a recurring revenue base, which forms a basis for organic growth for our new product offerings and improves our loss ratios over time. Our ability to retain customers will depend on a number of factors, including our customers' satisfaction with our products, offerings of our competitors and pricing of our products.

***Our Ability to Expand Nationally Across the United States***

Our long-term growth opportunity will benefit from our ability to provide insurance across more states in the United States. Today, we are licensed in 49 states and the District of Columbia, with licenses active in 46 states and the District of Columbia, and writing business in eight states. We plan to apply our highly scalable model nationally, with a tailored approach to each state, driven by the regulatory environment and local market dynamics. This will allow us to expand rapidly and efficiently across different geographies while maintaining a high level of control over the specific strategy within each state.

***Our Ability to Introduce New and Innovative Products***

Our growth will depend on our ability to introduce new and innovative products that will drive the organic growth from our existing customer base as well as from potential customers. Our insurance offerings provide us with a foundation to provide a broad set of insurance products to consumers in the future.

***Our Ability to Manage Risk Through Our Technology***

Risk is managed through our technology, artificial intelligence, and data science, which we utilize to accurately determine the risk profiles of our customers. Our ability to manage risk is augmented over time as data is continuously collected and analyzed by our machine learning with the objective of lowering our loss ratios over time. Our success depends on our ability to adequately and competitively price risk.

***Our Ability to Manage Risks Related to Severe Weather Events and Climate Change***

Both seasonal and severe weather events impact the level and amount of claims we receive. These events, as well as climate change and its potential impact on weather patterns, include hurricanes, wildfires, coastal storms, winter storms, hailstorms, and tornados.

**Components of Our Results of Operations*****Revenue***

Revenues are generated primarily from the sale of our pay-per-mile auto insurance policies within the United States, revenue related to policy acquisition costs recovered as part of the reinsurance arrangement, and through sales of our proprietary AI claims platform. Revenue excludes premiums ceded to our reinsurers (see the section entitled "—*Reinsurance*" for further information).

***Premiums Earned, net***

Premiums earned, net represents the earned portion of our gross written premium, less the earned portion that is ceded to third-party reinsurers under any reinsurance agreements. Revenue from premiums is earned over the term of the policy, which is written for six-month terms. The premium for the policy provides for a base rate per month for the entire policy term upon the binding of the policy plus a per-mile rate multiplied by the miles driven each day (based on data from the telematics device, subject to a daily maximum).

***Investment Income***

Investment income represents interest earned from our fixed maturity and short-term investments less investment expenses and is recorded as the income is earned. Investment income is directly correlated with the size of our investment portfolio and with the market level of interest rates. The size of our investment portfolio is expected to increase in future periods, and therefore investment income is also expected to increase, as we continue to invest both customer premiums and equity proceeds into our investment portfolio.

***Other Revenue***

Other revenue consists of enterprise revenue, revenue related to policy acquisition costs recovered as part of a reinsurance arrangement with reinsurance partners, reinsurance profit commissions based on performance of the ceded business, gain on reinsurance commutation and policy commissions earned from NGI. We have developed technologies

intended for internal use to service our insurance business and have started offering our technologies to third-party insurance carriers. Enterprise revenue represents revenues generated from the licensing of such internally developed software on a subscription basis, and sales of our professional services, which includes customization and implementation services for customers. We also earned revenues from policy acquisition costs recovered for policies newly ceded to our reinsurance partners, and we earn commissions for policies underwritten by NGI prior to becoming a full-stack insurance carrier in 2016.

### **Costs and Expenses**

Our costs and expenses consist of losses and LAE, policy servicing expense and other, sales, marketing, and other acquisition costs, research and development, amortization of capitalized software, and other operating expenses.

### **Losses and LAE**

Our losses and LAE consist of the net cost to settle claims submitted by our customers. Losses consist of claims paid, case reserves, as well as claims incurred but not reported, net of estimated recoveries from salvage and subrogation. LAE consists of costs borne at the time of investigating and settling a claim. Losses and LAE represents management's best estimate of the ultimate net cost of all reported and unreported losses occurred through the balance sheet date. Estimates are made using individual case-basis valuations and statistical analyses and are continually reviewed and adjusted as necessary as experience develops or new information becomes known. These reserves are established to cover the estimated ultimate cost to settle insured losses.

Both losses and LAE are net of amounts ceded to reinsurers. We evaluate whether to enter into reinsurance contracts to protect our business from losses due to concentration of risk and to manage our operating leverage ratios, as well as to provide additional capacity for growth. Our reinsurance contracts consist of quota-share reinsurance agreements with our reinsurance partners under which risks are covered on a pro-rata basis for all policies underwritten by us (see the section entitled "— Reinsurance" for further discussion). 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. Losses and LAE may be paid out over a period of years.

Various other expenses incurred during claims processing are allocated to losses and LAE. These amounts include claims adjusters' salaries and benefits, employee retirement plan related expenses and stock-based compensation expenses (Personnel Costs); software expenses; and overhead allocated based on headcount (Overhead).

It is possible that changes in economic conditions, the supply chain, labor market and geopolitical tensions, along with actions taken by the government, could lead to inflationary impacts outside of the Company's expectations. Such factors could drive an increase or decrease in the Company's loss costs and the need to strengthen or reduce loss and loss adjustment expense reserves. Labor shortages, higher costs of vehicle, parts and equipment, and supply shortages for raw materials are adversely impacting severity in our business and the industry and may continue to do so in future quarters.

### **Policy Servicing Expense and Other**

Policy servicing expense and other includes personnel costs related to our technical operations and customer experience teams, data transmission costs, credit card and payment processing expenses, premium taxes, and amortization of telematics devices. Policy servicing expense and other is expensed as incurred.

### **Sales, Marketing and Other Acquisition Costs**

Sales, marketing, and other acquisition costs includes spend related to advertising, branding, public relations, third-party marketing, consumer insights, reinsurance ceding commissions, and expense recognized due to return of onboarding allowance as part of reinsurance commutations. These expenses also include related personnel costs and overhead. We incur sales, marketing and other acquisition costs for all product offerings including our newly introduced software as a service ("SaaS") platform which provides access to our developed technology under SaaS arrangements, along with professional services to third-party customers ("Enterprise business solutions"). Sales, marketing and other acquisition costs are 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.

### **Research and Development**

Research and development consist of costs that support our growth and expansion initiatives inclusive of website development costs, software development costs related to our mobile app and Enterprise business solution, and new product development costs. These costs include third-party services related to data infrastructure support; personnel costs and overhead for product design, engineering, and management; and amortization of internally developed software. Research and development costs are expensed as incurred, except for costs related to internally developed software that are capitalized and subsequently amortized over the expected useful life. We expect that research and development expenses will increase in both absolute dollars and percentage of revenues in future periods in the near-term. We expect that, in the long-term, our research and development expenses will decrease as a percentage of revenue as these represent largely fixed costs.

### Amortization of Capitalized Software

Amortization of capitalized software relates to the amortization recorded for the capitalized website and software development costs for the period presented.

### Other Operating Expenses

Other operating expenses primarily relate to personnel costs and overhead for corporate functions, external professional service expenses and depreciation expense for computers, furniture, and other fixed assets. General and administrative expenses are expensed as incurred.

We expect to incur incremental operating expenses to support our global operational growth and enhancements to support our reporting and planning functions.

We expect to incur significant additional operating expenses as a result of operating as a public company, including expenses related to compliance with the rules and regulations of the SEC and the listing standards of the Nasdaq Capital Market, additional corporate, director and officer insurance expenses, greater investor relations expenses and increased legal, audit and consulting fees.

### Interest expense

Interest expense primarily relates to interest incurred on our long-term debt, the amortization of debt issuance costs.

### (Decrease) increase in fair value of stock warrant liability

(Decrease) increase in fair value of stock warrant liability primarily relates to changes in the fair value of warrant liabilities.

## Results of Operations

### Comparison of the Three Months Ended March 31, 2022 and March 31, 2021:

The following table presents our consolidated statement of operations for the three months ended March 31, 2022 and 2021, and the dollar and percentage change between the two periods:

	Three Months Ended March 31,		\$ Change	% Change
	2022	2021		
<b>Revenue</b>	<b>(unaudited)</b>			
Premiums earned, net	\$ 19,165	\$ 1,125	\$ 18,040	1604 %
Investment income	45	36	9	25 %
Other revenue	1,489	16,115	(14,626)	(91)%
<b>Total revenue</b>	<b>20,699</b>	<b>17,276</b>	<b>3,423</b>	<b>20 %</b>
<b>Costs and expenses</b>				
Losses and loss adjustment expenses	22,060	12,263	9,797	80 %
Policy servicing expense and other	5,283	4,443	840	19 %
Sales, marketing and other acquisition costs	6,459	47,294	(40,835)	(86)%
Research and development	4,277	3,650	627	17 %
Amortization of capitalized software	3,368	2,651	717	27 %
Other operating expenses	13,702	8,589	5,113	60 %
<b>Total costs and expenses</b>	<b>55,149</b>	<b>78,890</b>	<b>(23,741)</b>	<b>(30)%</b>
<b>Loss from operations</b>	<b>(34,450)</b>	<b>(61,614)</b>	<b>27,164</b>	<b>(44)%</b>
<b>Other expense</b>				
Interest expense	—	15,876	(15,876)	(100)%
(Decrease) increase in fair value of stock warrant liability	(131)	26,137	(26,268)	(101)%
<b>Total other expense</b>	<b>(131)</b>	<b>42,013</b>	<b>(42,144)</b>	<b>(100)%</b>
<b>Loss before taxes</b>	<b>(34,319)</b>	<b>(103,627)</b>	<b>69,308</b>	<b>(67)%</b>
<b>Net loss</b>	<b>\$ (34,319)</b>	<b>\$ (103,627)</b>	<b>\$ 69,308</b>	<b>(67)%</b>

## Revenue

### *Premiums Earned, net*

Net premiums earned increased \$18.0 million, or 1604%, from \$1.1 million for the three months ended March 31, 2021 to \$19.2 million for the three months ended March 31, 2022, which was primarily attributable to a \$15 million decrease in premiums ceded to our reinsurance partners, and a \$2.3 million increase in direct earned premium. The increase in direct earned premiums was primarily attributable to an increase in policies in force during the three months ended March 31, 2022 as well as increase in miles driven during the same period. We believe direct earned premium is the best measure of top-line revenue, as it excludes the impacts of reinsurance.

### *Investment Income*

Investment income increased \$9 thousand, or 25%, from \$36 thousand for the three months ended March 31, 2021 to \$45 thousand for the three months ended March 31, 2022. The increase was primarily due to a higher level of invested assets.

### *Other Revenue*

Other revenue decreased \$14.6 million, or 91%, from \$16.1 million for the three months ended March 31, 2021 to \$1.5 million for the three months ended March 31, 2022. The decrease was primarily reinsurance related. There was an \$11.3 million gain recognized in 2021 on reinsurance commutation settlement and a \$3.5 million decrease year over year in revenues from policy acquisition costs recovered for policies onboarded into our 2021 reinsurance program.

## Costs and Expenses

### *Losses and LAE*

Losses and LAE increased \$9.8 million, or 80%, from \$12.3 million for the three months ended March 31, 2021 to \$22.1 million for the three months ended March 31, 2022. Ceded losses and LAE decreased \$4.7 million as a result of commuting most of our reinsurance programs during the first quarter of 2021 and replacing with a new reinsurance program effective January 2022 under which we cede a smaller portion of our portfolio. Direct losses and LAE increased by \$5.1 million due to an overall increase in claims cost as a result of inflationary trends, frequency, and severity.

### *Policy Servicing Expense and Other*

Policy servicing expense and other increased \$0.8 million, or 19%, from \$4.4 million for the three months ended March 31, 2021 to \$5.3 million for the three months ended March 31, 2022. The increase was primarily attributable to an increase in our technical operations costs to support our customer platform, customer experience and other policy servicing personnel related expenses to support our business initiatives.

### *Sales, Marketing, and Other Acquisition Costs*

Sales, marketing, and other acquisition costs decreased \$40.8 million from \$47.3 million for the three months ended March 31, 2021 to \$6.5 million for the three months ended March 31, 2022. Of this decrease, \$40.8 million was reinsurance-related to the 2021 commutation, in which we recorded a gain of \$11.3 million in Other Revenue as well as Sales, Marketing, and Other Acquisition Cost expense of \$40.1 million related to a return of revenues from policy acquisition costs recovered for policies onboarded into our reinsurance program. Aside from reinsurance related impacts, there was a net decrease of \$1.0 million in our marketing campaign spend.

### *Research and Development*

Research and development increased \$0.6 million, or 17%, from \$3.7 million for the three months ended March 31, 2021 to \$4.3 million for the three months ended March 31, 2022. The increase was primarily attributable to employee personnel costs related to our expansion initiatives in the engineering and technology areas of approximately \$3.2 million, and an increase in stock compensation expense for related departments of \$0.7 million, partially offset by a decrease of \$3.2 million in capitalized software costs which serves as an offset to research and development expense.

### *Amortization of Capitalized Software*

Amortization of capitalized software increased by 27%, from \$2.7 million for the three months ended March 31, 2021 to \$3.4 million for the three months ended March 31, 2022. The increase was primarily related to the amortization of our website development costs and capitalized costs related to internal use software.

### *Other Operating Expenses*

Other operating expenses increased \$5.1 million, or 60%, from \$8.6 million for the three months ended March 31, 2021 to \$13.7 million for the three months ended March 31, 2022. The increase was primarily driven by an increase of \$3.9 million increase in general and administrative costs as a result of operating as a public company, including expenses related to compliance with the rules and regulations of the SEC and the listing standards of the Nasdaq Capital Market, additional

corporate, director and officer insurance expenses, and increased legal, audit and consulting fees, as well as \$0.3 million transaction costs incurred in 2022 in connection with an intended merger with Lemonade.

**Interest Expense**

Interest expense decreased \$15.9 million, or 100%, from \$15.9 million for the three months ended March 31, 2021 to \$0.0 million for the three months ended March 31, 2022. The decrease was attributable to no debt outstanding in 2022, as debt was paid off during the first quarter of 2021.

**Decrease in fair value of stock warrant liability**

Fair value of stock warrant liability decreased \$26.3 million, from \$26.1 million for the three months ended March 31, 2021 to \$(0.1) million for the three months ended March 31, 2022. The decrease was driven by the change in fair value of our public and private placement warrants as described in Note 2 of the unaudited consolidated financial statements included in Part I, Item 1, of this Quarterly Report on Form 10-Q.

**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, accident period contribution profit/(loss) and contribution profit/(loss) 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 these non-GAAP measures 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 use 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 contribution profit/(loss) and accident period contribution profit/(loss) for the periods presented:

	Three Months Ended March 31,	
	2022	2021
	(\$ in millions)	
Total revenue	20.7	17.3
Losses and LAE	(22.1)	(12.3)
Policy servicing expense and other	(5.3)	(4.4)
Amortization of capitalized software	(3.4)	(2.7)
Gross profit/(loss)	(10.1)	(2.1)
Gross margin	(48.4)%	(12.0)%
Less revenue adjustments:		
Revenue Adjustments Related to Reinsurance	8.4	8.9
Revenue from Enterprise Segment	(1.2)	(1.0)
Interest Income and Other	0.5	1.0
Less costs and expense adjustments:		
Loss and LAE Adjustments Related to Reinsurance	(7.1)	(11.8)
Loss and LAE Adjustments Related to Prior Period Development	(0.1)	4.3
Bad Debt, Report Costs and Other Expenses	0.4	(0.6)
Amortization of Internally Developed Software	3.4	2.7
Devices	1.3	1.0
Accident period contribution profit/(loss)	\$ (4.5)	\$ 2.4
Prior Period Development	\$ 0.1	\$ (4.3)
Contribution profit/(loss)	\$ (4.4)	\$ (1.9)
Total revenue	\$ 20.7	\$ 17.3
Revenue adjustments	7.7	8.9
Adjusted revenue	\$ 28.4	\$ 26.2
Accident period contribution margin	(16.1)%	9.1 %
Contribution margin	(15.6)%	(7.1)%

## Liquidity and Capital Resources

We are a holding company that transacts a majority of our business through operating subsidiaries. Through our insurance subsidiaries, we sell pay-per-mile auto insurance policies to customers and through our Enterprise subsidiary, we sell our insurance solution technology to third-party insurance carriers. From inception through completion of the Merger, we financed our operations primarily through sales of insurance policies, sales of our Enterprise platform, and the net proceeds received from the issuance of preferred stock, debt, and sales of investments. As of March 31, 2022, we had \$84.3 million in unrestricted cash and cash equivalents compared to unrestricted cash and cash equivalents of \$120.9 million as of December 31, 2021. Our cash and cash equivalents primarily consist of bank deposits and money market funds. Our marketable securities consist of U.S. treasury securities, municipal securities, corporate debt securities, residential and commercial mortgage-backed securities, and other debt obligations.

Insurance companies in the United States are also required by state law to maintain a minimum level of capital and surplus. Insurance companies are subject to certain RBC requirements as specified by NAIC. These standards for property and casualty insurers are used as a means of monitoring the financial strength of insurance companies. Under these requirements, the amount of capital and surplus maintained by an insurance company is to be determined based on the various risk factors related to it. Such regulation is generally for the protection of the policyholders rather than

stockholders. As of March 31, 2022 and December 31, 2021, our capital and policyholders' surplus exceeded the minimum RBC requirements. We believe that our existing cash and cash equivalents, marketable securities, and cash flow from operations will be sufficient to support working capital and capital expenditure requirements for at least the next 12 months. Our future capital requirements will depend on many factors, including our insurance premium growth rate, renewal activity, including the timing and the amount of cash received from customers, the timing and extent of spending to support development efforts, the introduction of new and enhanced products, the continuing market adoption of offerings on our platform, and the current uncertainty in the global markets resulting from the worldwide COVID-19 pandemic.

Our principal sources of liquidity are funds generated by operating activities, and available cash and cash equivalents, subject to the limitations set forth in the merger agreement related to the Proposed Transaction.

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

	Three Months Ended March 31,	
	2022 [1]	2021
	(\$ in millions)	
Net cash used in operating activities	\$ (28.0)	\$ (29.4)
Net cash (used in) provided by investing activities	(17.1)	0.7
Net cash provided by financing activities	—	273.5

[1] Cash activities in 2022 include cash flows related to Enterprise Business Solutions classified as held for sale beginning in the first quarter of 2022. See Note 16, Business Disposition, of Notes to Consolidated Financial Statements for discussion of this transaction.

#### **Operating Activities**

Net cash used in operating activities for the three months ended March 31, 2022 was \$28.0 million, which was a decrease of net cash used of \$1.4 million from \$29.4 million for the three months ended March 31, 2021. Cash used during this period included \$23.1 million from net loss for the three months ended March 31, 2022, excluding the impact of changes in fair value of our outstanding warrants, depreciation expense and stock-based compensation and other non-cash expenses. Net cash provided by changes in our operating assets and liabilities decreased by \$30.1 million, which is primarily attributable to reinsurance recoverables on paid and unpaid losses, loss and LAE reserves which reflect an increase in paid claims year over year, a decrease in accounts payable and accrued expenses, and prepaid reinsurance premium, partially offset by ceded reinsurance premiums.

Net cash used in operating activities for the three months ended March 31, 2021 was \$29.4 million. Cash used during this period included \$54.5 million from net loss for the three months ended March 31, 2021, excluding the impact of changes in fair value of our outstanding warrants, depreciation expense and stock-based compensation and other non-cash expenses. Net cash provided by changes in our operating assets and liabilities increased by \$32.5 million, which is primarily attributable to ceded reinsurance premiums, reinsurance recoverable on unpaid losses, accounts payable and accrued expense, prepaid reinsurance premium, premiums receivable which outpaced reinsurance recoverable on paid losses, prepaid expenses and other, unearned premium reserve, and loss and LAE reserves.

#### **Investing Activities**

Net cash used in investing activities for the three months ended March 31, 2022 was \$17.1 million compared to net cash provided by investing activities of \$0.7 million during the three months ended March 31, 2021, which was primarily driven by a change from net proceeds to net payments for securities, as well as continued investment in our website and software development, partially offset by a decline in investment in telematics devices, leasehold improvements, and other equipment.

#### **Financing Activities**

Net cash provided by financing activities for the three months ended March 31, 2022 was \$0.0 million compared to \$273.5 million in cash provided by financing activities for the three months ended March 31, 2021. The decrease in cash provided by financing activities is primarily due to cash received from the trust account and the private placements in connection with the Closing in February 2021.

## Contractual Obligations

The following is a summary of material contractual obligations and commitments as of March 31, 2022:

	Total	2022 (remaining nine months)	2023 – 2024	2025 – 2026	Thereafter
	<i>(in millions)</i>				
Long-term debt	\$ —	\$ —	\$ —	\$ —	\$ —
Interest on long-term debt	—	—	—	—	—
Operating Leases	22.3	2.3	6.4	4.9	8.7
Purchase Commitments	3.3	3.3	—	—	—
<b>Total</b>	<b>\$ 25.6</b>	<b>\$ 5.6</b>	<b>\$ 6.4</b>	<b>\$ 4.9</b>	<b>\$ 8.7</b>

## Financing Arrangements

### Subordinated Note Purchase and Security Agreement

In April 2020, we entered into the Note Purchase Agreement with Hudson, which was amended in February 2021 to reflect the consummation of the Merger by adding INSU as a guarantor and reflecting our new corporate structure. An executive of Hudson is on our board of directors and is a related party, as discussed in Note 15 of the unaudited consolidated financial statements included in Part I, Item 1, of this Quarterly Report on form 10-Q.

Under the Note Purchase Agreement, we could issue up to \$50.0 million in aggregate principal amount of senior secured subordinated PIK notes due in 2025 (the “Notes”). The Note Purchase Agreement further provided for additional funds of up to an aggregate of \$15.0 million over time from Hudson, the timing of which was subject to reinsurance settlement timing. Notes issued under the Note Purchase Agreement were due on the fifth anniversary of their issuance, starting in April 2025, and bore interest at the following rates: 2% per annum payable quarterly in arrears in cash, and a varying interest rate of 9.0% to 11.0% PIK interest. The PIK interest was based on the aggregate outstanding principal balance as follows: (i) 11.0% if the outstanding balance was less than \$5.0 million; (ii) 10.0% if the outstanding balance was greater than or equal to \$5.0 million but less than \$10.0 million, and (iii) 9.0% if the outstanding balance was greater than or equal to \$10.0 million. PIK interest represents contractually deferred interest that was added to the principal balance outstanding each quarter and due at maturity. The Notes were secured by substantially all of our assets. We had the right to prepay the Notes at any time subject to payment of a fee. As of December 31, 2020, \$31.6 million aggregate principal amount of the Notes was outstanding, along with \$0.9 million of capitalized PIK interest. Subsequent to December 31, 2020, we issued additional Notes having an aggregate principal amount of \$2.0 million. As of March 30, 2021, there was approximately \$36.6 million of principal and PIK interest outstanding under the Hudson debt facility, which we repaid on such date, along with the prepayment fee of \$0.4 million. Accordingly, there are no longer any Notes outstanding.

As part of the entry into the original Note Purchase Agreement, we issued warrants for up to 8,536,938 of Series E convertible preferred shares, which we estimated to have a fair value of \$12.5 million at issuance, which was recorded as a discount to the debt and is being amortized to interest expense over the term of the debt. These warrants were net exercised immediately prior to the Effective Time (as defined in the Merger Agreement) and are no longer outstanding.

### Paycheck Protection Program Loan

In April 2020, we were granted a loan under the Paycheck Protection Program offered by the Small Business Administration under the CARES Act, section 7(a)(36) of the Small Business Act for approximately \$5.9 million. The balance outstanding for the Paycheck Protection Program loan was \$5.9 million at December 31, 2020. We repaid this loan concurrent with the consummation of the Merger and it is no longer outstanding.

### 2019 Loan and Security Agreement

In December 2019, we entered into a Loan and Security Agreement (the “2019 Loan and Security Agreement”) with us, as borrower, certain of our subsidiaries, as guarantors and certain affiliates of Multiplier Capital, LLC and other financial institutions, as lenders and agent, providing for a term loan in aggregate principal amount of \$25.0 million. Minimum payments of interest were due monthly through December 2021. Beginning in January 2022, equal payments of principal would have been due monthly in an amount necessary to fully amortize the loan by June 5, 2024. An end of term payment of \$0.6 million was due at maturity or date of any prepayment. The loan was secured by substantially all of our and the guarantor’s assets. Lender’s consent was required to be obtained regarding certain dispositions, and changes in business, management, or ownership including mergers and acquisitions, such as the Merger, as more fully described in the 2019 Loan and Security Agreement. The balance outstanding net of debt issuance costs for the 2019 Loan and Security Agreement was \$24.3 million as of December 31, 2020.

The loan could be prepaid in an amount equal to the outstanding principal, accrued interest, and the end of term fee, plus a prepayment charge of 3% if paid in the first two years after the effective date, 2% if paid in the third year after the effective date, or 1% if prepaid after the third year subsequent to the effective date. Accordingly, we prepaid this loan in connection with the consummation of the Merger and is no longer outstanding.

At the time of origination, the lender was granted a warrant to purchase Series E convertible preferred stock, estimated to have a fair value of \$0.5 million at issuance. These warrants were not exercised immediately prior to the Effective Time and are no longer outstanding.

### **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 stock-based compensation. 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.

See Note 1, Summary of Significant Accounting Policies, to our unaudited consolidated financial statements included in Part I, Item 1, of this Quarterly Report on Form 10-Q for material changes to our critical accounting policies from the ones described under the section Critical Accounting Policies and Estimates of Management's Discussion and Analysis of Financial Condition and Results of Operations and Summary of Significant Accounting Policies of Notes to Consolidated Financial Statements included in the Company's 2021 Form 10-K Annual Report.

### **New Accounting Pronouncements**

See Note 1, Summary of Significant Accounting Policies, to our unaudited consolidated financial statements included in Part I, Item 1, of this Quarterly Report on Form 10-Q.

## **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS**

We are exposed to certain credit and interest rate risks as part of our ongoing business operations.

### **Credit Risk**

We are exposed to credit risk on our investment portfolio and were exposed on our reinsurance contracts. Investments that potentially subject us to credit risk consist principally of cash and marketable securities. We place our cash and cash equivalents with financial institutions with high credit standing and our excess cash in marketable investment grade securities. With respect to our reinsurance contracts, we were exposed to credit risk from reinsurance recoverables and prepaid reinsurance premiums, which was mitigated by using a diverse group of reinsurers and monitoring their financial strength ratings. For any reinsurance counterparties who were not rated, we require adequate levels of collateral in the form of a trust account or Letter of Credit. The credit risk on our reinsurance contracts has been eliminated with the commutation of the reinsurance programs.

### **Interest Rate Risk**

Our consolidated balance sheets include assets and liabilities with estimated fair values that are subject to market risks. Our primary market risk has been interest rate risks which impacts the fair value of our liabilities as well as interest rate risks associated with our investments in fixed maturities.

## **ITEM 4. CONTROLS AND PROCEDURES**

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

The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act refers to controls and procedures that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Because there are inherent limitations in all control systems, a control system, no matter how well conceived and operated, can provide only reasonable, as opposed to absolute, assurance that the objectives of the control system are met. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of 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 control. 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.

Our management, with the participation of our Chief Executive Officer, Chief Financial Officer, and Chief Accounting Officer, evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective at the reasonable assurance level as of the end

of the period covered by this Quarterly Report on Form 10-Q due to ineffective information technology general controls ("ITGCs") in the areas of user access and program change management over certain information technology ("IT") systems that support our financial reporting processes, as disclosed below.

#### **Remediation of Material Weakness**

As disclosed in Part II Item 9A. "Controls and Procedures" in our Annual Report on Form 10-K for the year ended December 31, 2021, during the three months ended December 31, 2021, we identified a material weakness in internal controls related to ineffective ITGCs in the areas of user access and program change management over certain IT systems that support our financial reporting processes.

Beginning during the three months ended December 31, 2021, and continuing through March 31, 2022, we implemented our previously-disclosed remediation plan that included: (i) updating and implementing user access and change management policies; (ii) establishing a Change Management Committee to monitor change management processes and controls; and (iii) enhancing quarterly reporting on the remediation measures to the Audit Committee of the Board of Directors.

During the three months ended March 31, 2022, we completed our testing of the operating effectiveness of the impacted ITGC controls and found them to be effective. However, the material weakness cannot be considered remediated until the applicable remedial controls operate for a sufficient period of time. We expect that the remediation of this material weakness will be completed in the second quarter of 2022.

Notwithstanding this material weakness, management has concluded that our financial statements included elsewhere in this Quarterly Report on Form 10-Q present fairly, in all material respects, our financial position, results of operations and cash flows for the periods presented in accordance with GAAP.

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

During the three months ended March 31, 2022, there were no changes in our internal control over financial reporting, besides those previously mentioned in the Remediation Plan section above, that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

## PART II

### ITEM 1. LEGAL PROCEEDINGS

From time to time, we are involved in various legal proceedings arising from the normal course of business activities, some of which, to date, have related to fraudulent insurance claims made against us. For a discussion regarding Metromile's legal proceedings, see the information contained under "Litigation" in Note 8 - Leases, Commitments, and Contingencies of the Notes to Consolidated Financial Statements.

### ITEM 1A. RISK FACTORS

There have been no material changes to the Risk Factors described in Part I, Item 1A. "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2021, filed with the SEC on February 28, 2022.

### ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Not applicable.

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

### ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

### ITEM 5. Other Information

Not applicable.

## ITEM 6. EXHIBITS

Exhibit No.	Description
2.1	<a href="#">Agreement and Plan of Merger and Reorganization, dated November 24, 2020, by and among INSU Acquisition Corp. II, INSU II Merger Sub Corp., and MetroMile, Inc. (incorporated by reference to Annex A to the Company's Proxy Statement/Prospectus included in the Registration Statement on Form S-4/A, filed with the Securities and Exchange Commission on January 15, 2021).</a>
2.2	<a href="#">Amendment No. 1 to the Agreement and Plan of Merger and Reorganization dated November 24, 2020, dated January 12, 2021 by and among INSU Acquisition Corp. II, INSU II Merger Sub Corp., and MetroMile, Inc. (incorporated by reference to Annex AA to the Company's Proxy Statement/Prospectus included in the Registration Statement on Form S-4/A, filed with the Securities and Exchange Commission on January 14, 2021).</a>
2.3	<a href="#">Amendment No. 2 to the Agreement and Plan of Merger and Reorganization, dated November 24, 2020, and as amended on January 12, 2021, dated February 8, 2021, by and among INSU Acquisition Corp. II, INSU II Merger Sub Corp., and MetroMile, Inc. (incorporated by reference to Exhibit 2.3 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on February 11, 2021).</a>
2.4	<a href="#">Agreement and Plan of Merger, dated November 8, 2021, by and among Lemonade, Inc., Citrus Merger Sub A, Inc., Citrus Merger Sub B, LLC and the Company (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on November 9, 2021).</a>
3.1	<a href="#">Second Amended and Restated Certificate of Incorporation of the Company, dated February 9, 2021 (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on February 11, 2021).</a>
3.2	<a href="#">Second Amended and Restated Bylaws of the Company, dated February 9, 2021 (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on February 11, 2021).</a>
10.1	<a href="#">August 2021 changes to executive officer compensation (incorporated by reference to Exhibit 2.3 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on August 12, 2021).</a>
31.1	<a href="#">Certification of Principal Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a), promulgated under the Securities Exchange Act of 1934, as amended.</a>
31.2	<a href="#">Certification of Principal Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a), promulgated under the Securities Exchange Act of 1934, as amended.</a>
32.1*	<a href="#">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.</a>
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document.
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

\* Furnished herewith and not deemed to be "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.

**SIGNATURE**

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

**METROMILE, INC.**

Date: May 10, 2022

By: /s/ Regi Vengalil  
Regi Vengalil  
Chief Financial Officer  
(Principal Financial Officer)

**CERTIFICATION 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**

I, Dan Preston, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Metromile, 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 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)) 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. 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
  - c. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter 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 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: May 10, 2022

By: /s/ Dan Preston  
Dan Preston  
Chief Executive Officer  
(Principal Executive Officer)

**CERTIFICATION 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**

I, Regi Vengalil, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Metromile, 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 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)) 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. 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
  - c. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter 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 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: May 10, 2022

By: /s/ Regi Vengalil  
Regi Vengalil  
Chief Financial Officer  
(Principal Financial Officer)

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

Pursuant to the requirement 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), Dan Preston, Chief Executive Officer of Metromile, Inc. (the "Company"), and Regi Vengalil, 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 quarterly period ended March 31, 2022, to which this Certification is attached as Exhibit 32.1 (the "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 Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: May 10, 2022

By: /s/ Dan Preston

Dan Preston

Chief Executive Officer

(Principal Executive Officer)

By: /s/ Regi Vengalil

Regi Vengalil

Chief Financial Officer

(Principal Financial Officer)

*This certification accompanies the Form 10-Q to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of Metromile, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Form 10-Q), irrespective of any general incorporation language contained in such filing.*