

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2015

or

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

For the transition period from ____ to ____

Commission File Number: 001-36537

TRUPANION, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or
organization)

83-0480694

(I.R.S. Employer Identification Number)

907 NW Ballard Way
Seattle, Washington 98107
(855) 727 - 9079

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if smaller reporting company)

Smaller reporting company

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

As of October 31, 2015 there were approximately 28,280,046 shares of the registrant's common stock outstanding.

TRUPANION, INC.
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Note About Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements contained in this Quarterly Report on Form 10-Q other than statements of historical fact, including statements regarding our future results of operations and financial position, our business strategy and plans and our objectives for future operations, are forward-looking statements. The words “believe,” “may,” “will,” “potentially,” “estimate,” “target,” “continue,” “anticipate,” “intend,” “could,” “would,” “project,” “plan” and “expect,” and similar expressions that convey uncertainty of future events or outcomes, are intended to identify forward-looking statements.

These forward-looking statements are subject to a number of risks, uncertainties and assumptions, including those described in Part II. Item 1A. “Risk Factors” and elsewhere in this Quarterly Report on Form 10-Q. Moreover, we operate in a very competitive and rapidly changing environment, and new risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. In light of these risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this Quarterly Report on Form 10-Q may not occur and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements.

You should not rely on forward-looking statements as predictions of future events. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee that the future results, levels of activity, performance or events and circumstances reflected in the forward-looking statements will be achieved or occur. We undertake no obligation to update publicly any forward-looking statements for any reason, except as required by law.

Unless otherwise stated or the context otherwise indicates, references to “Trupanion,” “we,” “us,” “our” and similar references refer to Trupanion, Inc. and its subsidiaries taken as a whole.

Investors and others should note that we announce material financial information to our investors using our investor relations website (<http://investors.trupanion.com>), SEC filings, press releases, public conference calls and webcasts. We use these channels, as well as social media, to communicate with our members and the public about our company, our services and other issues. It is possible that the information we post on social media could be deemed to be material information. Therefore, we encourage investors, the media, and others interested in our company to review the information we post on the United States (“U.S.”) social media channels listed on our investor relations website.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

Trupanion, Inc.
Consolidated Statements of Operations
(in thousands, except for share and per share data)
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Revenue	\$ 37,865	\$ 30,312	\$ 106,762	\$ 84,042
Cost of revenue:				
Claims expenses	26,604	21,808	75,442	57,819
Other cost of revenue	4,670	4,059	13,361	11,872
Gross profit	6,591	4,445	17,959	14,351
Operating expenses:				
Sales and marketing	4,128	2,934	11,312	8,390
Technology and development	3,005	2,532	8,683	7,285
General and administrative	4,067	4,385	11,760	10,463
Total operating expenses	11,200	9,851	31,755	26,138
Operating loss	(4,609)	(5,406)	(13,796)	(11,787)
Interest expense	14	5,155	298	6,623
Other expense (income), net	4	(2,066)	8	(1,545)
Loss before income taxes	(4,627)	(8,495)	(14,102)	(16,865)
Income tax expense	16	14	102	36
Net loss	\$ (4,643)	\$ (8,509)	\$ (14,204)	\$ (16,901)
Net loss per share:				
Basic and diluted	\$ (0.17)	\$ (0.41)	\$ (0.52)	\$ (2.09)
Weighted-average shares used to compute net loss per share:				
Basic and diluted	27,755,310	20,857,126	27,564,975	8,092,287

Trupanion, Inc.
Consolidated Statements of Comprehensive Loss
(in thousands)
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net loss	\$ (4,643)	\$ (8,509)	\$ (14,204)	\$ (16,901)
Other comprehensive (loss) income:				
Foreign currency translation adjustments	(274)	25	(347)	49
Change in unrealized losses on available-for-sale securities	29	17	(12)	112
Other comprehensive (loss) income, net of taxes	(245)	42	(359)	161
Comprehensive loss	\$ (4,888)	\$ (8,467)	\$ (14,563)	\$ (16,740)

Trupanion, Inc.
Consolidated Balance Sheets
(in thousands, except for share data)

	September 30, 2015	December 31, 2014
Assets	(unaudited)	
Current assets:		
Cash and cash equivalents	\$ 21,688	\$ 53,098
Short-term investments	23,203	22,371
Accounts and other receivables	8,344	7,887
Prepaid expenses and other assets	2,157	1,299
Total current assets	55,392	84,655
Long-term investments, at fair value	2,420	942
Equity method investment	300	—
Property and equipment, net	9,614	7,862
Intangible assets, net	4,799	4,847
Other long term assets	29	—
Total assets	\$ 72,554	\$ 98,306
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 1,451	\$ 1,962
Accrued liabilities	4,327	4,607
Claims reserve	6,188	5,107
Deferred revenue	10,604	9,345
Other payables	668	1,523
Total current liabilities	23,238	22,544
Long-term debt	—	14,900
Deferred tax liabilities	1,495	1,495
Other liabilities	412	92
Total liabilities	25,145	39,031
Stockholders' equity:		
Common stock, \$0.00001 par value per share, 200,000,000 shares authorized at September 30, 2015 and December 31, 2014, 28,898,227 and 28,277,248 issued and outstanding at September 30, 2015; 28,451,920 and 27,830,941 shares issued and outstanding at December 31, 2014.	—	—
Preferred stock: \$0.00001 par value per share, 10,000,000 authorized at September 30, 2015 and December 31, 2014, and 0 issued and outstanding at September 30, 2015 and December 31, 2014.	—	—
Additional paid-in capital	121,741	119,045
Accumulated other comprehensive (loss) income	(348)	11
Accumulated deficit	(71,383)	(57,180)
Treasury stock, at cost: 620,979 shares at September 30, 2015 and December 31, 2014.	(2,601)	(2,601)
Total stockholders' equity	47,409	59,275
Total liabilities and stockholders' equity	\$ 72,554	\$ 98,306

Trupanion, Inc.
Consolidated Statements of Cash Flows
(in thousands)
(unaudited)

	Nine Months Ended September 30,	
	2015	2014
Operating activities		
Net loss	\$ (14,204)	\$ (16,901)
Adjustments to reconcile net loss to cash used in operating activities:		
Depreciation and amortization	1,800	1,234
Amortization of debt discount and prepaid loan fees	5	5,033
Warrant income	—	(1,574)
Stock-based compensation expense	2,349	3,194
Other, net	(91)	56
Changes in operating assets and liabilities:		
Accounts and other receivables	(504)	(828)
Prepaid expenses and other current assets	(868)	(456)
Accounts payable	(329)	151
Accrued liabilities	53	(398)
Claims reserve	1,127	(201)
Deferred revenue	1,310	823
Other payables, net	(416)	167
Net cash used in operating activities	<u>(9,768)</u>	<u>(9,700)</u>
Investing activities		
Purchases of investment securities	(16,082)	(26,455)
Maturities of investment securities	13,580	23,239
Equity method investment	(300)	—
Purchases of property and equipment	(3,816)	(4,013)
Net cash used in investing activities	<u>(6,618)</u>	<u>(7,229)</u>
Financing activities		
Release of restricted cash	—	3,000
Tax withholding on restricted stock	(643)	—
Repayment of debt financing and loan fees	(14,900)	(32,103)
Proceeds from exercise of stock options	914	161
Proceeds from line of credit	—	17,000
Net proceeds from initial public offering	—	72,946
Net cash (used in) provided by financing activities	<u>(14,629)</u>	<u>61,004</u>
Effect of foreign exchange rates on cash, net	(395)	55
Net change in cash and cash equivalents	(31,410)	44,130
Cash and cash equivalents at beginning of period	53,098	14,939
Cash and cash equivalents at end of period	<u>\$ 21,688</u>	<u>\$ 59,069</u>
Supplemental disclosures		
Income taxes paid	117	9
Interest paid	155	1,372
Noncash investing and financing activities:		
Warrants issued in conjunction with debt issuance	—	1,123
Increase in payables for property and equipment	310	488
Increase in payables for deferred financing costs	—	136
Cashless exercise of preferred stock warrants	—	1,270

Trupanion, Inc.
Notes to the Consolidated Financial Statements (unaudited)

1. Nature of Operations and Summary of Significant Accounting Policies

Description of Business

Trupanion, Inc. (collectively with its wholly-owned subsidiaries, the Company) is a direct-to-consumer monthly subscription service provider of a medical plan for cats and dogs throughout the United States, Canada and Puerto Rico.

Basis of Presentation

The consolidated balance sheet data as of December 31, 2014 was derived from audited consolidated financial statements. The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) for unaudited consolidated financial information. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation. These unaudited consolidated financial statements and notes should be read in conjunction with the Company's audited consolidated financial statements and accompanying notes for the year ended December 31, 2014 included in the Company's Annual Report on Form 10-K, filed with the U.S. Securities and Exchange Commission on February 24, 2015. The accompanying unaudited consolidated financial statements reflect all adjustments consisting of normal recurring adjustments which, in the opinion of management, are necessary for a fair presentation of the Company's financial position and results of its operations, as of and for the periods presented. Operating results for the three and nine months ended September 30, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015, or for any other period.

Reclassifications

Certain prior year amounts have been reclassified within the Company's consolidated financial statements from their original presentation to conform to the current period presentation. In addition, amounts in note 9 related to segments have been recast to reflect a change in the composition of the Company's segments as described in note 9.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies and the reported amounts of revenue and expenses. Significant items subject to such estimates and assumptions include the valuation of deferred tax assets, stock-based compensation, claims reserve and useful lives of software developed for internal use. Actual results could differ from the estimates used in preparing the consolidated financial statements.

Advertising

Advertising costs are expensed as incurred, with the exception of television advertisements, which are expensed the first time each advertisement is aired.

Accumulated Other Comprehensive Loss

There were no reclassifications out of accumulated other comprehensive loss during the three and nine months ended September 30, 2015 and 2014.

Insurance Operations

Effective January 1, 2015, the Company formed a segregated account in Bermuda as part of Wyndham Insurance Company (SAC) Limited (WICL), and entered into a revised fronting and reinsurance arrangement with Omega General Insurance Company (Omega) to include its newly formed segregated account. The Company maintains all risk with the business written in Canada and consolidates the entity in its financial statements. Contractual requirements restrict dividends from this entity until after 2016, at which time dividends will be allowed subject to the Segregated Accounts Company Act of 2000, which allows for dividends only to the extent that the entity remains solvent and the value of its assets remain greater than the aggregate of its liabilities and its issued share capital and share premium accounts.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued an Accounting Standard Update (ASU) amending revenue recognition guidance and requiring more detailed disclosures to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Insurance contracts are excluded from the scope of this new guidance. The guidance is effective for annual and interim reporting periods beginning after December 15, 2017, with early adoption permitted, and must be applied retrospectively or modified retrospectively. The Company does not believe this ASU will have a material impact on its consolidated financial statements.

In May 2015, the FASB issued an ASU amending short-term insurance contract disclosures and requiring more detailed disclosures to enable users of financial statements to understand information relating to liabilities for unpaid claims and claims adjustment expenses. Additionally, the amendments will also require insurance entities to disclose information about significant changes in methodologies and assumptions used to calculate these liabilities. This guidance is effective for annual reporting periods beginning after December 15, 2015 and interim periods beginning after December 15, 2016. Early adoption of this guidance is permitted, and must be applied retrospectively by providing comparative disclosures for each period presented. The Company plans to adopt this guidance in 2016.

2. Net Loss per Share

Basic net loss per share is calculated by dividing the net loss by the weighted-average number of shares of common stock outstanding for the period. Excluded from the weighted-average number of shares outstanding are shares that have been issued and are subject to future vesting and unvested restricted stock. Diluted net loss per share is calculated by dividing the net loss by the weighted-average number of common stock equivalents outstanding for the period determined using the treasury-stock method. Potentially dilutive common stock equivalents are comprised of convertible preferred stock, warrants for the purchase of convertible preferred stock and common stock, exchangeable shares, unvested restricted stock, restricted stock units, and stock options. For all periods presented, there is no difference in the number of shares used to calculate basic and diluted shares outstanding due to the Company's net loss position.

The following potentially dilutive equity securities are not included in the diluted net loss per common share calculation because they would have had an antidilutive effect:

	As of September 30,	
	2015	2014
Stock options	4,991,047	5,082,500
Restricted stock awards and units	474,522	595,665
Warrants	869,999	869,999

3. Investment Securities

The amortized cost, gross unrealized holding losses, and fair value of available-for-sale and short-term investments by major security type and class of security were as follows as of September 30, 2015 and December 31, 2014 (in thousands):

	Amortized Cost	Gross Unrealized Holding Losses	Fair Value
As of September 30, 2015			
Available-for-sale:			
Foreign deposits	\$ 1,490	\$ —	\$ 1,490
Municipal bond	1,000	(70)	930
	<u>\$ 2,490</u>	<u>\$ (70)</u>	<u>\$ 2,420</u>
Short-term investments:			
U.S. Treasury securities	\$ 5,682	\$ —	\$ 5,682
Certificates of deposit	1,581	—	1,581
U.S. government funds	15,940	—	15,940
	<u>\$ 23,203</u>	<u>\$ —</u>	<u>\$ 23,203</u>

	Amortized Cost	Gross Unrealized Holding Losses	Fair Value
As of December 31, 2014			
Available-for-sale:			
Municipal bond	\$ 1,000	\$ (58)	\$ 942
	<u>\$ 1,000</u>	<u>\$ (58)</u>	<u>\$ 942</u>
Short-term investments:			
U.S. Treasury securities	\$ 5,677	\$ —	\$ 5,677
Certificates of deposit	800	—	800
U.S. government funds	15,894	—	15,894
	<u>\$ 22,371</u>	<u>\$ —</u>	<u>\$ 22,371</u>

Maturities of debt securities classified as available-for-sale were as follows (in thousands):

	September 30, 2015	
	Amortized Cost	Fair Value
Available-for-sale:		
Due under one year	\$ —	\$ —
Due after one year through five years	1,490	1,490
Due after five years through ten years	1,000	930
Due after ten years	—	—
	<u>\$ 2,490</u>	<u>\$ 2,420</u>

The Company had one investment with an unrealized loss of \$0.1 million and a fair value of \$0.9 million at September 30, 2015 and December 31, 2014, respectively. The debt security has been in the unrealized loss position for more than 12 months. The Company has assessed the bond for credit impairment and has determined that there is no intent to sell this bond and it is likely that it will hold the investment for a period of time sufficient to allow for a recovery. Furthermore, future payments on this bond are insured by a financial guarantee insurer. Therefore, the Company believes that the unrealized loss on this bond constitutes a temporary impairment.

4. Fair Value

The Company determines fair value based on assumptions that market participants would use in pricing an asset or liability in the principal or most advantageous market. The Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible.

When considering market participant assumptions in fair value measurements, the following fair value hierarchy distinguishes between observable and unobservable inputs, which are categorized in one of the following levels:

- Level 1 inputs: Unadjusted quoted prices in active markets for identical assets or liabilities accessible to the reporting entity at the measurement date.
- Level 2 inputs: Valuations based on observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.
- Level 3 inputs: Unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date.

The following table presents the placement in the fair value hierarchy of assets and liabilities that are measured at fair value on a recurring basis (in thousands):

	As of September 30, 2015			
	Fair Value	Level 1	Level 2	Level 3
Assets				
Foreign deposits	\$ 1,490	\$ 1,490	\$ —	\$ —
Municipal bond	930	—	930	—
Money market funds	10,412	10,412	—	—
Total	\$ 12,832	\$ 11,902	\$ 930	\$ —

	As of December 31, 2014			
	Fair Value	Level 1	Level 2	Level 3
Assets				
Municipal bond	\$ 942	\$ —	\$ 942	\$ —
Money market funds	44,575	44,575	—	—
Total	\$ 45,517	\$ 44,575	\$ 942	\$ —

The Company estimates fair value for its long-term debt based upon rates currently available to the Company for debt with similar terms and remaining maturities. This is a Level 3 measurement. Based upon the terms of the debt, the carrying amount of long term debt approximated fair value at December 31, 2014.

The Company's accounting policy is to recognize transfers between levels of the fair value hierarchy on the date of the event or change in circumstances that caused the transfer. There were no transfers between levels for the three and nine months ended September 30, 2015 and 2014.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

- Investment securities: Debt securities classified as available-for-sale are measured using quoted market prices when quoted market prices are available. If quoted market prices in active markets for identical assets are not available to determine fair value, then the Company uses quoted prices of similar instruments and other significant inputs derived from observable market data obtained from third-party data providers. Short-term investments are carried at amortized cost and the fair value is disclosed in Note 3. Fair value is determined in the same manner as available-for-sale securities and is considered a Level 2 measurement.

5. Equity Method Investment

During the three months ended September 30, 2015, the Company invested \$0.3 million in DataPoint, LLC, in exchange for 300,000 units of Series A preferred stock resulting in a 13% equity interest. Additionally, if certain revenue and EBIT (Earnings before interest and taxes) targets are not met as of April 1, 2017, the Company's ownership interest will increase proportionately by the amount by which the targets were missed, up to a maximum of 28%. The Company's equity interest in DataPoint, LLC is accounted for under the equity method as the Company has the ability to exert significant influence. The equity method investment balance is adjusted each period on a one quarter lag to recognize the proportionate share of net income or loss, including adjustments to recognize certain differences between the carrying value and the equity in net assets.

6. Debt

The Company has a revolving line of credit with a bank, which is secured by any and all interest the Company has in assets that are not otherwise restricted. The revolving line of credit bears a variable interest rate equal to the greater of 5.0% or 1.5% plus the prime rate. Interest expense is due monthly on the outstanding principal amount with all amounts outstanding under the revolving line of credit due upon maturity in July 2017. The credit agreement requires the Company to comply with various financial and non-financial covenants. This facility also currently has a compensating balance requirement of \$1.6 million.

Borrowings on the revolving line of credit are limited to the lesser of \$20.0 million in 2015 and 2014, and the total amount of cash and securities held by American Pet Insurance Company (APIC), less up to \$3.0 million for obligations the Company may have outstanding for other ancillary services in the future. During the first quarter of 2015, the Company repaid its borrowings under this facility, and as of September 30, 2015, had no outstanding amounts under this facility.

The Company entered into a new lease agreement during the three months ended September 30, 2015 which required the Company to issue a security deposit in the form of an irrevocable standby letter of credit totaling \$1.1 million which expires in August 2016 and renews annually thereafter. This amount reduces the Company's available revolving line of credit. As of September 30, 2015, the Company had \$18.4 million available under its revolving line of credit.

7. Commitments and Contingencies

During 2015, the Company has entered into strategic marketing and service provider agreements, as well as other agreements with various parties. As of the September 30, 2015, these agreements resulted in an increase in future commitments of \$0.5 million in the fourth quarter of 2015, \$2.0 million in 2016 and \$0.7 million in 2017.

During the third quarter of 2015, the Company entered into a lease agreement for a building located in Seattle, Washington. The initial, 10-year term of the lease is expected to commence in April 2016 and expire in March 2026. The Company is obligated to pay a total of \$21.0 million in rent over the 10-year term.

The Company received an inquiry from the Washington State Office of the Insurance Commissioner (OIC) in December 2012 concerning whether subsidiaries of the Company were properly licensed, and whether certain of its employees were properly licensed, under Washington law. A regulatory examination took place during the third and fourth quarters of 2014. On September 22, 2015, the OIC issued its report and requesting a response from the Company within 90 days of its date. The Company is currently in the process of responding to this report. As of September 30, 2015 and December 31, 2014, the Company had accrued liabilities of \$0.4 million and \$0.2 million, respectively, for this matter. Adverse outcomes beyond recorded amounts are reasonably possible. At this stage in the matter, however, the Company is unable to estimate a possible loss or range of possible loss beyond amounts accrued.

The outcomes of the Company's legal proceedings are inherently unpredictable, subject to significant uncertainties, and could be material to the Company's operating results and cash flows for a particular period. The Company makes a provision for a liability relating to legal matters when it is both probable that a liability beyond previously accrued amounts has been incurred and the amount of the loss can be reasonably estimated. These provisions are reviewed at least quarterly and adjusted to reflect the impacts of negotiations, estimated settlements, legal rulings, advice of legal counsel and other information and events pertaining to a particular matter.

8. Stock-Based Compensation

The following table presents information regarding stock options granted, exercised and forfeited for the periods presented:

	Number Of Options	Weighted-Average Exercise Price	Aggregate Intrinsic Value
			(in thousands)
December 31, 2014	5,112,556	\$ 3.19	\$ 21,116
Granted	615,273	7.78	
Exercised	(514,431)	1.78	3,167
Forfeited	(222,351)	8.71	
September 30, 2015	<u>4,991,047</u>	3.65	20,674
Vested and exercisable at September 30, 2015	3,589,654	\$ 2.28	\$ 19,306

As of September 30, 2015, the stock options outstanding had a remaining contractual life of 6.34 years.

Stock-based compensation expense includes stock options and restricted stock granted to employees and non-employees and has been reported in the Company's statements of operations in claims expenses, other cost of revenue, sales and marketing, technology and development, and general and administrative expenses depending on the function performed by the employee or non-employee. The Company measures compensation expense on a straight-line basis except for restricted stock with a performance condition which is measured on a graded vesting schedule. The remaining 467,508 shares of unvested restricted stock measured on a graded vesting schedule are expected to vest over the remaining service term of approximately 4 years.

As of September 30, 2015, the Company had unrecognized stock-based compensation of \$6.1 million related to stock options and restricted stock held by employees and non-employees, which is expected to vest over a weighted-average period of approximately 2.65 years. As of September 30, 2015, the Company had 1,359,351 unvested stock options and 474,522 restricted stock awards that are expected to vest. No net tax benefits related to the stock-based compensation costs have been recognized since the Company's inception. The expense recognized in each category is provided in the table below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(in thousands)			
Claims expenses	\$ 58	\$ 60	\$ 160	\$ 168
Other cost of revenue	10	18	35	55
Sales and marketing	102	115	342	408
Technology and development	97	110	311	306
General and administrative	482	1,698	1,501	2,257
Total stock-based compensation	\$ 749	\$ 2,001	\$ 2,349	\$ 3,194

9. Segments

The Company operates in two segments: subscription business and other business. The subscription business segment includes monthly subscriptions related to the Company's medical plan which are marketed directly to consumers, while the other business segment includes all other business which is not directly marketed to consumers. Prior to January 1, 2015, certain enrollments not marketed directly to consumers were included in the subscription business segment as they were not segregated in reporting used by the chief operating decision maker. As of January 1, 2015, the Company began reporting these pets in its other business segment due to the characteristics of this business being similar to other arrangements within the other business segment. In addition, the chief operating decision maker began using information related to the subscription business segment excluding these pets in order to evaluate the Company's business and operations and make decisions. As such, these pets have been considered a part of the other business segment after January 1, 2015. Prior period segment information presented below has been recast to reflect this change.

The chief operating decision maker uses two measures to evaluate segment performance: revenue and gross profit. Additionally, other operating expenses, such as sales and marketing expenses, are allocated to each segment and evaluated when material. Interest and other expenses and income taxes are not allocated to the segments, nor included in the measure of segment profit or loss. The Company does not analyze discrete segment balance sheet information related to long-term assets.

Revenue and gross profit of the Company's segments were as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Revenue:				
Subscription business	\$ 34,420	\$ 27,112	\$ 96,684	\$ 74,885
Other business	3,445	3,200	10,078	9,157
	<u>37,865</u>	<u>30,312</u>	<u>106,762</u>	<u>84,042</u>
Claims expenses:				
Subscription business	24,455	20,269	69,352	53,750
Other business	2,149	1,539	6,090	4,069
	<u>26,604</u>	<u>21,808</u>	<u>75,442</u>	<u>57,819</u>
Other cost of revenue:				
Subscription business	3,691	2,782	10,220	7,961
Other business	979	1,277	3,141	3,911
	<u>4,670</u>	<u>4,059</u>	<u>13,361</u>	<u>11,872</u>
Gross profit:				
Subscription business	6,274	4,061	17,112	13,174
Other business	317	384	847	1,177
	<u>6,591</u>	<u>4,445</u>	<u>17,959</u>	<u>14,351</u>
Sales and marketing:				
Subscription business	4,112	2,819	11,240	8,296
Other business	16	115	72	94
	<u>4,128</u>	<u>2,934</u>	<u>11,312</u>	<u>8,390</u>
Technology and development	3,005	2,532	8,683	7,285
General and administrative	4,067	4,385	11,760	10,463
Operating loss	<u>\$ (4,609)</u>	<u>\$ (5,406)</u>	<u>\$ (13,796)</u>	<u>\$ (11,787)</u>

The following table presents the Company's revenue by geographic region of the member (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
United States	\$ 30,009	\$ 22,609	\$ 83,607	\$ 62,430
Canada	7,856	7,703	23,155	21,612
Total revenue	<u>\$ 37,865</u>	<u>\$ 30,312</u>	<u>\$ 106,762</u>	<u>\$ 84,042</u>

Substantially all of the Company's long-lived assets were located in the United States as of September 30, 2015.

Item 2. - Management's Discussion and Analysis of Financial Conditions and Results of Operations

Overview

We are a direct-to-consumer monthly subscription service providing a medical plan for cats and dogs throughout the United States, Canada and Puerto Rico. Our data-driven, vertically-integrated approach enables us to provide pet owners with what we believe is the highest value medical plan available for their pets, priced specifically for each pet's unique characteristics. Our growing and loyal member base provides us with highly predictable and recurring revenue. We operate our business with a focus on maximizing the lifetime value of each pet while sustaining a favorable ratio of lifetime value relative to pet acquisition cost.

We operate in two business segments: subscription business and other business. We generate revenue in our subscription business segment primarily from subscription fees for our medical plan, which we market to consumers. Our medical plan automatically renews on a monthly basis, and members pay the subscription fee at the beginning of each subscription period, in most cases by authorizing us to directly charge their credit card, debit card or bank account through automatic funds transfer. Subscription revenue is recognized on a pro rata basis over the monthly enrollment term. We generate revenue in our other business segment primarily from policies that are not marketed directly to consumers.

We generate leads for our subscription business through both third-party referrals and online member acquisition channels, which we then convert into members through our website and contact center. Veterinary practices represent our largest referral source. We engage a national referral network of independent contractors who are paid fees based on activity in their regions, which we refer to as our Territory Partners. Our Territory Partners are dedicated to cultivating direct veterinary relationships and building awareness of the benefits that our medical plan offers veterinarians and their clients. Veterinarians then educate pet owners, who visit our website or call our contact center to learn more about, and potentially enroll in, our medical plan. Our online member acquisition channels serve as important resources for pet owner education and drive new member leads and conversion. We also receive a significant number of new leads from existing members adding pets and referring their friends and family members. We continuously evaluate the effectiveness of our member acquisition channels and marketing initiatives based upon their return on investment, which we measure by comparing the ratio of the lifetime value of a pet generated through each specific channel or initiative to the related acquisition cost.

Our revenue increased from \$84.0 million for the nine months ended September 30, 2014 to \$106.8 million for the nine months ended September 30, 2015, representing 27% year-over-year growth. We have made and expect to continue to make substantial investments in member acquisition and in expanding our operations. For the nine months ended September 30, 2015 and 2014, we had a net loss of \$14.2 million and \$16.9 million respectively. As of September 30, 2015, our accumulated deficit was \$71.4 million .

Key Financial and Operating Metrics

The following tables set forth our key financial and operating metrics for our subscription business for the periods ended September 30, 2015 and 2014 and for each of the last eight fiscal quarters. The prior period metrics have been recast to reflect the movement of pets from the subscription business segment to the other business segment in 2015. For more information on this change see "Basis of Presentation."

	Nine Months Ended September 30,	
	2015	2014
Total pets enrolled (at period end)	276,988	221,479
Total subscription pets enrolled (at period end)	258,546	205,194
Monthly adjusted revenue per pet	\$ 44.88	\$ 43.89
Lifetime value of a pet (LVP)	\$ 591	\$ 580
Average pet acquisition cost (PAC)	\$ 132	\$ 114
Average monthly retention	98.66%	98.67%
Adjusted EBITDA (in thousands)	\$ (9,711)	\$ (7,444)

	Three Months Ended							
	Sept. 30, 2015	Jun. 30, 2015	Mar. 31, 2015	Dec. 31, 2014	Sept. 30, 2014	Jun. 30, 2014	Mar. 31, 2014	Dec. 31, 2013
Total pets enrolled (at period end)	276,988	259,948	246,106	232,450	221,479	207,969	194,902	182,497
Total subscription pets enrolled (at period end)	258,546	241,808	228,409	215,491	205,194	192,338	179,819	168,405
Monthly adjusted revenue per pet	\$ 45.15	\$ 45.10	\$ 44.34	\$ 44.79	\$ 44.88	\$ 43.60	\$ 43.07	\$ 43.06
Lifetime value of a pet (LVP)	\$ 591	\$ 570	\$ 567	\$ 591	\$ 580	\$ 602	\$ 612	\$ 613
Average pet acquisition cost (PAC)	\$ 129	\$ 133	\$ 134	\$ 145	\$ 115	\$ 114	\$ 113	\$ 106
Average monthly retention	98.66%	98.67%	98.66%	98.69%	98.67%	98.65%	98.65%	98.65%
Adjusted EBITDA (in thousands)	\$ (3,234)	\$ (3,165)	\$ (3,333)	\$ (2,903)	\$ (2,908)	\$ (2,459)	\$ (2,079)	\$ (1,780)

Total pets enrolled. Total pets enrolled reflects the number of pets subscribed to either our plan or one of the plans offered in our other business segment at the end of each period presented. We monitor total pets enrolled because it provides an indication of the growth of our consolidated business.

Total subscription pets enrolled. Total subscription pets enrolled reflects the number of pets subscribed to our core plan at the end of each period presented. We monitor total subscription pets enrolled because it provides an indication of the growth of our subscription business.

Monthly adjusted revenue per pet. Monthly adjusted revenue per pet is calculated as adjusted revenue divided by the total number of subscription pet months in the period. Adjusted revenue, a non-GAAP financial measure, is calculated as subscription business revenue, excluding sign-up fee revenue and the change in deferred revenue. We exclude sign-up fee revenue since it is collected at the time a new pet is enrolled and is used to partially offset initial setup costs, which are included in sales and marketing expenses. We exclude changes in deferred revenue in order to present monthly adjusted revenue per pet in a consistent manner across periods. Total subscription pet months in a period represents the sum of all pets enrolled for each month during the period. We monitor monthly adjusted revenue per pet because it is an indicator of the per unit economics of our business.

Lifetime value of a pet. Lifetime value of a pet (LVP) is calculated in a reporting period as the average monthly contribution margin per pet over the 12 months prior to the period end date, multiplied by the implied average subscriber life in months. The average monthly contribution margin per pet is calculated by dividing gross profit for our subscription business for the period, excluding sign-up fee revenue, the change in deferred revenue and stock based compensation expense recorded in cost of revenue by the number of subscription pet months in the 12-month period. Implied average subscriber life in months is calculated as the quotient obtained by dividing one by one minus the average monthly retention rate. We monitor LVP to assess how much lifetime contribution margin we might expect from new pets over their implied average subscriber life in months and to evaluate the amount of sales and marketing expenses we may want to incur to attract new pet enrollments.

Average pet acquisition cost. Average pet acquisition cost (PAC) is calculated as acquisition cost divided by the total number of new subscription pets enrolled in that period. Acquisition cost, a non-GAAP financial measure, is calculated in a reporting period as sales and marketing expenses, excluding stock-based compensation and sales and marketing related to other business segment, offset by sign-up fee revenue. We offset sales and marketing expenses with sign-up fee revenue since it is a one-time charge to new members used to partially offset initial setup costs, which are included in sales and marketing expenses. We monitor average pet acquisition cost to evaluate the efficiency of our sales and marketing programs in acquiring new members and measure effectiveness using the ratio of our lifetime value of a pet to average pet acquisition cost.

Average monthly retention. Average monthly retention is measured as the monthly retention rate of enrolled subscription pets for each applicable period averaged over the 12 months prior to the period end date. As such, our average monthly retention rate as of September 30, 2015 is an average of each month's retention from October 1, 2014 through September 30, 2015. We calculate monthly retention as the number of subscription pets that remain after subtracting all subscription pets that cancel during a month, including subscription pets that enroll and cancel within that month, divided by the total subscription pets enrolled at the beginning of that month. We monitor average monthly retention because it provides a measure of member satisfaction and allows us to calculate the implied average subscriber life in months and manage our business.

Adjusted EBITDA. Adjusted EBITDA is a non-GAAP financial measure that we define as net loss excluding stock-based compensation expense, depreciation and amortization expense, interest income, interest expense, change in fair value of warrant liabilities and income tax (benefit) expense. For more information about adjusted EBITDA and a reconciliation of net loss to adjusted EBITDA, see Non-GAAP Financial Measures below.

Non-GAAP Financial Measures

We believe that using adjusted revenue, contribution margin and acquisition cost to calculate and present certain of our other key metrics is helpful to our investors. These measures, which are non-GAAP financial measures, are not prepared in accordance with U.S. GAAP. We define adjusted revenue as revenue from our subscription business segment excluding sign-up fee revenue and the change in deferred revenue between periods. We define contribution margin as gross profit from our subscription business segment for the 12 months prior to the period end date excluding stock-based compensation expense related to cost of revenue from our subscription business segment, sign-up fee revenue and the change in deferred revenue between periods. We define acquisition cost as sales and marketing expenses, excluding stock-based compensation expense and sales and marketing expenses directly related to other business segment net of sign-up fee revenue.

Our non-GAAP financial measures may not provide information that is directly comparable to that provided by other companies in our industry as other companies in our industry may calculate or use non-GAAP financial measures differently. In addition, there are limitations in using non-GAAP financial measures because the non-GAAP financial measures are not prepared in accordance with GAAP, may be different from non-GAAP financial measures used by other companies and exclude expenses that may have a material impact on our reported financial results. Further, stock-based compensation expense and other items used in the calculation of adjusted EBITDA have been and will continue to be for the foreseeable future significant recurring expenses in our business. The presentation and utilization of non-GAAP financial measures is not meant to be considered in isolation or as a substitute for the directly comparable financial measures prepared in accordance with GAAP. We urge our investors to review the reconciliation of our non-GAAP financial measures to the most directly comparable GAAP financial measures in our consolidated financial statements that is included below, and not to rely on any single financial or operating measure to evaluate our business.

Because of varying available valuation methodologies, subjective assumptions and the variety of equity instruments that can impact a company's non-cash expenses, we believe that providing non-GAAP financial measures such as contribution margin, acquisition cost and adjusted EBITDA that exclude stock-based compensation expense and, in the case of adjusted EBITDA, the change in fair value of warrant liabilities allows for more meaningful comparisons between our operating results from period to period. We exclude sign-up fee revenue from the calculation of both adjusted revenue and contribution margin because we collect it from new members at the time of enrollment and consider it to be an offset to a portion of our sales and marketing expenses. For this reason, we also net sign-up fees with sales and marketing expenses in our calculation of acquisition cost. We exclude changes in deferred revenue from the calculation of both adjusted revenue and contribution margin in order to eliminate fluctuations caused by the timing of pet enrollment during the last month of any particular period in which such measures are being presented or utilized. We exclude revenue and expenses related to our other business segment from our calculation of contribution margin and acquisition cost as these metrics are only used to evaluate our subscription business. We exclude the change in fair value of warrant liabilities from our calculation of adjusted EBITDA in order to eliminate fluctuations caused by changes in our stock price. We believe this allows us to calculate and present adjusted revenue, contribution margin and acquisition cost and the related financial measures we derive from them, as well as adjusted EBITDA, in a consistent manner across periods. Our non-GAAP financial measures and the related financial measures we derive from them are important tools for financial and operational decision-making and for evaluating our own operating results over different periods of time.

The following tables reflect the reconciliation of adjusted revenue to revenue:

	Nine Months Ended September 30,	
	2015	2014
Revenue	\$ 106,762	\$ 84,042
Excluding:		
Other business revenue	(10,078)	(9,157)
Change in deferred revenue	1,072	731
Sign-up fee revenue	(1,477)	(1,209)
Adjusted revenue	<u>\$ 96,279</u>	<u>\$ 74,407</u>

	Three Months Ended							
	Sept. 30, 2015	Jun. 30, 2015	Mar. 31, 2015	Dec. 31, 2014	Sept. 30, 2014	Jun. 30, 2014	Mar. 31, 2014	Dec. 31, 2013
	(in thousands)							
Revenue	\$ 37,865	35,587	\$ 33,310	\$ 31,868	\$ 30,312	\$ 28,090	\$ 25,640	\$ 24,011
Excluding:								
Other business revenue	(3,445)	(3,379)	(3,254)	(3,251)	(3,200)	(3,178)	(2,779)	(2,736)
Change in deferred revenue	423	321	328	247	385	84	262	452
Sign-up fee revenue	(542)	(451)	(484)	(363)	(425)	(407)	(377)	(345)
Adjusted revenue	<u>\$ 34,301</u>	<u>\$ 32,078</u>	<u>\$ 29,900</u>	<u>\$ 28,501</u>	<u>\$ 27,072</u>	<u>\$ 24,589</u>	<u>\$ 22,746</u>	<u>\$ 21,382</u>

The following table reflects the reconciliation of contribution margin to gross profit:

	Twelve Months Ended							
	Sept. 30, 2015	Jun. 30, 2015	Mar. 31, 2015	Dec. 31, 2014	Sept. 30, 2014	Jun. 30, 2014	Mar. 31, 2014	Dec. 31, 2013
	(in thousands)							
Gross profit	\$ 23,483	\$ 21,337	\$ 20,701	\$ 19,874	\$ 18,439	\$ 18,113	\$ 16,792	\$ 15,644
Excluding:								
Stock-based compensation expense	286	296	302	315	309	287	270	230
Other business segment gross profit	(1,211)	(1,278)	(1,549)	(1,539)	(1,468)	(1,314)	(967)	(768)
Change in deferred revenue	1,319	1,281	1,044	977	1,183	1,111	1,246	1,107
Sign-up fee revenue	(1,840)	(1,723)	(1,679)	(1,572)	(1,554)	(1,514)	(1,464)	(1,418)
Contribution margin	<u>\$ 22,037</u>	<u>\$ 19,913</u>	<u>\$ 18,819</u>	<u>\$ 18,055</u>	<u>\$ 16,909</u>	<u>\$ 16,683</u>	<u>\$ 15,877</u>	<u>\$ 14,795</u>

The following tables reflect the reconciliation of acquisition cost to sales and marketing expense:

	Nine Months Ended September 30,	
	2015	2014
	(in thousands)	
Sales and marketing expense	\$ 11,312	\$ 8,390
Excluding:		
Stock-based compensation expense	(342)	(408)
Other business segment sales and marketing expense	(72)	(94)
Net of:		
Sign-up fee revenue	(1,477)	(1,209)
Acquisition cost	<u>\$ 9,421</u>	<u>\$ 6,679</u>

	Three Months Ended							
	Sept. 30, 2015	Jun. 30, 2015	Mar. 31, 2015	Dec. 31, 2014	Sept. 30, 2014	Jun. 30, 2014	Mar. 31, 2014	Dec. 31, 2013
	(in thousands)							
Sales and marketing expense	\$ 4,128	\$ 3,533	\$ 3,651	\$ 3,218	\$ 2,934	\$ 2,810	\$ 2,646	\$ 2,238
Excluding:								
Stock-based compensation expense	(102)	(110)	(130)	(147)	(115)	(144)	(149)	(185)
Other business segment sales and marketing expense	(16)	(30)	(26)	(30)	(22)	(28)	(44)	(6)
Net of:								
Sign-up fee revenue	(542)	(451)	(484)	(363)	(425)	(407)	(377)	(345)
Acquisition cost	<u>\$ 3,468</u>	<u>\$ 2,942</u>	<u>\$ 3,011</u>	<u>\$ 2,678</u>	<u>\$ 2,372</u>	<u>\$ 2,231</u>	<u>\$ 2,076</u>	<u>\$ 1,702</u>

The following tables reflect the reconciliation of adjusted EBITDA to net loss:

	Nine Months Ended September 30,	
	2015	2014
	(in thousands)	
Net loss	\$ (14,204)	\$ (16,901)
Excluding:		
Stock-based compensation expense	2,349	3,194
Depreciation and amortization expense	1,800	1,234
Interest income	(56)	(56)
Interest expense	298	6,623
Change in fair value of warrant liabilities	—	(1,574)
Income tax expense	102	36
Adjusted EBITDA	<u>\$ (9,711)</u>	<u>\$ (7,444)</u>

	Three Months Ended							
	Sept. 30, 2015	Jun. 30, 2015	Mar. 31, 2015	Dec. 31, 2014	Sept. 30, 2014	Jun. 30, 2014	Mar. 31, 2014	Dec. 31, 2013
	(in thousands)							
Net loss	\$ (4,643)	(4,625)	\$ (4,936)	\$ (4,276)	\$ (8,509)	\$ (3,479)	\$ (4,913)	\$ (3,203)
Excluding:								
Stock-based compensation expense	749	897	703	890	2,001	626	567	574
Depreciation and amortization expense	649	563	566	441	505	419	310	229
Interest income	(19)	(18)	(19)	(18)	(20)	(18)	(18)	(13)
Interest expense	14	40	245	103	5,155	726	742	225
Change in fair value of warrant liabilities	—	—	—	—	(2,054)	(740)	1,219	414
Income tax expense (benefit)	16	(22)	108	(43)	14	7	14	(6)
Adjusted EBITDA	\$ (3,234)	\$ (3,165)	\$ (3,333)	\$ (2,903)	\$ (2,908)	\$ (2,459)	\$ (2,079)	\$ (1,780)

Factors Affecting Our Performance

Average monthly retention. Our performance depends on our ability to continue to retain our existing and newly enrolled pets and is impacted by our ability to provide a best-in-class value and member experience. Our ability to maintain the retention rate of enrolled pets may be affected by a number of factors, including the actual and perceived value of our services and the quality of our member experience, our claims payment process and the competitive environment. In addition, if the number of new pets enrolled increases at a faster rate than our historical experience, our average monthly retention rate could be adversely impacted, as our retention rate is generally lower during the first year of member enrollment.

Investment in pet acquisition. We have made and plan to continue to make significant investments to grow our member base. Our acquisition cost and the number of new members we enroll depends on a number of factors, including the amount we elect to invest in sales and marketing activities in any particular period in the aggregate and by channel, effectiveness of our sales execution and marketing initiatives, changes in costs of media, the mix of our sales and marketing expenditures and the competitive environment. Our average pet acquisition cost has in the past significantly varied and in the future may significantly vary from period to period based upon specific marketing initiatives and the actual or expected relationship to LVP. For example, veterinary trade show costs have traditionally increased our average pet acquisition costs in the first quarter of each year and the timing of our Territory Partner conference can also increase our average pet acquisition cost in a given period. We also regularly test new member acquisition channels and marketing initiatives, which may include television advertising, that are more expensive than our traditional marketing channels and generally increase our average acquisition costs. We plan to expand the number of Territory Partners and their associates and continue testing new member acquisition channels and marketing initiatives, which is likely to increase our average pet acquisition cost. We continually assess our sales and marketing activities by monitoring the ratio of LVP to PAC.

Mix of enrolled pets. Changes in our mix of enrolled pets and the enrollment options each member chooses impact the monthly adjusted revenue per pet we receive. As existing members choose to change deductibles, add or remove riders to their policies or make other changes to their demographics which we use for pricing, the rate they pay us will change accordingly. Changes in trends related to the demographics of newly enrolled pets such as dog vs cat, breed or location can also have a material impact on the growth of monthly adjusted revenue per pet. Most significantly, the relative mix of our business between the United States and Canada can significantly impact adjusted revenue per pet as prices for our plan in Canada are generally higher in terms of local currency than in the United States, which is consistent with the relative cost of veterinary care in each country. As our revenue has grown faster in the United States compared to Canada, this geographic shift in the mix of business can alter the growth in our monthly adjusted revenue per pet. In addition, as our revenues and operating costs are impacted by foreign exchange fluctuations of the Canadian dollar.

Investments to grow our business. We plan to continue to invest to grow our business. Any investments in the development of new technology and continued improvements to our member experience will increase our operating expenses in the near term.

Timing of initiatives. Over time we plan to implement new initiatives to improve our member experience, make modifications to our medical plan and find other ways to maintain a strong value proposition for our members. These initiatives will sometimes be accompanied by price adjustments, in order to compensate for value delivered. The implementation of such initiatives may not always coincide with the timing of price adjustments resulting in fluctuations in revenue and gross profit in our subscription business segment.

Other business segment. Our other business segment includes our medical plans in Canada which are written by Omega, and we assume all premiums written by Omega and the related claims through an agency agreement and a fronting and administration agreement. These agreements will remain in effect until December 31, 2017 but may be terminated by either party with one year's prior written notice. If Omega were to terminate our agreement or be unable to write insurance for regulatory or other reasons, we may have to terminate subscriptions with our existing members, or suspend member enrollment and renewals, in Canada until we entered into a relationship with another third party to write our medical plan, which may take a significant amount of time and require significant expense. We may not be able to enter into a new relationship, and any new relationship would likely be on less favorable terms. Any delay in entry into a new relationship or suspension of member enrollment and renewals could have a material adverse effect on our operating results and financial condition.

Basis of Presentation

General

We operate in two business segments: subscription business and other business. Our subscription business segment includes revenue and expenses related to monthly subscriptions for our medical plan, which we market to consumers. Our other business segment includes revenue and expenses related to our other operations that are not directly marketed to consumers. During the first quarter of 2015, we began reporting certain pets previously included in our subscription business segment in our other business segment due to the characteristics of this business being marketed to enterprises rather than consumers, similar to other arrangements within the other business segment. These pets were previously included in our subscription business segment. Segment information for prior periods has been recast to reflect this change. We report our financial information in accordance with U.S. GAAP.

Revenue

We generate revenue in our subscription business segment primarily from subscription fees for our medical plan. Our medical plan automatically renews on a monthly basis, and members pay the subscription fee at the beginning of each subscription period, in most cases by authorizing us to directly charge their credit card, debit card or bank account through automatic funds transfer. Subscription revenue is recognized on a pro rata basis over the monthly enrollment term. Membership may be canceled at any time without penalty, and we issue a refund for the unused portion of the canceled membership.

We generate revenue in our other business segment primarily from writing policies which are not directly marketed to consumers. Revenue from our other business segment is recognized on a pro rata basis over the enrollment term for each policy.

Cost of Revenue

Cost of revenue in each of our segments is comprised of claims expenses and other cost of revenue.

Claims expenses

Claims expenses include claims incurred, the cost of personnel administering the claims and providing member service relating to the claims and other operating expenses directly or indirectly related to claims administration. Claims incurred are the claims approved for payment plus an accrual for claims incurred that have not yet been submitted or approved for payment. This accrual is based on our historical experience and developments in claims frequency and severity and the cost of veterinary care, and also includes the cost of administering such claims.

Other cost of revenue

Other cost of revenue for our subscription business segment includes direct and indirect member service expenses, renewal fees to our independent referral network, credit card transaction fees and premium tax expenses. Other cost of revenue for our other business segment includes the commission we pay to the unaffiliated general agent and premium taxes on other policies in this segment.

For both our subscription business and our other business segments, we generally expect our cost of revenue to remain relatively constant as a percentage of revenue, although there may be some periodic variability due to a number of factors including the rate of claims occurrences during such periods. Claims expenses as a percentage of our subscription business revenue may increase over time as part of our strategy to return more value to our members to further enhance our member experience, retention rates and lifetime value of a pet. We currently expect that, in the long-term, such increases generally will be offset by economies of scale in our other cost of revenue.

Gross Profit

Gross profit is total revenue less cost of revenue. We expect gross profit as a percentage of revenue in our subscription segment to remain relatively consistent in the long-term, although there has been and may be in the future some periodic variability due to a number of factors, including the rate of claims occurrences during such periods and in the timing and significance of our pricing adjustments. The timing of our implementation of various initiatives to improve the experience of our members also may affect gross profit in the short-term. Further, as the mix of subscription business and other business changes and as we add or modify relationships in our other business segment, this may impact our total gross profit as a percentage of revenue.

Operating Expenses

Our operating expenses are classified into three categories: sales and marketing, technology and development, and general and administrative. For each category, the largest component is personnel costs, which include salaries, employee benefit costs, bonuses and stock-based compensation.

Sales and Marketing

Sales and marketing expenses primarily consist of referral fees paid with respect to newly enrolled pets, print, online and promotional advertising costs, strategic partnership fees and employee compensation and related costs. Sales and marketing expenses are driven primarily by investments to acquire new members. We plan to continue to invest in existing and new member acquisition channels and marketing initiatives to grow our business. Investments in new member acquisition channels and marketing initiatives are generally more expensive than our traditional marketing channels and increase our average pet acquisition cost. We expect sales and marketing expenses to increase in absolute dollars, although it may fluctuate as a percentage of revenue. We generally target a ratio of lifetime value of a pet to average pet acquisition cost of 5 to 1.

Technology and Development

Technology and development expenses primarily consist of personnel costs and related expenses for our operations staff, which includes information technology development and infrastructure support, third-party services and depreciation of hardware and amortization of capitalized software and intangible assets. We expect technology and development expenses to increase in absolute dollars and decrease as a percentage of revenue in the near term as we continue to devote significant resources to enhance our member experience.

General and Administrative

General and administrative expenses consist primarily of personnel costs and related expenses for our finance, actuarial, human resources, regulatory, legal, general management functions, as well as facilities and professional services. We have recently incurred additional expenses as a result of expanding our management team and becoming a public company, and expect to continue to incur additional expenses associated with being a public company. We expect general and administrative expenses to increase in absolute dollars and decrease as a percentage of revenue over time.

Results of Operations

The following tables set forth our results of operations for the periods presented both in absolute dollars and as a percentage of our revenue for those periods. Prior period results have been recast to incorporate the movement of certain pets from the subscription business segment to the other business segment in 2015. The period-to-period comparison of financial results is not necessarily indicative of future results.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
(in thousands)				
Consolidated Statement of Operations Data:				
Revenue:				
Subscription business	\$ 34,420	\$ 27,112	\$ 96,684	\$ 74,885
Other business	3,445	3,200	10,078	9,157
Total revenue	37,865	30,312	106,762	84,042
Cost of revenue:				
Subscription business ⁽¹⁾	28,145	23,051	79,572	61,711
Other business	3,129	2,816	9,231	7,980
Total cost of revenue	31,274	25,867	88,803	69,691
Gross profit:				
Subscription business	6,274	4,061	17,112	13,174
Other business	317	384	847	1,177
Total gross profit	6,591	4,445	17,959	14,351
Operating expenses:				
Sales and marketing ⁽¹⁾	4,128	2,934	11,312	8,390
Technology and development ⁽¹⁾	3,005	2,532	8,683	7,285
General and administrative ⁽¹⁾	4,067	4,385	11,760	10,463
Total operating expenses	11,200	9,851	31,755	26,138
Operating loss	(4,609)	(5,406)	(13,796)	(11,787)
Interest expense	14	5,155	298	6,623
Other expense (income), net	4	(2,066)	8	(1,545)
Loss before income taxes	(4,627)	(8,495)	(14,102)	(16,865)
Income tax expense	16	14	102	36
Net loss	\$ (4,643)	\$ (8,509)	\$ (14,204)	\$ (16,901)

(1) Includes stock-based compensation expense as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
(in thousands)				
Cost of revenue	\$ 68	\$ 78	\$ 195	\$ 223
Sales and marketing	102	115	342	408
Technology and development	97	110	311	306
General and administrative	482	1,698	1,501	2,257
Total stock-based compensation expense	\$ 749	\$ 2,001	\$ 2,349	\$ 3,194

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(as a % of revenue)			
Revenue	100 %	100 %	100 %	100 %
Cost of revenue	83	85	83	83
Gross profit	17	15	17	17
Operating expenses:				
Sales and marketing	11	10	11	10
Technology and development	8	8	8	9
General and administrative	11	14	11	12
Total operating expenses	30	32	30	31
Operating loss	(12)	(18)	(13)	(14)
Interest expense	—	17	—	8
Other (income) expense, net	—	(7)	—	(2)
Loss before income taxes	(12)	(28)	(13)	(20)
Income tax expense (benefit)	—	—	—	—
Net loss	(12)%	(28)%	(13)%	(20)%

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(as a % of subscription revenue)			
Subscription business revenue	100%	100%	100%	100%
Subscription business cost of revenue	82	85	82	82
Subscription business gross profit	18%	15%	18%	18%

Comparison of Three and Nine Months Ended September 30, 2015 and 2014

Prior period results have been recast to incorporate the movement of certain pets from the subscription business segment to the other business segment in 2015.

Revenue

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2015	2014	% Change	2015	2014	% Change
(in thousands, except percentages, pet and per pet data)						
Revenue:						
Subscription business	\$ 34,420	\$ 27,112	27%	\$ 96,684	\$ 74,885	29%
Other business	3,445	3,200	8	10,078	9,157	10
Total revenue	\$ 37,865	\$ 30,312	25	\$ 106,762	\$ 84,042	27
Percentage of Revenue by Segment:						
Subscription business	91%	89%		91%	89%	
Other business	9	11		9	11	
Total revenue	100%	100%		100%	100%	
Subscription Business:						
Total pets enrolled (at period end)	276,988	221,479	25	276,988	221,479	25
Subscription pets enrolled (at period end)	258,546	205,194	26	258,546	205,194	26
Monthly adjusted revenue per pet	\$ 45.15	\$ 44.88	1	\$ 44.88	\$ 43.89	2
Average monthly retention	98.66%	98.67%		98.66%	98.67%	

Three months ended September 30, 2015 compared to three months ended September 30, 2014. Total revenue increased by \$7.6 million to \$37.9 million for the three months ended September 30, 2015, or 25%. Revenue from our subscription business segment increased by \$7.3 million to \$34.4 million for the three months ended September 30, 2015, or 27%. This increase in subscription business revenue was primarily due to a 26% increase in subscription pets enrolled as of September 30, 2015 compared to September 30, 2014 and a 5% increase in monthly adjusted revenue per pet (before conversion of Canadian premiums into U.S. Dollars) during the three months ended September 30, 2015 as compared to the three months ended September 30, 2014 as a result of increases in our pricing due to increases in the cost of veterinary care and expansions of our coverage. This was partially offset by a \$1.6 million negative impact on our Canadian revenue due to changes in foreign exchange rates when compared to the three months ended September 30, 2014. Revenue from our other business segment increased \$0.2 million to \$3.4 million for the three months ended September 30, 2015, or 8%, due to an increase in enrolled pets in this segment.

Nine months ended September 30, 2015 compared to nine months ended September 30, 2014. Total revenue increased by \$22.7 million to \$106.8 million for the nine months ended September 30, 2015, or 27%. Revenue from our subscription business segment increased by \$21.8 million to \$96.7 million for the nine months ended September 30, 2015, or 29%. This increase in subscription business revenue primarily was due to a 26% increase in subscription pets enrolled as of September 30, 2015 compared to September 30, 2014 and a 6% increase in monthly adjusted revenue per pet (before conversion of Canadian premiums into U.S. Dollars) during the nine months ended September 30, 2015 as compared to the nine months ended September 30, 2014 as a result of increases in our pricing due to increases in the cost of veterinary care and expansions of our coverage. This was partially offset by a \$3.5 million negative impact on our Canadian revenue due to changes in foreign exchange rates when compared to the nine months ended September 30, 2014. Revenue from our other business segment increased \$0.9 million to \$10.1 million for the nine months ended September 30, 2015, or 10%, due to an increase in enrolled pets in this segment. Included in the increase of other business revenue is \$0.4 million related to medical plans under a federal government program which started in March 2014 as well as \$0.6 million related to employer-paid policies.

Cost of Revenue

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2015	2014	% Change	2015	2014	% Change
(in thousands, except percentages)						
Cost of Revenue:						
Subscription business:						
Claims expenses	\$ 24,455	\$ 20,269	21 %	\$ 69,352	\$ 53,750	29 %
Other cost of revenue	3,691	2,782	33	10,220	7,961	28
Total cost of revenue	28,146	23,051	22	79,572	61,711	29
Gross profit	6,274	4,061	54	17,112	13,174	30
Other business:						
Claims expenses	2,149	1,539	40	6,090	4,069	50
Other cost of revenue	979	1,277	(23)	3,141	3,911	(20)
Total cost of revenue	3,128	2,816	11	9,231	7,980	16
Gross profit	317	384	(17)	847	1,177	(28)
Percentage of Revenue by Segment:						
Subscription business:						
Claims expenses	71%	75%		72%	72%	
Other cost of revenue	11	10		11	11	
Total cost of revenue	82	85		82	82	
Gross profit	18	15		18	18	
Other business:						
Claims expenses	62	48		60	44	
Other cost of revenue	28	40		31	43	
Total cost of revenue	91	88		92	87	
Gross profit	9	12		8	13	

Three months ended September 30, 2015 compared to three months ended September 30, 2014. Cost of revenue for our subscription business segment was \$28.1 million, or 82% of revenue, for the three months ended September 30, 2015, compared to \$23.1 million, or 85% of revenue, for the three months ended September 30, 2014. This \$5.0 million increase in the subscription cost of revenue is primarily due to an increase in subscription pets enrolled as of September 30, 2015 compared to September 30, 2014. The 3% decrease as a percentage of revenue, is primarily due to the implementation of recent price adjustments that, on average increased members' subscription cost and that were beginning to become applicable on our members' annual anniversary dates. In addition, compensation expense and related costs increased by \$0.5 million due to increased headcount in the claims department to service our growth and improve our member experience. Cost of revenue for our other business segment increased \$0.3 million to \$3.1 million for the three months ended September 30, 2015, due to an increase in enrolled pets in this segment. The added pets were at a lower gross profit than the existing pets in the other business segment, which reduced the gross profit for this segment.

Nine months ended September 30, 2015 compared to nine months ended September 30, 2014. Cost of revenue for our subscription business segment was \$79.6 million, or 82% of revenue, for the nine months ended September 30, 2015, compared to \$61.7 million, or 82% of revenue, for the nine months ended September 30, 2014. This \$17.9 million increase in the subscription cost of revenue is primarily due to an increase in subscription pets enrolled as of September 30, 2015 compared to September 30, 2014. Compensation expense and related costs increased by \$1.1 million due to increased headcount in the claims department to service our growth and improve our member experience. Cost of revenue for our other business segment increased \$1.3 million to \$9.2 million for the nine months ended September 30, 2015, due to an increase in enrolled pets in this segment. The added pets were at a lower gross profit than the existing pets in the other business segment, which reduced the gross profit for this segment.

Sales and Marketing Expenses

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2015	2014	% Change	2015	2014	% Change
	(in thousands, except percentages and per pet data)					
Sales and marketing	\$ 4,128	\$ 2,934	41%	\$ 11,312	\$ 8,390	35%
Percentage of total revenue	11%	10%		11%	10%	

Subscription Business:

Average pet acquisition cost (PAC)	\$ 129	\$ 115	12	\$ 132	\$ 114	16
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Three months ended September 30, 2015 compared to three months ended September 30, 2014. Sales and marketing expenses increased \$1.2 million to \$4.1 million for the three months ended September 30, 2015, or 41%. The increase in sales and marketing expense was primarily due to a \$0.6 million increase in expenditures related to new and expanded online sales and marketing initiatives and public relations, and a \$0.2 million increase in costs related to our territory partner network and promotional materials. In addition, there was an increase of \$0.3 million in compensation related costs due to an increase in headcount.

Nine months ended September 30, 2015 compared to nine months ended September 30, 2014. Sales and marketing expenses increased \$2.9 million to \$11.3 million for the nine months ended September 30, 2015, or 35%. The increase in sales and marketing expense was primarily due to an \$0.8 million increase in expenditures related to new and expanded online sales and marketing initiatives and public relations, \$0.3 million increase in fees directly driven by enrollments. In addition, there was a \$0.9 million increase in costs related to our territory partner network and promotional materials and \$0.7 million in compensation related costs due to an increase in headcount.

Technology and Development Expenses

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2015	2014	% Change	2015	2014	% Change
	(in thousands, except percentages)					
Technology and development	\$ 3,005	\$ 2,532	19%	\$ 8,683	\$ 7,285	19%
Percentage of total revenue	8%	8%		8%	9%	

Three months ended September 30, 2015 compared to three months ended September 30, 2014. Technology and development expenses increased \$0.5 million to \$3.0 million for the three months ended September 30, 2015, or 19%. The increase was primarily due to a \$0.3 million increase in compensation expense and related cost to support and sustain our technology projects as well as a \$0.1 million increase in software-related expenses and system hosting costs to support our infrastructure growth. Total expenses, net of capitalization, in technology related to our direct pay claims processing initiative were \$1.1 million for the three months ended September 30, 2015 and September 30, 2014.

Nine months ended September 30, 2015 compared to nine months ended September 30, 2014. Technology and development expenses increased \$1.4 million to \$8.7 million for the nine months ended September 30, 2015, or 19%. The increase was primarily due to a \$1.0 million increase in compensation expense and related cost to support and sustain our technology projects as well as a \$0.4 million increase in software-related expenses and system hosting costs to support our infrastructure growth. Total expenses, net of capitalization, in technology related to our direct pay claims processing initiative decreased \$0.1 million to \$3.3 million for the nine months ended September 30, 2015.

General and Administrative Expenses

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2015	2014	% Change	2015	2014	% Change
	(in thousands, except percentages)					
General and administrative	\$ 4,067	\$ 4,385	(7)%	\$ 11,760	\$ 10,463	12%
Percentage of total revenue	11%	14%		11%	12%	

Three months ended September 30, 2015 compared to three months ended September 30, 2014. General and administrative expenses decreased \$0.3 million to \$4.1 million for the three months ended September 30, 2015, or 7% . The decrease in general and administrative expenses was primarily due to a decrease in stock-based compensation expense driven by the recognition of \$1.4 million in stock-based compensation expense that was contingent upon our initial public offering in July 2014. This decrease was partially offset by an increase in salaries and related expenses of \$0.7 million due to increases in headcount and \$0.1 million in costs related to being a public company.

Nine months ended September 30, 2015 compared to nine months ended September 30, 2014. General and administrative expenses increased \$1.3 million to \$11.8 million for the nine months ended September 30, 2015, or 12% . The increase in general and administrative expenses was primarily due to an increase in salaries and related expenses of \$0.3 million due to increases in headcount and \$0.5 million in costs related to being a public company. In addition, regulatory fees incurred increased \$0.2 million .

Other (Income) Expense, Net

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(in thousands)			
Interest expense	\$ 14	\$ 5,155	\$ 298	\$ 6,623
Other expense (income), net	4	(2,066)	8	(1,545)
Total other (income) expense, net	\$ 18	\$ 3,089	\$ 306	\$ 5,078

Three months ended September 30, 2015 compared to three months ended September 30, 2014. Other expense, net decreased \$3.1 million for the three months ended September 30, 2015. For the three months ended September 30, 2014, \$5.2 million of interest expense was recognized primarily due to a prepayment fee and the acceleration of expense of unamortized debt discounts associated with the repayment of debt. This expense was partially offset by income from the revaluation of warrants classified as liabilities, which resulted in other income of \$2.1 million .

Nine months ended September 30, 2015 compared to nine months ended September 30, 2014. Other expense, net for the nine months ended September 30, 2015 decreased \$4.8 million to \$0.3 million . For the nine months ended September 30, 2014, \$6.6 million of interest expense was recognized primarily due to a prepayment fee and the acceleration of expense of unamortized debt discounts associated with the repayment of debt. This expense was partially offset by income from the revaluation of warrants classified as liabilities, which resulted in other income of \$2.1 million .

Liquidity and Capital Resources

Since inception, we have financed our operations and met capital requirements primarily through the sale of equity securities and from borrowings. Our principal uses of cash are paying claims, funding operations and capital requirements, investing in new member acquisition and enhancements to our member experience.

Sources of Funds

As of September 30, 2015, we had \$44.9 million in cash, cash equivalents and short-term investments and \$18.4 million available under our line of credit. We believe that our existing cash, cash equivalents, short-term investments and line of credit will be sufficient to fund our operations and statutory capital requirements for at least the next 12 months. From time to time, we may explore additional financing, which could include equity, equity-linked and debt financing. However, there can be no assurance that any additional financing will be available to us on acceptable terms, or at all.

Cash and investments held by our insurance subsidiaries, American Pet Insurance Company (APIC) and Wyndham Insurance Company (SAC) Limited (WICL) Segregated Account AX, are subject to certain capital and dividend rules and regulations as applicable within the jurisdictions in which they are authorized to operate. For more information on this change see " Regulation ."

Long-Term Debt

In April 2007, we entered into a loan and security agreement with Square 1 Bank (Square 1), which we amended and restated in August 2012 and most recently amended in December 2014. We refer to this amended and restated loan and security agreement as our Square 1 credit facility. The Square 1 credit facility provides for a revolving line of credit, under which we may take advances up to \$20.0 million. The maximum amount for borrowing under the Square 1 credit facility, inclusive of any amounts outstanding under the revolving line of credit and the term loan, is the lesser of \$20.0 million or the total amount of cash and securities held by our subsidiary, American Pet Insurance Company (APIC), less up to \$3.0 million for obligations we may have outstanding from Square 1 for other ancillary services, including our \$1.1 million letter of credit.

Interest on the revolving line of credit accrues at a variable annual rate equal to the greater of 5.0% or 1.5% plus the prime rate. The revolving line of credit matures in July 2017, at which time it will need to be renewed or all amounts outstanding under it, including accrued interest, will become immediately due and payable. During the first quarter of 2015, we repaid our borrowings under this facility and, as of September 30, 2015, we did not have any outstanding amounts under this facility.

The Square 1 credit facility requires us to maintain certain financial covenants, including having APIC maintain statutory capital and surplus at all times of not less than the greater of \$0.5 million or 110% of the highest amount of statutory capital and surplus required in any state in which APIC is licensed, maintaining a minimum cash balance of \$0.5 million in our accounts at Square 1 (including for such purposes, APIC's cash and depository products at Square 1), achieving certain monthly revenue and remaining within certain maximum EBITDA loss levels. EBITDA is defined for such purposes as earnings, plus an amount equal to the sum of (i) tax, plus (ii) depreciation and amortization, plus (iii) interest and non-cash expenses, plus (iv) any non-cash stock compensation expense, less (a) any increase in capitalized expenditures from the prior period, plus (b) any increase in capitalized software from the prior period, plus (c) any increase in deferred acquisition costs from the prior period.

The Square 1 credit facility also requires us to maintain certain non-financial covenants, including those that restrict our ability to dispose of our assets, change the name, location, office or executive management of our business, merge with or acquire other entities, incur other indebtedness, incur encumbrances, pay dividends or make distributions to holders of our capital stock, make investments, engage in transactions with our affiliates, permit withdrawals from APIC (with certain exceptions) and conduct operations in certain of our Canadian subsidiaries. As of September 30, 2015, we were in compliance with each of the financial and non-financial covenants.

Any outstanding obligations under the Square 1 credit facility would be secured by substantially all of our assets and a pledge of certain of our subsidiaries' stock.

Regulation

As of September 30, 2015, our insurance entities, APIC and Wyndham Insurance Company (SAC) Limited (WICL) Segregated Account AX, held \$23.2 million in investments and \$9.4 million in other current assets, including \$1.1 million held in cash and cash equivalents to be used for operating expenses of our insurance subsidiaries. Most of the assets in APIC and WICL Segregated Account AX are subject to certain capital and dividend rules and regulations prescribed by jurisdictions in which they are authorized to operate. As of September 30, 2015, total assets and liabilities held outside of our insurance entities totaled \$37.6 million and \$8.4 million, respectively, including \$10.7 million of cash and cash equivalents that are segregated from other operating funds and held in trust for the payment of claims on behalf of our insurance subsidiaries.

To comply with the regulations and contractual obligations over APIC and WICL Segregated Account AX, we may be required to maintain capital that we would otherwise invest in our growth and operations, which may require us to modify our operating plan or marketing initiatives, delay the implementation of new solutions or development of new technologies, decrease the rate at which we hire additional personnel and enter into relationships with Territory Partners, incur indebtedness or pursue equity or debt financings or otherwise modify our business operations.

APIC

The majority of our investments are held by APIC to satisfy risk-based capital requirements of the National Association of Insurance Commissioners (NAIC). The NAIC requirements provide a method for analyzing the minimum amount of risk-based capital (statutory capital and surplus plus other adjustments) appropriate for an insurance company to support its overall business operations, taking into account the risk characteristics of the company's assets, liabilities and certain other items. An insurance company found to have insufficient statutory capital based on its risk-based capital ratio may be subject to varying levels of additional regulatory oversight depending on the level of capital inadequacy. APIC must hold certain capital amounts in order to comply with the statutory regulations and, therefore, we cannot use these amounts for general operating purposes without regulatory approval. As our business grows, the amount of capital we are required to maintain to satisfy our risk-based capital requirements may increase significantly. As of December 31, 2014, APIC was required to maintain at least \$22.6 million of risk-based capital to avoid this additional regulatory oversight. As of that date, APIC maintained \$23.7 million of risk-based capital. The NY DFS may increase the required levels of risk-based capital in the future, and we anticipate that we will need to maintain greater amounts of risk-based capital if our pet enrollment continues to grow.

New York laws also restrict the ability of APIC and to pay dividends to our parent holding company. The dividend restrictions are based in part on the prior year's statutory income and surplus. In general, dividends up to specified levels are considered ordinary and may be paid without prior approval. In general, dividends or distributions that, in the aggregate in any 12-month period exceed the lesser of (i) 10% of surplus as of the preceding December 31 or (ii) the insurer's adjusted net investment income for such 12-month period ended the preceding December 31, not including realized capital gains, are subject to approval by regulatory authorities. As of December 31, 2014, less than \$0.1 million was able to be paid in the form of a dividend from APIC to our parent holding company without prior approval from regulatory authorities.

WICL Segregated Account AX

WICL Segregated Account AX was established by WICL, with Trupanion, Inc. as the shareholder, to enter into reinsurance treaties with Omega General Insurance Company. All of the assets and liabilities of WICL Segregated Account AX are legally segregated from other assets and liabilities within WICL and all shares of the segregated account are owned by Trupanion, Inc. Our agreements with WICL do not allow dividends to be paid to our parent company until 2016 or later. As required by the Office of the Superintendent of Financial Institutions regulations related to our reinsurance agreement with Omega General Insurance Company, we were required to fund a Canadian Trust account with the greater of CAD \$2.0 million or 115% of unearned Canadian premium plus 15% of outstanding Canadian claims, including all incurred but not reported claims. Additionally, WICL required initial capital of CAD \$1.3 million. During January 2015, we funded CAD \$3.3 million to initially satisfy these requirements.

Though we are not directly regulated by the Bermuda Monetary Authority (BMA), WICL's regulation and compliance impacts us as it could have an adverse impact on the ability of Segregated Account AX to pay dividends. WICL is regulated by the BMA under the Insurance Act of 1978 (Insurance Act) and the Segregated Accounts Company Act of 2000. The Insurance Act imposes on Bermuda insurance companies, solvency and liquidity standards, certain restrictions on the declaration and payment of dividends and distributions, certain restrictions on the reduction of statutory capital, and auditing and reporting requirements, and grants the BMA powers to supervise and, in certain circumstances, to investigate and intervene in the affairs of insurance companies. Under the Insurance Act, WICL as a class 3 insurer is required to maintain available statutory capital and surplus at a level equal to or in excess of a prescribed minimum established by reference to net written premiums and loss reserves.

Under the Bermuda Companies Act 1981, as amended, a Bermuda company may not declare or pay a dividend or make a distribution out of contributed surplus if there are reasonable grounds for believing that: (a) the company is, or would after the payment be, unable to pay its liabilities as they become due; or (b) the realizable value of the company's assets would thereby be less than its liabilities. The Segregated Accounts Company Act of 2000 further requires that dividends out of a segregated account can only be paid to the extent that the cell remains solvent and the value of its assets remain greater than the aggregate of its liabilities and its issued share capital and share premium accounts.

Investments

As of September 30, 2015, we had \$25.6 million of short-term and long-term investments. These investments are held to satisfy statutory requirements. The majority of our investments are highly rated U.S. treasury securities, certificates of deposit, and U.S. government funds. In addition we have one investment in a municipal bond that is insured by a third-party insurance company with a rating of "A2" with Moody's. The unused proceeds from our initial public offering currently are held primarily in money market funds.

Historical Cash Flow Trends

The following table shows a summary of our cash flows for the periods indicated (in thousands):

	Nine Months Ended September 30,	
	2015	2014
Net cash used in operating activities	\$ (9,768)	\$ (9,700)
Net cash used in investing activities	(6,618)	(7,229)
Net cash (used in) provided by financing activities	(14,629)	61,004
Effect of exchange rates on cash	(395)	55
Net (decrease) increase in cash and cash equivalents	<u>\$ (31,410)</u>	<u>\$ 44,130</u>

Operating Cash Flows

We derive operating cash flows from cash collected from the sale of subscriptions to our medical plan, which is used to pay claims and other cost of revenue. Additionally, cash is used to support the growth of our business. As a result, we have historically experienced negative cash flows from operating activities as we have expanded our business. We expect this to continue until we reach sufficient enrollment levels to allow us to be cash flow break even while we invest in member growth. We anticipate that we will continue to make material capital expenditures on company initiatives, including investments to support new technology to enhance our member experience.

Net cash used in operating activities remained consistent between for the nine months ended September 30, 2015 and 2014 despite a \$2.7 million improvement in net loss. This is due to a change in our bonus program allowing for bonuses to be paid quarterly during 2015, an \$0.8 million payment of goods and services tax and harmonized sales tax (GST) related to prior years operations, and a decrease of \$0.8 million in stock-based compensation for the nine months ended September 30, 2015.

Investing Cash Flows

Net cash from investing activities for each of the periods presented was primarily related to the purchases and maturities of investments, a \$1.6 million increase related to cash placed into a trust account for our fronting and reinsurance agreement with Omega, and a \$0.3 million equity method investment. Additionally, we made expenditures on software to be used for our direct pay initiative. We expect to continue make investments in technology to improve our customer experience as we expand our operations.

Financing Cash Flows

Historically, we have funded our operations through the issuance of common and preferred stock and the incurrence of indebtedness. For the nine months ended September 30, 2015, net cash used in financing activities primarily consisted of debt repayments of \$14.9 million .

Contractual Obligations

We enter into long-term contractual obligations and commitments in the normal course of business, primarily debt obligations and non-cancellable operating leases. Our contractual cash obligations as of September 30, 2015 are set forth below (in thousands).

	Total	Less than 1 year	1-3 Years	3-5 Years	More than 5 years
Operating lease obligations	\$ 21,768	\$ 1,399	\$ 3,203	\$ 4,134	\$ 13,032
Strategic marketing and service provider agreements	2,207	1,301	776	101	29
Other ⁽¹⁾	2,122	864	823	435	

(1) Includes multi-year service agreements related to operations classified outside of sales and marketing expense

Critical Accounting Policies and Significant Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with GAAP. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets and liabilities and related disclosure of contingent assets and liabilities, revenue and expenses at the date of the financial statements. Generally, we base our estimates on historical experience and on various other assumptions in accordance with GAAP that we believe to be reasonable under the circumstances. Actual results may differ from these estimates.

There have been no material changes to our critical accounting policies and estimates as compared to the critical accounting policies and estimates described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014.

Item 3. Quantitative and Qualitative Disclosures About Market Risks

Management believes there have been no material changes to our quantitative and qualitative disclosures about market risks during the nine months ended September 30, 2015, compared to those discussed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014.

Item 4. Controls and Procedures***Evaluation of Disclosure Controls and Procedures***

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (Exchange Act)), as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that as of such date, our disclosure controls and procedures were effective.

Changes in Internal Control

There were no changes in our internal control over financial reporting identified in management's evaluation pursuant to Rules 13a-15(d) or 15d-15(d) of the Exchange Act during the period covered by this Quarterly Report on Form 10-Q that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitations on Effectiveness of Controls and Procedures

In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply judgment in evaluating the benefits of possible controls and procedures relative to their costs.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

We received an inquiry from the Washington State Office of the Insurance Commissioner (OIC) in December 2012 concerning whether one of our subsidiaries was properly licensed, and whether certain of its employees were properly licensed, under Washington law. A regulatory examination took place during the third and fourth quarters of 2014. On September 22, 2015, the OIC issued its report and requested a response from our subsidiary within 90 days of its date. We are currently in the process of responding to this report. As of September 30, 2015 and December 31, 2014, we had accrued liabilities of \$0.4 million and \$0.2 million, respectively, for this matter. Adverse outcomes beyond recorded amounts are reasonably possible. At this stage in the matter, however, we are unable to estimate a possible loss or range of possible loss beyond amounts accrued.

We cannot predict the ultimate outcome of the above-mentioned proceedings and claim, and we are unable to estimate any potential liability we may incur.

In addition to the matter described above, from time to time we may be subject to various legal proceedings and claims in the ordinary course of business activities, including claims of alleged infringement of trademarks, copyrights and other intellectual property rights; employment claims; and general contract or other claims. We may, from time to time, also be subject to various other legal or government claims, disputes or investigations.

Item 1A. Risk Factors

Investing in our common stock involves a high degree of risk. You should carefully consider the risks and uncertainties described below, together with all of the other information in this report, including our consolidated financial statements and related notes, as well as in our other filings with the SEC, in evaluating our business and before investing in our common stock. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties that are not expressly stated, that we are unaware of, or that we currently believe are not material, may also become important factors that affect us. If any of the following risks occur, our business, operating results, financial condition and prospects could be materially harmed. In that event, the price of our common stock could decline, and you could lose part or all of your investment.

Risks Related to Our Business and Industry

We have incurred significant net losses since our inception and may not be able to achieve or maintain profitability in the future.

We have incurred significant net losses since our inception. We had a net loss of \$14.2 million for the nine months ended September 30, 2015. Additionally, as of September 30, 2015, our accumulated deficit was \$71.4 million. We have funded our operations through equity financings and borrowings under a revolving line of credit and term loans. We may not be able to achieve or maintain profitability in the near future or at all. Our recent growth, including our growth in revenue and membership, may not be sustainable or may decrease, and we may not generate sufficient revenue to achieve or maintain profitability. Additionally, our expense levels are based, in significant part, on our estimates of future revenue and many of these expenses are fixed in the short term. As a result, we may be unable to adjust our spending in a timely manner if our revenue falls short of our expectations. Accordingly, any significant shortfall of revenue in relation to our estimates could have an immediate negative effect on our financial results.

We expect to continue to make significant expenditures to maintain and expand our business, including expenditures relating to the acquisition of new members, retention of our existing members and development and implementation of our technology platforms. We also expect to incur increased operating expenses as we hire additional personnel and invest in our infrastructure to support anticipated future growth and the reporting and compliance obligations to which we are subject as a public company. These increased expenditures will make it more difficult for us to achieve and maintain future profitability. Our ability to achieve and maintain profitability depends on a number of factors, including our ability to attract and service members on a profitable basis. If we are unable to achieve or maintain profitability, we may not be able to execute our business plan, our prospects may be harmed and our stock price could be materially and adversely affected.

We have made and plan to continue to make significant investments to grow our member base. Our average pet acquisition cost and the number of new pets we enroll depends on a number of factors, including the effectiveness of our sales execution and marketing initiatives, changes in costs of media, the mix of our sales and marketing expenditures and the competitive environment. Our average pet acquisition cost has in the past significantly varied and in the future may significantly vary from period to period based upon specific marketing initiatives. For example, veterinary trade show costs have traditionally increased our acquisition costs in the first quarter of each year. We also regularly test new member acquisition channels and marketing initiatives, which often are more expensive than our traditional marketing channels and generally increase our average acquisition costs. We plan to expand the number of Territory Partners we use to reach veterinarians and other referral sources and to engage in other marketing activities, including direct to consumer advertising, which are likely to increase our acquisition costs.

We base our decisions regarding our member acquisition expenditures primarily on the projected lifetime value of the pets that we expect to acquire. Our estimates and assumptions may not accurately reflect our future results, we may overspend on member acquisition and we may not be able to recover our member acquisition costs or generate profits from these investments.

We invest significantly in member acquisition. We spent \$11.3 million on sales and marketing to acquire new members for the nine months ended September 30, 2015. We expect to continue to spend significant amounts to acquire additional members. We utilize Territory Partners, who are paid fees based on activity in their regions, to communicate the benefits of our medical plan to veterinarians through in-person visits. Veterinarians then educate pet owners, who visit our website or call our contact center to learn more about, and potentially enroll in, our medical plan. We also invest in other third-party referrals and direct to consumer member acquisition channels, though we have limited experience with some of them.

We base our decisions regarding our member acquisition expenditures primarily on the lifetime value of the pets that we project to acquire. This analysis depends substantially on estimates and assumptions based on our historical experience with pets enrolled in earlier periods, including our key financial and operating metrics described in “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Key Financial and Operating Metrics.”

If our estimates and assumptions regarding the lifetime value of the pets that we project to acquire and our related decisions regarding investments in member acquisition prove incorrect, or if the expected lifetime value of the pets that we project to acquire differs significantly from that of pets acquired in prior periods, we may be unable to recover our member acquisition costs or generate profits from our investment in acquiring new members. Moreover, if our member acquisition costs increase or we invest in member acquisition channels that do not ultimately result in any or an adequate number of new member enrollments, the return on our investment may be lower than we anticipate irrespective of the lifetime value of the pets that we project to acquire as a result of the new members. If we cannot generate profits from this investment, we may need to alter our growth strategy, and our growth rate and operating results may be adversely affected.

If we are unable to maintain high member retention rates, our growth prospects and revenue will be adversely affected.

We have historically experienced high average monthly retention rates. For example, our average monthly retention rate was 98.68% in 2014. If our efforts to satisfy our existing members are not successful, we may not be able to maintain our retention rates. Members we obtain through aggressive promotions or other channels that involve relatively less meaningful contact between us and the member may be more likely to terminate their medical plan subscription. In the past we have experienced reduced retention rates during periods of rapid member growth, as our retention rate generally has been lower during the first year of member enrollment. Members may choose to terminate their medical plan subscription for a variety of reasons, including increased subscription fees, perceived or actual lack of value, delays or other unsatisfactory experiences in claims administration, unsatisfactory member service, an economic downturn, loss of a pet, a more attractive offer from a competitor, changes in our medical plan or other reasons, including reasons that are outside of our control. When a member terminates his or her medical plan subscription, we no longer receive the related revenue and may not be able to recover the member acquisition cost or other expenses, including claims expenses, related to that member. Our cost of acquiring a new member is substantially greater than the cost involved in maintaining our relationship with an existing member. If we are not able to successfully retain existing members and limit medical plan subscription terminations, our revenue and operating margins will be adversely impacted and our business, operating results and financial condition would be harmed.

The prices of our medical plan subscriptions are based on assumptions and estimates and may be subject to regulatory approvals. If our actual experience differs from the assumptions and estimates used in pricing our medical plan subscriptions or if we are unable to obtain any necessary regulatory pricing approvals we need, at all or in a timely manner, our revenue and financial condition could be adversely affected.

The pricing of our medical plan subscriptions reflect expected claim payment patterns derived from assumptions that we make regarding a number of factors, including a pet's species, breed, age, gender and location. Factors related to pet location include the current and assumed changes in the cost and availability of veterinary technology and treatments and local veterinary practice preferences. The prices of our medical plan subscriptions also include assumptions and estimates regarding our own operating costs and expenses. We monitor and manage our pricing and overall sales mix to achieve target returns. Profitability from new members emerges over a period of years depending on the nature and length of time a pet is enrolled in our medical plan, and is subject to variability as actual results may differ from pricing assumptions. If the subscription fees we collect are insufficient to cover actual claim costs, operating costs and expenses within anticipated pricing allowances, or if our member retention rates are not high enough to ensure recovery of member acquisition costs, then our gross profit could be adversely affected and our revenue may be insufficient to achieve profitability. Conversely, if our pricing assumptions differed from actual results such that we overpriced risks, our competitiveness and growth prospects could be adversely affected. Further, even if our pricing assumptions are accurate, we may not be able to obtain the necessary regulatory approvals for any pricing changes that we may determine are appropriate based on our pricing assumptions, which could prevent us from obtaining sufficient revenue from medical plan subscriptions to cover claims expenses, pet acquisition costs and other expenses in any such jurisdiction unless and until such regulatory approvals are obtained in appropriate amounts.

The anticipated benefits of our analytics platform may not be fully realized.

Our analytics platform draws upon our proprietary pet data to price our medical plan subscriptions. The assumptions we make about breeds and other factors in pricing medical plan subscriptions may prove to be inaccurate, and, accordingly, these pricing analytics may not accurately reflect the claims expense that we will ultimately incur. Furthermore, if any of our competitors developed similar or better data systems, adopted similar or better underwriting criteria and pricing models or received our data, our competitive advantage could decline or be lost.

Our actual claims expenses may exceed our current reserve established for claims and may adversely affect our operating results and financial condition.

As of September 30, 2015, our claims reserve was \$6.2 million. Our recorded claims reserve is based on our best estimates of claims, both reported and incurred but not reported, after considering known facts and interpretations of circumstances. We consider internal factors, including data from our proprietary data analytics platform, experience with similar cases, actual claims paid, historical trends involving claim payment patterns, pending levels of unpaid claims, claims management programs and contractual terms. We may also consider external factors, including changes in the law, court decisions, changes to regulatory requirements and economic conditions. Because reserves are estimates of the unpaid portion of claims that have occurred, including claims incurred but not reported, the establishment of appropriate reserves is an inherently uncertain and complex process that involves significant subjective judgment. Further, we do not transfer or cede our risk as an insurer and, therefore, we maintain more risk than we would if we purchased reinsurance. The ultimate cost of claims may vary materially from recorded reserves, and such variance may result in adjustments to the claims reserve, which could have a material effect on our operating results.

We rely significantly on Territory Partners, veterinarians and other third parties to recommend our medical plan to potential members.

We rely significantly on Territory Partners and other third parties to cultivate direct veterinary relationships and build awareness of the benefits that our medical plan offers veterinarians and their clients. In turn, we rely on veterinarians to introduce and refer our medical plan to their clients. We also rely significantly on other third parties, such as existing members, online and offline businesses, animal shelters, breeders and veterinary affiliates, including veterinarian purchasing groups and associations, to help generate leads for our medical plan subscriptions. Veterinary practices represent our largest member acquisition channel, accounting for approximately 76% of our enrollments in the nine months ended September 30, 2015, excluding existing members adding pets and referring their friends and family members. Many factors influence the success of our relationships with these referral sources, including:

- the continued positive market presence, reputation and growth of our company and of the referral sources;
- the effectiveness of referral sources;
- the decision of any such referral source to support one or more of our competitors;
- the interest of the referral sources' customers or clients in the medical plan we offer;
- the relationship and level of trust between Territory Partners and veterinarians, and between us and the referral source;

- the percentage of the referral sources' customers or clients that submit applications or use trial certificates to enroll in a medical plan through our website or contact center;
- our ability to implement or maintain any marketing programs, including trial certificates, in any jurisdiction; and
- our ability to work with the referral source to implement any changes in our marketing initiatives, including website changes, infrastructure and technology and other programs and initiatives necessary to generate positive consumer experiences.

In order for us to implement our business strategy and grow our revenue, we must effectively maintain and increase the number and quality of our relationships with Territory Partners, veterinarians and other referral sources, and continue to scale and improve our processes, programs and procedures that support them. Those processes, programs and procedures could become increasingly complex and difficult to manage. We expend significant time and resources attracting qualified Territory Partners and providing them with complete and current information about our business. Their relationship with us may be terminated at any time, and, if terminated, we may not recoup the costs associated with educating them about our medical plan or be able to maintain any relationships they may have developed with veterinarians within their territories. Further, if we experience an increase in the rate at which Territory Partner relationships are terminated, we may not develop or maintain relationships with veterinarians as quickly as we have in the past. If the financial cost to maintain our relationships with Territory Partners outweighs the benefits provided by Territory Partners, or if they feel unsupported or undervalued by us and terminate their relationship with us, our growth and financial performance could be adversely affected.

The success of our relationships with veterinary practices depends on the overall value our medical plan can provide to veterinarians. If the scope of our medical plan coverage is perceived to be inadequate or our claims settlement process is unsatisfactory to the veterinarian's clients because, for example, our coverage is insufficient, member requests for reimbursement are denied or we fail to timely settle and pay veterinary invoices, veterinarians may be unwilling to recommend our medical plan to their clients and they may encourage their existing clients who have subscribed to our medical plan to stop subscribing to our medical plan or to purchase a competing product. If veterinarians determine our medical plan is unreliable, cumbersome or otherwise does not provide sufficient value, they may terminate their relationship with us or begin recommending a competing product, which could negatively impact our ability to increase our member base and grow our business.

If we fail to establish or are unable to maintain successful relationships with Territory Partners, veterinarians and other referral sources, or experience an increase in the rate at which any of these relationships are terminated, it could negatively impact our ability to increase and retain our member base and our financial results. If we are unable to maintain our existing member acquisition channels and/or continue to add new member acquisition channels, if the cost of our existing sources increases or does not scale as we anticipate, or if we are unable to continue to use any existing channels or programs in any jurisdiction, including our trial certificate program, our member levels and sales and marketing expenses may be adversely affected.

Territory Partners are independent contractors and, as such, may pose additional risks to our business.

Territory Partners are "independent contractors" and, accordingly, we are not in a position to directly provide the same direction, motivation and oversight over Territory Partners as we otherwise could if Territory Partners were our own employees. Territory Partners may decide not to participate in our marketing initiatives or training opportunities, accept our introduction of new solutions or comply with our policies and procedures applicable to the Territory Partners, any of which may adversely affect our ability to develop relationships with veterinarians and grow our membership. Our sole recourse against Territory Partners who fail to perform is to terminate their contract, which could also trigger contractually obligated termination payments or result in disputes, including threatened or actual legal or regulatory proceedings. In addition, termination of these contracts may trigger termination penalties that obligate us to pay significantly more than the amounts that otherwise would have been paid to the terminated Territory Partner.

We believe that Territory Partners are not and should not be classified as employees under existing interpretations of the applicable laws of the jurisdictions in which we operate. We do not pay or withhold any employment tax with respect to or on behalf of Territory Partners or extend any benefits to them that we generally extend to our employees, and we otherwise treat Territory Partners as independent contractors. Applicable authorities or the Territory Partners have in the past questioned and may in the future challenge this classification. Further, the applicable laws or regulations, including tax laws or interpretations, may change. If it were determined that we had misclassified any of our Territory Partners, we may be subjected to penalties or be required to pay withholding taxes for, extend employee benefits to, provide compensation for unpaid overtime to, or otherwise incur substantially greater expenses with respect to, Territory Partners.

Any of the foregoing circumstances could have a material adverse impact on our operating results and financial condition.

Our member base has grown rapidly in recent periods, and we may not be able to maintain the same rate of membership growth.

Our ability to grow our business and to generate revenue depends significantly on attracting new members. For the nine months ended September 30, 2015, we generated 91% of our revenue from medical plan subscriptions. In order to continue to increase our membership, we must continue to offer a medical plan that provides superior value to our members. Our ability to continue to grow our membership will also depend in part on the effectiveness of our sales and marketing programs. Our member base may not continue to grow or may decline as a result of increased competition or the maturation of our business.

We may not maintain our current rate of revenue growth.

Our revenue has increased quickly and substantially in recent periods. We believe that our continued revenue growth will depend on, among other factors, our ability to:

- improve our market penetration through efficient and effective sales and marketing programs to attract new members;
- maintain high retention rates;
- increase the lifetime value per pet;
- maintain positive relationships with veterinarians and other referral sources, and convince them to recommend our medical plan;
- maintain positive relationships with and increase the number and efficiency of Territory Partners;
- continue to offer a superior value medical plan with competitive features and rates;
- accurately price our medical plan subscriptions in relation to actual membership claims costs and operating expenses;
- provide our members with superior member service, including a timely and efficient claims experience and by recruiting, integrating and retaining skilled and experienced claims personnel who can appropriately and efficiently adjudicate member claims;
- generate new and maintain existing relationships and programs in our other business segment;
- recruit, integrate and retain skilled, qualified and experienced sales department professionals who can demonstrate our value proposition to new and existing members;
- react to changes in technology and challenges in the industry, including from existing and new competitors;
- increase awareness of and positive associations with our brand; and
- successfully respond to any regulatory matters and defend any litigation.

You should not rely on our historical rate of revenue growth as an indication of our future performance.

Our use of capital may be constrained by risk-based capital regulations.

Our subsidiary, American Pet Insurance Company, is subject to risk-based capital regulations that require us to maintain certain levels of surplus to support our overall business operations in consideration of our size and risk profile. We have in the past and may in the future fail to maintain the amount of risk-based capital required to avoid additional regulatory oversight, which was \$22.6 million as of December 31, 2014. To comply with these regulations and our related contractual obligations, we may be required to maintain capital that we would otherwise invest in our growth and operations, which may require us to modify our operating plan or marketing initiatives, delay the implementation of new solutions or development of new technologies, decrease the rate at which we hire additional personnel and enter into relationships with Territory Partners, incur indebtedness or pursue equity or debt financings or otherwise modify our business operations, any of which could have a material adverse effect on our operating results and financial condition.

Unexpected increases in the severity or frequency of claims may negatively impact our operating results.

Unexpected changes in the severity or frequency of claims may negatively impact our operating results. Changes in claims severity are driven primarily by inflation in the cost of veterinary care and the increasing availability and usage of expensive, technologically advanced medical treatments. Increases in claims severity also could arise from unexpected events that are inherently difficult to predict, such as a pandemic that spreads through the pet population, tainted pet food or supplies or an unusually high number of serious injuries or illnesses. Our loss management initiatives may not successfully or timely identify or mitigate any such future increases in claim severity. In addition, we may experience volatility in claim frequency from time to time, and short-term trends may not continue over the longer term. The frequency of claims may be affected by the level of care and attentiveness an owner provides to the pet, the pet's breed and age and other factors outside of our control, as well as fluctuations in member retention rates and by new member initiatives that encourage more frequent claims and other new member acquisition activities. A significant increase in claim severity or frequency could increase our cost of revenue and have a material adverse effect on our financial condition.

Changes in the Canadian currency exchange rate may adversely affect our revenue and operating results.

We offer our medical plan in Canada, which exposes us to the risk of changes in the Canadian currency exchange rates. For the nine months ended September 30, 2015, approximately 22% of our total revenue was generated in Canada. Fluctuations in the relative strength of the Canadian economy and the Canadian dollar has in the past and could in the future adversely affect our revenue and operating results.

Our success depends on our ability to adjust reimbursement requests quickly and accurately.

We must accurately evaluate and quickly pay member requests for reimbursements made under our medical plan in a manner that gives our members high satisfaction. Many factors can affect our ability to pay member reimbursements accurately, quickly and in a manner that gives our members high satisfaction, including the training, experience and skill of our personnel, our ability to reduce the number of reimbursement requests made for non-covered conditions, our ability to recognize and respond to fraudulent or inflated reimbursement requests, the department's culture and the effectiveness of its management, and our ability to develop or select and implement appropriate procedures, technologies and systems to support our member reimbursement functions. Our failure to pay reimbursement requests fairly, accurately and in a timely manner, or to deploy resources appropriately, could result in unanticipated costs to us, lead to material litigation, undermine customer goodwill and our reputation, and impair our brand image and, as a result, materially and adversely affect our competitiveness, financial results, prospects and liquidity.

We are and will continue to be faced with many competitive challenges, any of which could adversely affect our prospects, operating results and financial condition.

The market for medical insurance for pets is highly competitive. We compete with pet owners that self-finance unexpected veterinary invoices with savings or credit, as well as traditional pet insurance providers and relatively new entrants into our market. The vast majority of pet owners in the United States and Canada do not currently have medical coverage for their pets. We are focused primarily on expanding the overall size of the market, and we view our primary competitive challenge as educating pet owners on why our medical plan is a better alternative to self-financing.

Additionally, there are traditional insurance companies that provide pet insurance products, either as a stand-alone product or along with a broad range of other insurance products. The largest of these traditional pet insurance providers is Nationwide Pet (formerly Veterinary Pet Insurance Company), a division of Nationwide Insurance. In addition, new entrants backed by large insurance companies have attempted to enter the pet insurance market in the past and may do so again in the future. Further, traditional pet insurance providers may consolidate, resulting in the emergence of new providers that are vertically integrated or able to create other operational efficiencies, which could lead to increased competition.

Some of our current and potential competitors have longer operating histories, larger customer bases, greater brand recognition and significantly greater financial, technical, marketing and other resources than we do. Some of our competitors may be able to undertake more extensive marketing initiatives for their brands and services, devote more resources to website and systems development and make more attractive offers to potential employees, referral sources and third-party service providers.

To compete effectively, we will need to continue to invest significant resources in sales and marketing, in improving the service at our contact center and claims department, in the online experience and functionalities of our website and in other technologies and infrastructure. Failure to compete effectively against our current or future competitors could result in loss of current or potential members, medical plan subscription terminations or a reduction in member retention rates, which could adversely affect our pricing, lower our revenue and prevent us from achieving or maintaining profitability. We may not be able to compete effectively for members in the future against existing or new competitors, and the failure to do so could result in loss of existing or potential members, increased sales and marketing expenses or diminished brand strength, any of which could harm our business.

If we are not successful in cost-effectively converting visitors to our website and contact center into members, our business and operating results would be harmed.

Our growth depends in large part upon growth in our member base. We seek to convert consumers who visit our website and call our contact center into members. The rate at which consumers visiting our website and contact center seeking to enroll in our medical plan are converted into members is a significant factor in the growth of our member base. A number of factors have influenced, and could in the future influence, the conversion rates for any given period, some of which are outside of our control. These factors include:

- the competitiveness of the medical plan we offer, including its perceived value, coverage, simplicity and fairness;
- changes in consumer shopping behaviors due to circumstances outside of our control, such as economic conditions and consumers' ability or willingness to pay for a pet medical plan;
- the quality of and changes to the consumer experience, including on our website or with our contact center or claims department;

- regulatory requirements, including those that make the experience on our website cumbersome or difficult to navigate or that hinder our call center or claims department's ability to speak with potential members quickly and in a way that is conducive to converting leads, enrolling new pets, and/or resolving member concerns;
- system failures or interruptions in the operation of our abilities to write policies or operate our website or contact center; and
- changes in the mix of consumers who are referred to us through various member acquisition channels, such as veterinary referrals, existing members adding a pet and referring their friends and family members and other third-party referrals and online member acquisition channels.

Our ability to convert consumers into members can be impacted by a change in the mix of referrals received through our member acquisition channels. In addition, changes to our website or contact center, or other programs or initiatives we undertake, may adversely impact our ability to convert consumers into members at our current rate, or at all. These changes may have the unintended consequence of adversely impacting our conversion rates. A decline in the percentage of members who enroll in our medical plan on our website or telephonically through our contact center also could result in increased member acquisition costs. To the extent the rate at which we convert consumers into members suffers, the growth rate of our member base may decline, which would harm our business, operating results and financial condition.

We have made and plan to continue to make substantial investments in features and functionality for our website and training and staffing for our contact center that are designed to drive traffic, increase member engagement and improve new and existing member service. These activities do not directly generate revenue, however, and we may never realize any benefit from these investments. If the expenses that we incur in connection with these activities do not result in sufficient growth in members to offset the cost, our business, operating results and financial condition will be adversely affected.

If we are unable to maintain and enhance our brand recognition and reputation, our business and operating results will be harmed.

We believe that maintaining and enhancing our brand recognition and reputation is critical to our relationships with existing members, Territory Partners, veterinarians and other referral sources, and to our ability to attract new members, new Territory Partners, additional supportive veterinarians and other referral sources. We also believe that the importance of our brand recognition and reputation will continue to increase as competition in our market continues to develop and mature. Our success in this area will depend on a wide range of factors, some of which are out of our control, including the following:

- the efficacy and viability of our sales and marketing programs;
- the perceived value of our medical plan;
- quality of service provided by our contact center and claims professionals, including the fairness, ease and timeliness of our claims administration process;
- actions of our competitors, Territory Partners, veterinarians and other referral sources;
- positive or negative publicity, including regulatory pronouncements and material on the Internet or social media;
- regulatory and other government-related developments; and
- litigation-related developments.

The promotion of our brand may require us to make substantial investments, and we anticipate that, as our market becomes increasingly competitive, these branding initiatives may become increasingly difficult and expensive. Our brand promotion activities may not be successful or yield increased revenue, and to the extent that these activities result in increased revenue, the increased revenue may not offset the expenses we incur and our operating results could be harmed. If we do not successfully maintain and enhance our brand, our business may not grow and our relationships with veterinarians and other referral sources could be terminated, which would harm our business, operating results and financial condition.

Furthermore, negative publicity, whether or not justified, relating to events or activities attributed to us, our employees, our strategic partners, our affiliates, or others associated with any of these parties, may tarnish our reputation and reduce the value of our brands. Damage to our reputation and loss of brand equity may reduce demand for our services and have an adverse effect on our business, operating results, and financial condition. Moreover, any attempts to rebuild our reputation and restore the value of our brands may be costly and time consuming, and such efforts may not ultimately be successful.

Our business depends on our ability to maintain and scale the infrastructure necessary to operate our technology platform.

Our business depends on our ability to maintain and scale the infrastructure necessary to operate our technology platform, which includes our analytics and pricing engine, claims management systems, customer relationship management system, contact center phone system and website. We use these technology frameworks to price our medical plan subscriptions, enroll members, engage with current members and administer member reimbursements under our medical plan. Additionally, our members review and purchase subscriptions to our medical plan and submit reimbursement requests through our website and contact center. Our reputation and ability to acquire, retain and serve our members depends on the reliable performance of our technology platform and the underlying network systems and infrastructure, and on providing best-in-class member service, including through our contact center and website. As our member base continues to grow, the amount of information collected and stored on the systems and infrastructure supporting our technology platform will continue to grow, and we will need an increasing amount of network capacity, computing power and information technology personnel to develop and maintain our technology platform and service our departments involved in member interaction.

We have made, and expect to continue to make, substantial investments in equipment and related network infrastructure to handle the operational demands on our technology platform, including increasing data collection, software development, traffic on our website and the volume of calls at our contact center. The operation of the systems and infrastructure supporting our technology platform is expensive and complex and could experience operational failures. In the event that our data collection, member base or amount of traffic on these systems grows more quickly than anticipated, we may be required to incur significant additional costs to increase the capacity in our systems. Any system failure that causes an interruption in or decreases the responsiveness of our services could impair our revenue-generating capabilities, harm our business and operating results and damage our reputation. In addition, any loss or mishandling of data could result in breach of confidence, competitive disadvantage or loss of members, and subject us to potential liability. Any failure of the systems and infrastructure that we rely on could negatively impact our enrollments as well as our relationship with members. If we do not maintain or expand the systems and infrastructure underlying our technology platform successfully, or if we experience operational failures, our reputation could be harmed and we could lose current and potential members, which could harm our operating results and financial condition.

We have made, and expect to continue to make, significant investments in new solutions and enhancements to our technology platform. These new solutions and enhancements may not be successful, and we may not recognize the expected benefits.

We have a team of product and engineering professionals dedicated in part to enhancing our technology platform and developing new solutions. We have made, and expect to continue to make, significant investments in these new solutions and enhancements. For example, we are currently making significant investments to develop and implement Trupanion Express, which is designed to facilitate the direct payment of claims to veterinary practices. These development and implementation activities may not be successful, and we may incur delays or cost overruns or elect to curtail our currently planned expenditures related to them. Further, if or when these new solutions or enhancements are introduced, they may not be well received by veterinarians or by new or existing members, particularly if they are costly, cumbersome or unreliable and, even if they are well-received, they may be or become obsolete due to technological reasons or to the availability of alternative solutions in the marketplace. If new solutions and enhancements are not successful on a long-term basis, we may not recognize benefits from these investments, and our business and financial condition could be adversely affected.

If we fail to effectively manage our growth, our business, operating results and financial condition may suffer.

We have recently experienced, and expect to continue to experience, significant growth, which has placed, and may continue to place, significant demands on our management and our operational and financial systems and infrastructure. We expect that our growth strategy will require us to commit substantial financial, operational and technical resources. It may also result in increased costs, including unexpected increases in our underlying costs (such as member acquisition costs or the frequency or severity of claims costs) generated by our new business, which could prevent us from becoming profitable and could impair our ability to compete effectively for pet medical plan business. Additionally, we have in the past, and may in the future, experience increases in medical plan subscription terminations as our membership grows, which negatively affects our retention rate. If we do not effectively manage growth at any time, our financial condition could be harmed and the quality of our services could suffer.

In order to successfully expand our business, we need to hire, integrate and retain highly skilled and motivated employees. We also need to continue to improve our existing systems for operational and financial management. These improvements could require significant capital expenditures and place increasing demands on our management. We may not be successful in managing or expanding our operations or in maintaining adequate financial and operating systems and controls. If we do not successfully implement improvements in these areas, our business, operating results and financial condition will be harmed.

Our operating results may vary, which could cause the trading price of our stock to fluctuate or decline, make period-to-period comparisons less meaningful, and make our future results difficult to predict.

We may experience fluctuations in our revenue, expenses and operating results in future periods. Our operating results may fluctuate in the future as a result of a number of factors, many of which are beyond our control. These fluctuations may lead analysts to change their long-term models for valuing our common stock, cause us to face short-term liquidity issues, impact our ability to retain or attract key personnel or cause other unanticipated issues, all of which could result in declines in our stock price. Moreover, these fluctuations may make comparing our operating results on a period-to-period basis less meaningful and make our future results difficult to predict. You should not rely on our past results as an indication of our future performance. In addition, if revenue levels do not meet our expectations, our operating results and ability to execute on our business plan are likely to be harmed. In addition to the other factors listed in this “Risk Factors” section, factors that could affect our operating results include the following:

- our ability to retain our current members and grow our member base;
- the level of operating expense we elect to incur related to sales and marketing and technology and development initiatives that are discretionary in nature;
- the effectiveness of our sales and marketing programs;
- our ability to improve veterinarians’ and other third-parties’ willingness to recommend our medical plan;
- the timing, volume and severity of our claims and the adequacy of our claims reserve;
- our ability to accurately price our medical plans;
- regulatory limitations or other constraints on our ability or our willingness to implement pricing changes;
- the level of demand for and the cost of our medical plan subscriptions or those of our competitors;
- fluctuations in applicable foreign currency exchange rates;
- the perceived value of our medical plan to veterinarians and pet owners;
- spending decisions by our members and prospective members;
- our costs and expenses, including pet acquisition costs and claims expenses;
- our ability to expand the scope and efficiency of our Territory Partner network;
- our ability to effectively manage our growth;
- the effects of increased competition in our business;
- our ability to keep pace with changes in technology and our competitors;
- the impact of any security incidents or service interruptions;
- costs associated with defending any regulatory action or litigation or with enforcing our intellectual property, contractual or other rights;
- the impact of economic conditions on our revenue and expenses; and
- changes in government regulation affecting our business.

Seasonal or periodic variations in the behavior of our members also may cause fluctuations in our financial results. Enrollment in our medical plan tends to be discretionary in nature and may be sporadic, reflecting overall economic conditions, budgeting constraints, pet-buying patterns and a variety of other factors, many of which are outside our control. For example, we expect to experience some effects of seasonal trends in member behavior in the fourth quarter and in the beginning of the first quarter of each year in connection with the traditional holiday season. While we believe seasonal trends have affected and will continue to affect our quarterly results, our growth may have overshadowed these effects to date. We believe that our business will continue to be subject to seasonality in the future, which may result in fluctuations in our financial results.

Due to these and other factors, our financial results for any quarterly or annual period may not meet our expectations or the expectations of investors or analysts that follow our stock and may not be meaningful indications of our future performance.

Our vertical integration may result in higher costs.

We manage all aspects of our business, including writing our medical plan, implementing our own national independent referral network of Territory Partners, pricing our medical plan subscriptions with our in-house actuarial team, administering claims made with respect to our medical plan, operating our own contact center and owning our own brand. While we believe this vertically integrated approach reduces frictional costs and enhances member experiences, third-party providers may, now or in the future, be able to replicate this model, partially or entirely, on a more efficient and effective basis. If our in-house services are or become less efficient or less effective than the same services provided by a third party, we may not realize the related cost savings and may be unable to provide a superior membership experience, which may have an adverse effect on our operating results.

Our forecasts of market growth may prove to be inaccurate, and even if the market for medical coverage for cats and dogs in North America achieves the forecasted growth, our business may not grow at similar rates, if at all.

Growth forecasts are subject to significant uncertainty and are based on assumptions and estimates, which may not prove to be accurate. Although we believe that the North American market for pet medical coverage will grow over time if consumers are offered a high-value product, the market for medical coverage for cats and dogs in North America has been historically growing slowly or stagnant and may not be capable of growing further. Even if this market experiences significant growth, we may not grow our business at similar rates, or at all. For example, the market for medical coverage for cats and dogs in North America has been highly competitive and may become even more competitive in the future. Our growth is subject to many factors, including our success in implementing our business strategy and maintaining our position in a highly competitive market, which are subject to many risks and uncertainties.

We depend on key personnel to operate our business and, if we are unable to retain, attract and integrate qualified personnel, our ability to develop and successfully grow our business could be harmed.

Our success depends to a significant extent on the continued services of our current management team, including Darryl Rawlings, our founder and Chief Executive Officer. The loss of Mr. Rawlings or several other key executives or employees within a short time frame could have a material adverse effect on our business. We employ all of our executive officers and key employees on an at-will basis, and their employment can be terminated by us or them at any time, for any reason and without notice, subject, in certain cases, to severance payment rights. In order to retain valuable employees, in addition to salary and cash incentives, we have provided stock options and restricted stock that vest over time and may in the future grant equity awards tied to company performance. The value to employees of stock options and restricted stock that vest over time will be significantly affected by movements in our stock price that are beyond our control and may at any time be insufficient to maintain their retention benefit or counteract offers from other companies. Additionally, if we were to lose a large percentage of our current employees in a relatively short time period, or our employees were to engage in a work stoppage or unionize, we may be unable to hire and train new employees quickly enough to prevent disruptions in our operations, which may result in the loss of members, Territory Partners or referral sources.

Our success also depends on our ability to attract, retain and motivate additional skilled management personnel. We plan to continue to expand our work force, which we believe will enhance our business and operating results. We believe that there is significant competition for qualified personnel with the skills and knowledge that we require. Many of the other companies with which we compete for qualified personnel have greater financial and other resources than we do. They also may provide more diverse opportunities and better chances for career advancement. Some of these characteristics may be more appealing to high-quality candidates than those we have to offer. If we are unable to attract and retain the necessary qualified personnel to accomplish our business objectives, we may experience constraints that will significantly impede the achievement of our business objectives and our ability to pursue our business strategy. New hires require significant training and, in most cases, take significant time before they achieve full productivity. New employees may not become as productive as we expect, and we may be unable to hire or retain sufficient numbers of qualified individuals. If our recruiting, training and retention efforts are not successful or do not generate a corresponding increase in revenue, our business will be harmed.

If we cannot maintain our corporate culture as we grow, we could lose the innovation, teamwork and focus that contribute crucially to our business.

Our culture is fundamental to our success and defines who we are and how we operate our business. We were founded on a deep appreciation of the special relationship between pet owners, their beloved pets and their trusted veterinarians. We have invested substantial time, energy and resources in developing a culture that fosters teamwork, innovation, creativity and a focus on providing value for our members as well as for Territory Partners and veterinarians. As we develop our infrastructure while we grow, we may find it difficult to maintain these valuable aspects of our corporate culture. Any failure to preserve our culture could negatively impact our future success, including our ability to attract and retain personnel, encourage innovation and teamwork and effectively focus on and pursue our corporate objectives.

We depend on relationships with strategic partners, and our inability to maintain our existing and secure new relationships with strategic partners could harm our revenue and operating results.

A portion of our enrollment leads are attributable to strategic partners. These partnerships involve various risks including the following:

- We may be unable to maintain or secure favorable relationships with strategic partners;
- our strategic partners may not be successful in creating leads;
- our strategic partners could terminate their relationships with us;
- we may not experience a consistent correlation between revenues and expenditures related to our strategic partnerships, and
- bad publicity and other issues faced by our strategic partners could negatively impact us.

Our business and financial condition is subject to risks related to our writing of policies pursuant to contractual relationships with unaffiliated third parties.

Our other business segment generally includes businesses revenues and expenses involving contractual relationships with unaffiliated third parties. We have relatively limited experience in writing policies for unaffiliated third parties. This business is not expected to grow at the same rate as our core business and may decline. Changes to this business may be volatile due to the nature of the relationships. Further, this business historically has had, and we expect it to continue to have, lower margins than our core business. As a result of this line of business, we are subject to additional regulatory requirements and scrutiny, which increase our costs, risks and may have an adverse effect on our operations. Further, administration of this business and any similar business in the future may divert our time and attention away from our core business, which could adversely affect our operating results in the aggregate.

For example, we have written pet insurance policies for an unaffiliated general agent since 2012. These policies provide different coverage and are subject to materially different terms and conditions than the Trupanion medical plan. Further, the unaffiliated general agent administers these policies and markets them to consumers. For the nine months ended September 30, 2015, premiums from these policies accounted for 6.9% of our total revenue. This relationship can be terminated by either party and, if terminated, would result in a reduction in our revenue to the extent we cannot enter into another relationship and generate equivalent revenues with a different general agent. In addition, the general agent controls a trust account it maintains on our behalf. If the general agent makes operating decisions that adversely affect its business or brand, our business or brand could also be adversely affected.

In Canada, our medical plan is written by Omega General Insurance Company (Omega). If Omega were to terminate its underwriting arrangement with us, our business could be adversely affected.

In Canada, our medical plan is written by Omega, and we assume all premiums written by Omega and the related claims through an agency agreement and a fronting and administration agreement. These agreements will remain in effect until December 31, 2017 but may be terminated by either party with one year's prior written notice. If Omega were to terminate our agreement or be unable to write insurance for regulatory or other reasons, we may have to terminate subscriptions with our existing members, or suspend member enrollment and renewals, in Canada until we entered into a relationship with another third party to write our medical plan, which may take a significant amount of time and require significant expense. We may not be able to enter into a new relationship, and any new relationship would likely be on less favorable terms. Any delay in entry into a new relationship or suspension of member enrollment and renewals could have a material adverse effect on our operating results and financial condition.

If we are unable to implement and maintain effective internal control over financial reporting in the future, investors may lose confidence in the accuracy and completeness of our financial reports and the market price of our common stock may be negatively affected.

We are required to maintain internal control over financial reporting and to report any material weaknesses in such internal control. Section 404 of the Sarbanes-Oxley Act of 2002 (the Sarbanes-Oxley Act) requires that we evaluate and determine the effectiveness of our internal control over financial reporting and, beginning with our annual report for the fiscal year ending December 31, 2015, provide a management report on the internal control over financial reporting, which must be attested to by our independent registered public accounting firm to the extent we no longer qualify for the exemption provided to an emerging growth company, as defined by The Jumpstart Our Business Startups Act of 2012 (JOBS Act).

We may not detect errors on a timely basis and our financial statements may be materially misstated. We have had in the past, and may have in the future, material weaknesses and significant deficiencies in our internal control over financial reporting. If we or our independent registered public accounting firm identify future material weaknesses in our internal control over financial reporting, are unable to comply with the requirements of Section 404 in a timely manner, are unable to assert that our internal control over financial reporting is effective or our independent registered public accounting firm is unable to express an opinion as to the effectiveness of our internal control over financial reporting, investors may lose confidence in the accuracy and completeness of our financial reports and the market price of our common stock could be negatively affected. We could also become subject to investigations by the stock exchange on which our securities are listed, the SEC or other regulatory authorities, which could require additional financial and management resources.

If our security measures are breached and unauthorized access is obtained to our data, including our members' data, we may lose our competitive advantage, our systems may be perceived as not being secure and we may incur third-party liability.

Our data repository contains proprietary information that we believe gives us a competitive advantage, including claims data and other data with respect to members, Territory Partners, veterinarians and other third parties. Security breaches could expose us to a risk of loss of our data and/or disclosure of this data, either publicly or to a third party who could use the information to gain a competitive advantage. In the event of a loss of our systems or data, we could experience increased costs or delays, which in turn may harm our financial condition, damage our brand and result in the loss of members. Such a disclosure also could lead to litigation and possible liability.

In the course of operating our business, we may store and/or transmit our members' confidential information, including credit card and bank account numbers, pet medical records and other private information. Security breaches could expose us to a risk of loss of this information, litigation and possible liability. Our payment services may be susceptible to credit card and other payment fraud schemes, including unauthorized use of credit cards, debit cards or bank account information, identity theft or merchant fraud.

If our security measures are breached as a result of third-party action, employee error, malfeasance or otherwise, and, as a result, someone obtains unauthorized access to our data, including data of our members, our reputation may be damaged, our business may suffer and we could incur significant liability. Because techniques used to obtain unauthorized access or to sabotage systems change frequently and generally are not recognized until launched against a target, we may be unable to anticipate these techniques or implement adequate preventative measures. If an actual or perceived breach of our security occurs, the public perception of the effectiveness of our security measures could be harmed and we could lose members, which would adversely affect our business.

Any legal liability, regulatory penalties or negative publicity we encounter, including based on the information on our website or that we otherwise distribute or provide, directly or through Territory Partners or other referral sources, could harm our business, operating results and financial condition.

Any legal disputes or regulatory penalties involving us may be publicly announced, which could materially harm our reputation and adversely affect our business. We also provide information on our website, through our contact center and in other ways regarding pet health, the pet insurance industry in general and our medical plan, including information relating to subscription fees, coverage, benefits, exclusions, limitations, availability and medical plan comparisons. A significant amount of both automated and manual effort is required to maintain the medical plan information on our website. Separately, from time to time, we use the information provided on our website and otherwise collected by us to publish reports designed to educate consumers. For example, we produce a significant amount of marketing materials regarding our medical plan. If the information we provide on our website, through our contact centers or otherwise is not accurate or is construed as misleading, or if we improperly assist individuals in purchasing subscriptions to our medical plan, our members, competitors or others could attempt to hold us liable for damages, our relationships with veterinarians and other referral sources could be terminated and regulators could attempt to subject us to penalties, revoke our licenses to transact business in one or more jurisdictions or compromise the status of our licenses to transact our business in other jurisdictions, which could result in our loss of revenue. In the ordinary course of operating our business, we may receive complaints that the information we provided was not accurate or was misleading. These types of claims could be time-consuming and expensive to defend, could divert our management's attention and other resources and could cause a loss of confidence in our business. As a result, whether or not we are able to successfully resolve these claims, they could harm our business, operating results and financial condition.

We are subject to a number of risks related to accepting automatic fund transfers and credit card and debit card payments.

We accept payments of subscription fees from our members through automatic fund transfers and credit and debit card transactions. For credit and debit card payments, we pay interchange and other fees, which may increase over time. An increase in the number of members who utilize credit and debit cards to pay their subscription fees or related credit and debit card fees would reduce our margins and could require us to increase the subscription fees for our medical plan, which could cause us to lose members and revenue, or suffer an increase in our operating expenses, either of which could adversely affect our operating results.

If we, or any of our processing vendors or banks have problems with our billing software, or if the billing software malfunctions, it could have an adverse effect on our member satisfaction and could cause one or more of the major credit card companies or banks to disallow our continued use of their payment products. In addition, if our billing software fails to work properly and, as a result, we do not automatically charge our members' credit cards on a timely basis or at all, or a bank withdraws the incorrect amount or fails to timely transfer the correct amount to us, we could lose revenue and harm our member experience, which could adversely affect our business and operating results.

We are also subject to payment card association operating rules, certification requirements and rules governing electronic funds transfers, including the Payment Card Industry Data Security Standard (PCI DSS), a security standard applicable to companies that collect, store or transmit certain data regarding credit and debit cards, holders and transactions. In the past we may not have been, we currently are not and in the future we may not be, fully or materially compliant with PCI DSS. Our failure to comply fully or materially with the PCI DSS now or at any point in the future may violate payment card association operating rules, federal and state laws and regulations, and the terms of our contracts with payment processors and merchant banks. Such failure to comply fully or materially also may subject us to fines, penalties, damages and civil liability, and may result in the loss of our ability to accept credit and debit card payments. In addition, there is no guarantee that PCI DSS compliance, if we are able to become compliant, will prevent illegal or improper use of our payment systems or the theft, loss or misuse of data pertaining to credit and debit cards, credit and debit card holders and credit and debit card transactions.

If we fail to adequately control fraudulent credit card transactions, we may face civil liability, diminished public perception of our security measures and significantly higher credit card-related costs, each of which could adversely affect our business, operating results and financial condition.

If we are unable to maintain our chargeback rate at acceptable levels, our credit card fees for chargeback transactions, or our fees for many or all categories of credit and debit card transactions, credit card companies and debit card issuers may increase our fees or terminate their relationship with us. Any increases in our credit card and debit card fees could adversely affect our operating results, particularly if we elect not to raise our subscription fees. The termination of our ability to process payments on any major credit or debit card would significantly impair our ability to operate our business.

Failure to adequately protect our intellectual property could substantially harm our business and operating results.

We rely on a combination of intellectual property rights, including trade secrets, copyrights, trademarks and domain names, as well as contractual restrictions, to establish and protect our intellectual property. As of September 30, 2015, we had one published patent and one pending patent application in the United States, one pending patent application in Canada, one pending patent application in Brazil, one pending patent application in Japan, one international patent published under the Patent Cooperation Treaty, and one issued patent in Europe. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy our digital content, pricing analytics, technology, software, branding and functionality, or obtain and use information that we consider proprietary. Moreover, policing our proprietary rights is difficult and may not always be effective. If we continue to expand internationally, we may need to enforce our rights under the laws of countries that do not protect proprietary rights to as great an extent as do the laws of the United States, which may be expensive and divert management's attention away from other operations.

Our digital content is not protected by any registered copyrights or other registered intellectual property. Rather, our digital content is protected by statutory and common law rights, user agreements that limit access to and use of our data and by technological measures. Compliance with use restrictions is difficult to monitor, and our proprietary rights in our digital content databases may be more difficult to enforce than other forms of intellectual property rights.

As of September 30, 2015, we had six registered trademarks in the United States, including "Trupanion," two additional trademark applications, and three applications pending. We had one registered trademark in Canada, and two additional trademark applications. Many of our unregistered trademarks, however, contain words or terms having a common usage and, as a result, may not be protectable under applicable law. Trademark protection may also not be available, or sought by us, in every country in which our medical plan may become available. Competitors may adopt names similar to ours, or purchase our trademarks and confusingly similar terms as keywords in Internet search engine advertising programs, thereby impeding our ability to build brand identity and possibly confusing members. Moreover, there could be potential trade name or trademark infringement claims brought by owners of other registered trademarks or trademarks that incorporate marks similar to our trademarks.

We may take action, including initiating litigation, to protect our intellectual property rights and the integrity of our brand, and these efforts may prove costly, ineffective and increase the likelihood of counterclaims against us.

We currently hold the “Trupanion.com” Internet domain name and numerous other related domain names. Domain names generally are regulated by Internet regulatory bodies. If we lose the ability to use a domain name in the United States, Canada or any other country, we may be forced to acquire domain names at significant cost or, in the alternative, be forced to incur significant additional expenses to market our medical plan, including the development of a new brand and the creation of new promotional materials, which could substantially harm our business and operating results. The regulation of domain names in the United States, Canada and in other foreign countries is subject to change. Regulatory bodies could establish additional top-level domains, appoint additional domain name registrars or modify the requirements for holding domain names. As a result, we may not be able to acquire or maintain the domain names that utilize the “Trupanion” name in all of the countries in which we currently intend to conduct business.

We control access to our proprietary technology, software and documentation by entering into confidentiality and invention assignment agreements with our employees and contractors, confidentiality agreements with third parties, such as service providers, vendors, individuals and entities that may be exploring a business relationship with us, and terms of use with third parties, such as veterinary hospitals desiring to use our technology, software and documentation. These agreements may not prevent disclosure of intellectual property, trade secrets and/or other confidential information, and may not provide an adequate remedy in the event of misappropriation of trade secrets or any unauthorized disclosure of trade secrets and other confidential information. In addition, others may independently discover trade secrets and confidential information and, in such cases, we may not be able to assert any trade secret rights against such parties. Costly and time-consuming litigation could be necessary to enforce and determine the scope of our intellectual property rights and related confidentiality and nondisclosure provisions, and failure to obtain or maintain trade secret protection, or our competitors being able to obtain our trade secrets or to independently develop technology similar to ours or competing technologies, could adversely affect our competitive business position.

Litigation or proceedings before the U.S. Patent and Trademark Office or other governmental authorities and administrative bodies in the United States and abroad may be necessary in the future to enforce our intellectual property rights, to protect our domain names and to determine the validity and scope of the proprietary rights of others. Our efforts to enforce or protect our proprietary rights may be ineffective, could result in substantial costs and diversion of resources and could substantially harm our operating results.

Assertions by third parties of infringement or other violation by us of their intellectual property rights could result in significant costs and substantially harm our business and operating results.

Third parties have in the past and may in the future claim that our services infringe or otherwise violate their intellectual property rights. We may be subject to legal proceedings and claims, including claims of alleged infringement by us of the intellectual property rights of third parties. Any dispute or litigation regarding intellectual property could be expensive and time consuming, regardless of the merits of any claim, and could divert our management and key personnel from our operations.

If we were to discover or be notified that our services potentially infringe or otherwise violate the intellectual property rights of others, we may need to obtain licenses from these parties in order to avoid infringement. We may not be able to obtain the necessary licenses on acceptable terms, or at all, and any such license may substantially restrict our use of the intellectual property. Moreover, if we are sued for infringement and lose the lawsuit, we could be required to pay substantial damages or be enjoined from offering the infringing services. Any of the foregoing could cause us to incur significant costs and prevent us from selling or properly administering subscriptions to our medical plan or performing under our other contractual relationships.

We rely on third parties to provide intellectual property and technology necessary for the operation of our business.

We utilize intellectual property and technology owned by third parties in developing and operating our technology platform and operating our business. From time to time, we may be required to renegotiate with these third parties or negotiate with other third parties to include or continue using their intellectual property or technology in our existing technology platform or business operations or in modifications or enhancements to our technology platform or business operations. We may not be able to obtain the necessary rights from these third parties on commercially reasonable terms, or at all, and the third-party intellectual property and technology we use or desire to use may not be appropriately supported, maintained or enhanced by the third parties. If we are unable to obtain the rights necessary to use or continue to use third-party intellectual property and technology in our operations, or if those third parties are unable to support, maintain and enhance their intellectual property and technology, we could experience increased costs or delays, which in turn may harm our financial condition, damage our brand and result in the loss of members.

Our technology platform and our data are also hosted by a third-party service provider. The terms under which such third-party service provider provides us services may change and we may be required to renegotiate with that third party. If we are unable to renegotiate satisfactory terms, we may not be able to transition to an alternative service provider without interrupting the availability of our technology platform and any interruption could materially and adversely affect our business. Additionally, if our third-party service provider experiences any disruptions, outages or catastrophes, or if it ceases to conduct business for any reason, we could experience an interruption in our business, which in turn may damage our brand, result in a loss of members and harm our financial condition.

The outcome of litigation or regulatory proceedings could subject us to significant monetary damages, restrict our ability to conduct our business, harm our reputation and otherwise negatively impact our business.

From time to time, we have been, and in the future may become, subject to litigation, claims and regulatory proceedings and inquiries, including market conduct examinations and other investigations by state insurance regulatory agencies. For example, we are currently addressing examination findings from the Washington State Office of Insurance Commissioner.

We cannot predict the outcome of these or any future actions or proceedings, and the cost of defending such actions or proceedings could be material. Further, defending such actions or proceedings could divert our management and key personnel from our business operations. If we are found liable in any action or proceeding, we may have to pay substantial damages or fines, or change the way we conduct our business, either of which may have a material adverse effect on our business, operating results, financial condition and prospects. There may also be negative publicity associated with litigation or regulatory proceedings that could harm our reputation or decrease acceptance of our services. These claims may be costly to defend and may result in assessment of damages, adverse tax consequences and harm to our reputation.

We do not believe the nature of any pending regulatory or legal proceeding will have a material adverse effect on our business, operating results and financial condition. Our assessment, however, may be incorrect, and is subject to change at any time based on the discovery of facts or circumstances that are not presently known to us. Therefore, it is possible that pending or future litigation may have a material adverse effect on our business, reputation, operating results and financial condition.

Changes in the economy may negatively impact our business, operating results and financial condition.

Our business may be affected by changes in the economic environment. Pet medical plans are a discretionary purchase, and members may reduce or eliminate their discretionary spending during an economic downturn, resulting in an increase in medical plan subscription terminations and a reduction in the number of new member enrollments. We may experience a material increase in medical plan subscription terminations or a material reduction in our member retention rate in the future, especially in the event of a prolonged recessionary period or a downturn in economic conditions. Conversely, consumers may have more income to pay veterinary costs out-of-pocket and less desire to purchase a pet medical plan during a period of economic growth. In addition, media prices may increase during a period of economic growth, which could increase our sales and marketing expenses. As a result, our business, operating results and financial condition may be significantly affected by changes in the economic environment.

Covenants in the credit agreement governing our revolving line of credit may restrict our operations, and if we do not effectively manage our business to comply with these covenants, our financial condition could be adversely affected.

The credit agreement governing our revolving line of credit contains various restrictive covenants, including restrictions on our ability to dispose of our assets, change the name, location, office or executive management of our business, merge with or acquire other entities, incur other indebtedness, incur encumbrances, pay dividends or make distributions to holders of our capital stock, make investments, engage in transactions with our affiliates, make payments on subordinated debt, store equipment and inventory with a third party, become an investment company, permit withdrawals from APIC (with certain exceptions), conduct operations in certain of our Canadian subsidiaries and amend our certificate of incorporation in a manner adverse to the lenders. Our credit agreement also contains financial covenants, including those that require APIC to maintain certain capital and surplus, require us to maintain certain minimum cash balances and require us to achieve specified monthly revenue, claims ratios and EBITDA levels (each as defined in the credit agreement). Our ability to meet these restrictive covenants can be affected by events beyond our control, and we have been in the past, and may be in the future, unable to do so. In addition, our failure to maintain effective internal controls to measure compliance with our financial covenants could affect our ability to take corrective actions on a timely basis and could result in our being in breach of these covenants. Our credit agreement provides that our breach or failure to satisfy certain covenants constitutes an event of default. Upon the occurrence of an event of default, our lenders could elect to declare any future amounts outstanding under our credit agreement to be immediately due and payable. If we are unable to repay those amounts, our financial condition could be adversely affected.

Any indebtedness we incur could adversely affect our business and limit our ability to expand our business or respond to changes, and we may be unable to generate sufficient cash flow to satisfy any of our debt service obligations.

As of September 30, 2015, we had no outstanding indebtedness. We may incur indebtedness in the future, including any additional borrowings available under our revolving line of credit. Any substantial indebtedness and the fact that a substantial portion of our cash flow from operating activities could be needed to make payments on this indebtedness could have adverse consequences, including the following:

- reducing the availability of our cash flow for our operations, capital expenditures, future business opportunities and other purposes;
- limiting our flexibility in planning for, or reacting to, changes in our business and the industries in which we operate, which could place us at a competitive disadvantage compared to our competitors that may have less debt;
- limiting our ability to borrow additional funds; and
- increasing our vulnerability to general adverse economic and industry conditions.

Our ability to borrow any funds needed to operate and expand our business will depend in part on our ability to generate cash. Our ability to generate cash is subject to the performance of our business, as well as general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. We may also need to borrow additional funds to support risk-based capital requirements related to growth. If our business does not generate sufficient cash flow from operating activities or if future borrowings are not available to us, under our revolving credit facility or otherwise, in amounts sufficient to enable us to fund our liquidity needs, our operating results, financial condition and ability to expand our business and meet our risk-based capital requirements may be adversely affected.

Our financial results may be negatively affected if we are required to pay income tax, premium tax, transaction tax or other taxes in jurisdictions where we are currently not collecting and reporting tax.

We currently pay income tax, premium tax, transaction tax and other taxes in certain jurisdictions in which we do business. A successful assertion by one or more jurisdictions that we should be paying income, premium, transaction or other taxes on our income or in connection with enrollment in our medical plan or intercompany services, or the enactment of new laws requiring the payment of income, premium, transfer or other taxes in connection with our business operations, including enrollment in our medical plan or intercompany services, could result in substantial tax liabilities. Our voluntary disclosure of tax obligations and any future assertions by any jurisdiction that we should be paying taxes may create increased administrative burdens or costs, require payment of substantial fines and penalties, discourage consumers from enrolling in our medical plan, reduce our operational efficiencies, decrease our ability to compete or otherwise substantially harm our business and operating results.

If consumer acceptance of the Internet as an acceptable marketplace for a pet medical plan does not continue to increase, our growth prospects will be harmed.

Our success depends in part on widespread consumer acceptance of the Internet as a marketplace for the purchase of a pet medical plan. Internet use may not continue to develop at historical rates, and consumers may not continue to use the Internet to research, select and purchase a pet medical plan. In addition, the Internet may not be accepted as a viable resource for a number of reasons, including lack of security of information or privacy protection, possible disruptions, computer viruses or other damage to Internet servers or to users' computers, and excessive governmental regulation.

Our success will depend, in large part, on third parties maintaining the Internet infrastructure to provide a reliable network backbone with the speed, data capacity, security and hardware necessary for reliable Internet access and services.

We depend in part on Internet search engines to attract potential new members to visit our website. If Internet search engines' methodologies are modified or our search result page rankings decline for other reasons, our new member growth could decline, and our business and operating results could be harmed.

We derive a significant amount of traffic to our website from consumers who search for pet medical insurance through Internet search engines, such as Google, Bing and Yahoo!. A critical factor in attracting consumers searching for pet medical insurance on the Internet to our website is whether we are prominently displayed in response to an Internet search relating to pet insurance. Algorithmic search result listings are determined and displayed in accordance with a set of formulas or algorithms developed by the particular Internet search engine, which may change from time to time. If we are listed less prominently in, or removed altogether from, search result listings for any reason, the traffic to our websites would decline and we may not be able to replace this traffic, which in turn would harm our business, operating results and financial condition. If we decide to attempt to replace this traffic, we may be required to increase our sales and marketing expenditures, including by utilizing paid search advertising, which would also increase our pet acquisition costs and harm our business, operating results and financial condition.

We may acquire other companies or technologies, which could divert our management’s attention, result in additional dilution to our stockholders and otherwise disrupt our operations and harm our operating results.

We may decide to acquire businesses, products and technologies. Our ability to successfully make and integrate acquisitions is unproven. The pursuit of potential acquisitions may divert the attention of management and cause us to incur various expenses in identifying, investigating and pursuing suitable acquisitions, whether or not they are consummated. Further, even if we successfully acquire additional businesses or technologies, we may not be able to migrate the policyholders to our medical plan, integrate the acquired personnel, operations and technologies successfully, or effectively manage the combined business following the acquisition. We also may not achieve the anticipated benefits from the acquired business or technology. In addition, we may unknowingly inherit liabilities from future acquisitions that arise after the acquisition and are not adequately covered by indemnities. Acquisitions could also result in dilutive issuances of equity securities or the incurrence of debt, which could adversely affect our operating results. If an acquired business or technology fails to meet our expectations, our business, operating results and financial condition may suffer.

Our ability to use our net operating loss carryforwards and certain other tax attributes may be limited.

As of December 31, 2014, we had U.S. federal net operating loss carryforwards of approximately \$46.0 million that will begin to expire in 2027. Under Sections 382 and 383 of the Internal Revenue Code of 1986, as amended, if a corporation undergoes an “ownership change,” the corporation’s ability to use its pre-change net operating loss carryforwards and other pre-change tax attributes, such as research tax credits, to offset its post-change income and taxes may be limited. In general, an “ownership change” generally occurs if there is a cumulative change in our ownership by “5-percent stockholders” that exceeds 50 percentage points over a rolling three-year period. Similar rules may apply under state tax laws. We may have experienced an ownership change in the past and we may experience an ownership change in the future, some of which may be outside our control. As a result, if we earn net taxable income, our ability to use our pre-change net operating loss carryforwards, or other pre-change tax attributes, to offset U.S. federal and state taxable income and taxes may be subject to limitations.

We are exploring opportunities to expand our operations globally, and we may therefore become subject to a number of risks associated with international expansion and operations.

As part of our growth plan, we are exploring opportunities to expand our operations globally. We have no history of marketing, selling, administrating and supporting our medical plan to consumers outside of the United States, Canada and Puerto Rico. International sales and operations are subject to a number of risks, including the following:

- regulatory rules and practices, foreign exchange controls, tariffs, tax laws and treaties that are different than those we operate under in the United States, Canada and Puerto Rico and that carry a greater risk of unexpected changes;
- the costs and resources required to modify our technology and sell our medical plan in non-English speaking countries;
- the costs and resources required to modify our medical plan appropriately to suit the needs and expectations of residents and veterinarians in such foreign countries;
- our data analytics platform may have limited applicability in foreign countries, which may impact our ability to develop adequate underwriting criteria and accurately price subscriptions to our medical plan in such countries;
- increased expenses incurred in establishing and maintaining office space and equipment for our international operations;
- technological incompatibility;
- fluctuations in exchange rates between the U.S. dollar and foreign currencies in markets where we do business;
- difficulties in attracting and retaining personnel with experience in international operations;
- difficulties in modifying our business model in a manner suitable for any particular foreign country, including any modifications to our Territory Partner model to the extent we determine that our existing model is not suitable for use in foreign countries;
- our lack of experience in marketing to consumers and veterinarians, and encouraging online marketing, in foreign countries;
- our relative lack of industry connections in many foreign countries;
- difficulties in managing operations due to language barriers, distance and time zone differences, staffing, cultural differences and business infrastructure constraints, including difficulty in obtaining foreign and domestic visas;
- application of foreign laws and regulations to us, including more stringent or materially different insurance, employment, consumer and data protection laws;
- the uncertainty of protection for intellectual property rights in some countries;

- greater risk of a failure of foreign employees to comply with applicable U.S. and foreign laws, including antitrust regulations, the U.S. Foreign Corrupt Practices Act and any trade regulations ensuring fair trade practices; and
- general economic and political conditions in these foreign markets.

These factors and other factors could harm our ability to gain future international revenue and, consequently, materially impact our business and operating results. The expansion of our existing international operations and entry into additional international markets will require significant management attention and financial resources, detracting from management attention and financial resources otherwise available to our existing business. Our failure to successfully manage our international operations and the associated risks effectively could limit the future growth of our business and could have an adverse effect on our operating results and financial condition.

A downgrade in the financial strength rating of our insurance company may have an adverse effect on our competitive position, the marketability of our medical plan, and our liquidity, access to and cost of borrowing, operating results and financial condition.

Although we do not believe that the financial strength rating of APIC is material for customers or to understand our business beyond what is already publicly available, financial strength ratings can be important factors in establishing the competitive position of insurance companies and generally have an effect on an insurance company's business. On an ongoing basis, rating agencies review the financial performance and condition of APIC and could downgrade or change the outlook on its ratings due to, for example, a change in its statutory capital, a change in the rating agency's determination of the amount of risk-based capital required to maintain a particular rating or a reduced confidence in management or its business strategy, as well as a number of other considerations that may or may not be under our control. The insurance financial strength rating of APIC is subject to quarterly review, and APIC may not retain the current rating. A downgrade in this or any future ratings could have a material effect on our sales, our competitiveness, the marketability of our medical plan, our liquidity, access to and cost of borrowing, operating results and financial condition.

Our business is subject to the risks of earthquakes, floods, fires and other natural catastrophic events and to interruption by man-made problems such as computer viruses or terrorism.

Our systems and operations are vulnerable to damage or interruption from earthquakes, human error, intentional bad acts, hurricanes, floods, fires, power losses, telecommunications failures, hardware and system failures, terrorist attacks, acts of war, break-ins or similar events. For example, our corporate headquarters and facilities are located in Seattle, Washington near known earthquake fault zones and are vulnerable to significant damage from earthquakes. In addition, acts of terrorism could cause disruptions in our business or the economy as a whole. Our servers and systems may also be vulnerable to computer viruses, break-ins and similar disruptions from unauthorized tampering with our computer systems, which could lead to interruptions, delays, loss of critical data or the unauthorized disclosure of confidential member data. We currently have limited disaster recovery capability, and our business interruption insurance may be insufficient to compensate us for losses that may occur. Such disruptions could negatively impact our ability to run our business, which could have an adverse effect on our operating results and financial condition.

Risks Related to Compliance with Laws and Regulations

We may not maintain the amount of risk-based capital required to avoid additional regulatory oversight, which may adversely affect our ability to operate our business.

Memberships in our U.S. medical plan are written by APIC. APIC is an insurance company domiciled in the state of New York and licensed by the New York Department of Financial Services. Regulators in the states in which we do business impose risk-based capital requirements on APIC that generally are approved by the National Association of Insurance Commissioners to ensure APIC maintains reasonably appropriate levels of surplus to support our operations and to protect our members against adverse developments in APIC's financial circumstances, taking into account the risk characteristics of our assets, liabilities and certain other items. Generally, the NY DFS will compare, on an annual basis as of December 31 or more often as deemed necessary, an insurer's total adjusted capital and surplus against what is referred to as an "Authorized Control Level" of risk-based capital that is calculated based on a formula designed to estimate an insurer's capital adequacy. There generally are five outcomes possible from this comparison, depending on the insurer's level of risk-based capital as compared to the applicable Authorized Control Level.

- *No Action Level* : Insurer's total adjusted capital is equal to or greater than 200% of the Authorized Control Level.

- *Company Action Level* : Insurer's total adjusted capital is less than 200% but greater than 150% of the Authorized Control Level. When at this level, an insurer must prepare and submit a financial plan to the NY DFS for review and approval. Generally, a risk-based capital plan would identify the conditions that contributed to the Company Action Level and include the insurer's proposed plans for increasing its risk-based capital in order to satisfy the No Action Level. The failure to provide the NY DFS with a risk-based capital plan on a timely basis or the inability of the NY DFS and the insurer to mutually agree on an appropriate risk-based capital plan could trigger a Regulatory Action Level outcome, subject to the insurer's right to a hearing on the issue.
- *Regulatory Action Level* : Insurer's total adjusted capital is less than 150% but greater than 100% of the Authorized Control Level. When at this level, an insurer generally must provide a risk-based capital plan to the NY DFS and be subject to examination or analysis by the NY DFS to the extent it deems necessary, including such corrective actions as the NY DFS may require.
- *Authorized Control Level* : Insurer's total adjusted capital is less than 100% but greater than 70% of the Authorized Control Level. At this level, the NY DFS generally could take remedial actions that it determines necessary to protect the insurer's assets, including placing the insurer under regulatory control.
- *Mandatory Control Level* : Insurer's total adjusted capital is less than 70% of the Authorized Control Level. At this level, the NY DFS generally is required to take steps to place the insurer under regulatory control, even if the insurer is still solvent.

As of December 31, 2014, APIC was required to maintain at least \$22.6 million of risk-based capital to satisfy the No Action Level (the highest of the above levels). As of December 31, 2014, APIC maintained \$23.7 million of risk-based capital. The NY DFS may increase the required levels of risk-based capital in the future, and we anticipate that we will need to maintain greater amounts of risk-based capital if our pet enrollment continues to grow.

Additionally, if our risk-based capital falls below the Company Action Level, we may be in breach of various contractual relationships, including, for example, with the unaffiliated general agent for which we write pet insurance policies, which may give such parties the ability to cancel their contracts with us and/or sue us for damages related to our risk-based capital levels, which could have a material adverse effect on our financial condition.

We may require additional capital to meet our risk-based capital requirements, pursue our business objectives and respond to business opportunities, challenges or unforeseen circumstances. If capital is not available to us at any time, our business, operating results and financial condition may be harmed.

We may require additional capital to meet our risk-based capital requirements, operate or expand our business or respond to unforeseen circumstances. Additional funds may not be available when we need them, on terms that are acceptable to us, or at all. If we raise additional funds through the issuance of equity or convertible securities, the percentage ownership of holders of our common stock could be significantly diluted and these newly issued securities may have rights, preferences or privileges senior to those of holders of our common stock. Further, volatility in the credit or equity markets may have an adverse effect on our ability to obtain debt or equity financing or the cost of such financing. Similarly, our access to funds may be impaired if regulatory authorities or rating agencies take negative actions against us. If a combination of these factors were to occur, our internal sources of liquidity may prove to be insufficient and, in such case, we may not be able to successfully obtain additional financing on favorable terms. If funds are unavailable to us on reasonable terms when we need them, we may be unable to meet our risk-based capital requirements, train and support our employees, support Territory Partners, maintain the competitiveness of our technology, pursue business opportunities, service our existing debt, pay claims or acquire new members, any of which could have an adverse effect on our business, operating results and financial condition.

If we fail to comply with the numerous laws and regulations that are applicable to the sale of a pet medical plan, our business and operating results could be harmed.

The sale of a pet medical plan, which is considered a type of property and casualty insurance in most jurisdictions, is heavily regulated by each state in the United States, in the District of Columbia, in Puerto Rico and by Canadian federal, provincial and territorial governments. In the United States, state insurance regulators are charged with protecting policyholders and have broad regulatory, supervisory and administrative powers over our business practices. Because we do business in all 50 states, the District of Columbia, all Canadian provinces and territories and Puerto Rico, compliance with insurance-related laws, rules and regulations is difficult and imposes significant costs on our business. Each jurisdiction's insurance department typically has the power, among other things, to:

- grant and revoke licenses to transact insurance business;
- conduct inquiries into the insurance-related activities and conduct of agents and agencies and others in the sales, marketing and promotional channels;
- require and regulate disclosure in connection with the sale and solicitation of insurance policies;

- authorize how, by which personnel and under what circumstances insurance premiums can be quoted and published and an insurance policy sold;
- approve which entities can be paid commissions from carriers and the circumstances under which they may be paid;
- regulate the content of insurance-related advertisements, including web pages, and other marketing practices;
- approve policy forms, require specific benefits and benefit levels and regulate premium rates;
- impose fines and other penalties; and
- impose continuing education requirements.

While the U.S. federal government does not directly regulate the insurance industry, federal legislation and administrative policies can also affect us. Congress and various federal agencies periodically discuss proposals that would provide for federal oversight of insurance companies. We cannot predict whether any such laws will be enacted or the effect that such laws would have on our business. We also do business in all ten provinces and three territories of Canada. The provincial and territorial insurance regulators have the power to regulate the market conduct of insurers and insurance intermediaries, and the licensing and supervision of insurance agents, brokers, and adjusters, along with enforcement rights, including the right to assess administrative monetary penalties in certain provinces.

Insurance companies are also regulated at the federal level in Canada, and the Insurance Companies Act prohibits a foreign entity from insuring risks in Canada unless it is authorized by an Order made by the Superintendent of Financial Institutions (Canada) permitting it to do so.

Due to the complexity, periodic modification and differing interpretations of insurance laws and regulations, we have not always been, and we may not always be, in compliance with them. New insurance laws, regulations and guidelines also may not be compatible with the manner in which we market and sell subscriptions to our medical plan in all of our jurisdictions and member acquisition channels, including over the Internet. Failure to comply with insurance laws, regulations and guidelines or other laws and regulations applicable to our business could result in significant liability, additional department of insurance licensing requirements, the revocation of licenses in a particular jurisdiction or our inability to sell subscriptions to our medical plan, which could significantly increase our operating expenses, result in the loss of our revenue and otherwise harm our business, operating results and financial condition.

Moreover, an adverse regulatory action in one jurisdiction could result in penalties and adversely affect our license status or reputation in other jurisdictions, including due to the current requirement that adverse regulatory actions in one jurisdiction be reported to other jurisdictions. Even if the allegations in any regulatory or other action against us ultimately are determined to be unfounded, we could incur significant time and expense defending against the allegations, and any related negative publicity could harm consumer and third-party confidence in us, which could significantly damage our brand.

In addition, we have received, and may in the future receive, inquiries from regulators regarding our marketing and business practices. These inquiries may include investigations regarding a number of our business practices, including the manner in which we market and sell subscriptions to our medical plan and the manner in which we write policies for any unaffiliated general agent. Any modification of our marketing or business practices in response to regulatory inquiries could harm our business, operating results or financial condition.

A regulatory environment that limits rate increases may adversely affect our operating results and financial condition.

Many states, including New York, have adopted laws or are considering proposed legislation that, among other things, limit the ability of insurance companies to effect rate increases or to cancel, reduce or not renew insurance coverage with respect to existing policies, and many state regulators have the power to reduce, or to disallow increases in premium rates. Most states, including New York, require licensure and regulatory approval prior to marketing new insurance products. Our practice has been to regularly reevaluate the price of our medical plan subscriptions, with any pricing changes implemented at least annually, subject to the review and approval of the state regulators, who may reduce or disallow our pricing changes. Such review has often in the past resulted, and may in the future result, in delayed implementation of pricing changes and prevent us from making changes we believe are necessary to achieve our targeted claims payout ratio, which could adversely affect our operating results and financial condition. In addition, we may be prevented by regulators from limiting significant pricing changes, requiring us to raise rates more quickly than we otherwise may desire. This could damage our reputation with our members and reduce our retention rates, which could significantly damage our brand, result in the loss of expected revenue and otherwise harm our business, operating results and financial condition.

In addition to regulating rates, certain states have enacted laws that require a property-casualty insurer, which includes a pet insurance company, conducting business in that state to participate in assigned risk plans, reinsurance facilities, joint underwriting associations (JUAs), Fair Access to Insurance Requirements (FAIR) plans and wind pools. In these markets, if the state reinsurance facilities, wind pools, FAIR plans or JUAs recognize a financial deficit, they may in turn have the ability to assess participating insurers, adversely affecting our operating results and financial condition if we are a part of such state reinsurance facilities, wind pools, FAIR plans or JUAs. Additionally, certain states require insurers to participate in guaranty funds for impaired or insolvent insurance companies. These funds periodically assess losses against all insurance companies doing business in the state. Our operating results and financial condition could be adversely affected by any of these factors.

Regulations that require individuals or entities that sell pet insurance to be licensed may be interpreted to apply to our business, which could require us to modify our business practices.

Insurance regulators generally require that each individual who transacts pet insurance business on our behalf must maintain a valid license in one or more jurisdictions. If regulators determined that any of our personnel or referral sources were selling subscriptions to our medical plan on our behalf and needed to be licensed in a particular jurisdiction, and if such persons were not in fact licensed in any such jurisdiction, we could become subject to conviction for an offense or the imposition of an administrative penalty and liable for significant penalties and would likely be required to modify our business practices and sales and marketing programs, or license the affected individuals, which may be impractical or costly and time-consuming to implement. Any modification of our business or marketing practices in response to regulatory licensing requirements could harm our business, operating results or financial condition.

Most Canadian provincial and territorial insurance legislation requires entities that solicit the sale of pet insurance to be validly licensed in the applicable jurisdiction. If any such regulator were to determine that any entity soliciting the sale of a medical plan on our behalf did not hold the required license, we may have to modify our business practices or marketing efforts, or license the affected entities, which may be costly and time-consuming to implement.

We are subject to numerous laws and regulations, and compliance with one law or regulation may result in non-compliance with another.

We are subject to numerous laws and regulations that are administered and enforced by a number of different governmental authorities, each of which exercises a degree of interpretive latitude, including, in the United States, state insurance regulators, state securities administrators, state attorneys general and federal agencies including the SEC and the U.S. Department of Justice. Consequently, we are subject to the risk that compliance with any particular regulator's or enforcement authority's interpretation of a legal issue may not result in compliance with another's interpretation of the same issue, particularly when compliance is judged in hindsight. In addition, there is risk that any particular regulator's or enforcement authority's interpretation of a legal issue may change over time to our detriment, or that changes in the overall legal environment may, even absent any particular regulator's or enforcement authority's interpretation of a legal issue changing, cause us to change our views regarding the actions we need to take from a legal risk management perspective, thus necessitating changes to our practices that may, in some cases, increase our costs and limit our ability to grow or to improve the profitability of our business. Further, in some cases, these laws and regulations are designed to protect or benefit the interests of a specific constituency rather than a range of constituencies. For example, state insurance laws and regulations generally are intended to protect or benefit purchasers or users of insurance products, not holders of securities, which generally is the jurisdiction of the SEC. In many respects, these laws and regulations limit our ability to grow or to improve the profitability of our business.

Regulation of the sale of medical insurance for cats and dogs is subject to change, and future regulations could harm our business and operating results.

The laws and regulations governing the offer, sale and purchase of medical insurance for cats and dogs are subject to change, and future changes may be adverse to our business. For example, if a jurisdiction were to increase our risk-based capital requirements or alter the requirements for obtaining or maintaining an agent's license in connection with the enrollment of a member in our medical plan, it could have a material adverse effect on our operations. Some states in the United States have adopted, and others are expected to adopt, new laws and regulations related to the insurance industry. It is difficult to predict how these or any other new laws and regulations will impact our business, but, in some cases, changes in insurance laws, regulations and guidelines may be incompatible with various aspects of our business and require that we make significant modifications to our existing technology or practices, which may be costly and time-consuming to implement and could also harm our business, operating results and financial condition.

Failure to comply with federal, state and provincial laws and regulations relating to privacy and security of personal information, and civil liabilities relating to breaches of privacy and security of personal information, could create liabilities for us, damage our reputation and harm our business.

A variety of U.S. and Canadian federal, state and provincial laws and regulations govern the collection, use, retention, sharing and security of personal information. We collect and utilize demographic, credit and other private information from and about our members when they visit our website, call our contact center and apply for enrollment in our medical plan. Further, we use tracking technologies, including “cookies,” to help us manage and track our members’ interactions and deliver relevant advice and advertising. Claims or allegations that we have violated applicable laws or regulations related to privacy and data security could in the future result in negative publicity and a loss of confidence in us by our members and our participating service providers, and may subject us to fines by credit card companies and the loss of our ability to accept credit and debit card payments. In addition, we have posted privacy policies and practices concerning the collection, use and disclosure of member data on our website. Several Internet companies have incurred penalties for failing to abide by the representations made in their privacy policies and practices. In addition, our use and retention of personal information could lead to civil liability exposure in the event of any disclosure of such information due to hacking, viruses, inadvertent action or other use or disclosure. Several companies have been subject to civil actions, including class actions, relating to this exposure.

We have incurred, and will continue to incur, expenses to comply with privacy and security standards and protocols for personal information imposed by law, regulation, self-regulatory bodies, industry standards and contractual obligations. Such laws, standards and regulations, however, are evolving and subject to potentially differing interpretations, and federal, state and provincial legislative and regulatory bodies may expand current or enact new laws or regulations regarding privacy matters. We are unable to predict what additional legislation, standards or regulation in the area of privacy and security of personal information could be enacted or its effect on our operations and business.

Government regulation of the Internet and email could adversely affect our business.

The laws governing general commerce on the Internet remain unsettled and it may take years to fully determine whether and how existing laws such as those governing insurance, intellectual property, privacy and taxation apply to the Internet. In addition, the growth and development of the market for electronic commerce and Internet-related pet medical plan advertisements and transactions may prompt calls for more stringent consumer protection laws that may impose additional burdens on companies conducting business and selling subscriptions to a pet medical plan over the Internet. Any new laws or regulations or new interpretations of existing laws or regulations relating to the Internet could harm our business and we could be forced to incur substantial costs in order to comply with them, which would harm our business, operating results and financial condition.

Additionally, we use email to market our services to potential members and as a means of communicating with our existing members. The laws and regulations governing the use of email for commercial purposes continue to evolve and the growth and development of the market for commerce over the Internet may lead to the adoption of additional legislation. On July 1, 2014, legislation became effective in Canada that, among other things, prohibits the sending of commercial electronic messages without the express or implied consent of the recipient, subject to certain exceptions. Failure to abide by this new legislation could lead to significant administrative monetary penalties and, as of July 1, 2017, civil liability exposure, including through class actions. We have incurred, and will continue to incur, expenses to comply with electronic messaging laws. If new laws or regulations are adopted, or existing laws and regulations are interpreted, to impose additional restrictions on our ability to send email to our members or potential members, we may not be able to communicate with them in a cost-effective manner. In addition to legal restrictions on the use of email for commercial purposes, Internet service providers, email service providers and others attempt to block the transmission of unsolicited email, commonly known as “spam.” Many Internet and email service providers have relationships with organizations whose purpose it is to detect and notify the Internet and email service providers of entities that the organization believes is sending unsolicited email. If an Internet or email service provider identifies email from us as “spam” as a result of reports from these organizations or otherwise, we could be placed on a restricted list that will block our emails to members or potential members. If we are restricted or unable to communicate by email with our members and potential members as a result of legislation, blockage or otherwise, our business, operating results and financial condition would be harmed.

Applicable insurance laws regarding the change in control of our company may impede potential acquisitions that our stockholders might consider to be desirable.

We are subject to statutes and regulations of the state of New York that generally require that any person or entity desiring to acquire direct or indirect control of APIC obtain prior regulatory approval. These laws may discourage potential acquisition proposals and may delay, deter or prevent a change in control of our company, including through transactions, and in particular unsolicited transactions, that some of our stockholders might consider to be desirable. Similar laws or regulations may also apply in other states in which we may operate.

Our segregated account in Bermuda could be adversely impacted by regulatory compliance of a third party.

WICL is a class 3 insurer regulated by the Bermuda Monetary Authority. WICL's ability to continue operations and pay dividends could impact the ability of our segregated account to do the same. WICL's failure to meet regulatory requirements set forth by the BMA could result in our inability to transact business with WICL segregated account AX. Further, WICL could be limited from allowing dividends to be paid out of segregated account AX in the event of adverse regulatory actions.

We will continue to incur significantly increased costs and devote substantial management time as a result of operating as a public company.

As a public company, we incur significant legal, accounting and other expenses that we did not incur as a private company. For example, we are subject to the reporting requirements of the Exchange Act, and are required to comply with the applicable requirements of the Sarbanes-Oxley Act, the Dodd-Frank Wall Street Reform and Consumer Protection Act and the JOBS Act, as well as rules and regulations subsequently implemented by the SEC and the stock exchange on which our common stock is listed, including the establishment and maintenance of effective disclosure and financial controls and changes in corporate governance practices. Compliance with these requirements has and will continue to increase our legal and financial compliance costs and will make some activities more time consuming and costly. In addition, from time to time, our management and other personnel need to divert attention from operational and other business matters to devote substantial time to these public company requirements. In particular, we have and will continue to incur significant expenses and devote substantial management effort toward ensuring compliance with the requirements of Section 404 of the Sarbanes-Oxley Act, which will increase when we are no longer an emerging growth company, as defined by the JOBS Act. Our management and other personnel also have limited experience operating a public company, which may result in operational inefficiencies or errors. We cannot predict or estimate the amount of additional costs we may incur as a result of becoming a public company or the timing of such costs.

We are an emerging growth company and we cannot be certain if the reduced disclosure requirements applicable to emerging growth companies will make our common stock less attractive to investors.

We are an emerging growth company. Under the JOBS Act, emerging growth companies can delay adopting new or revised accounting standards until such time as those standards apply to private companies. We have irrevocably elected not to avail ourselves of this exemption from new or revised accounting standards and, therefore, we will be subject to the same new or revised accounting standards as other public companies that are not emerging growth companies.

For as long as we continue to be an emerging growth company, we intend to take advantage of certain exemptions from various reporting requirements that are applicable to other public companies including, but not limited to, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved. We cannot predict if investors will find our common stock less attractive because we will rely on these exemptions. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock and our stock price may be more volatile.

We generally will remain an emerging growth company until the earliest of (i) the end of the fiscal year in which the market value of our common stock that is held by non-affiliates exceeds \$700 million as of June 30, (ii) the end of the fiscal year in which we have total annual gross revenue of \$1 billion or more during such fiscal year, (iii) the date on which we issue more than \$1 billion in non-convertible debt in a three-year period or (iv) five years from the date of our IPO.

Our reported financial results may be adversely affected by changes in accounting principles generally accepted in the United States.

Generally accepted accounting principles in the United States are subject to interpretation by the Financial Accounting Standards Board, the SEC and various bodies formed to promulgate and interpret appropriate accounting principles. A change in these principles or interpretations could have a significant effect on our reported financial results, and could affect the reporting of transactions completed before the announcement of a change.

Risks Related to Ownership of Our Common Stock

Our actual operating results may differ significantly from our guidance.

From time to time we have released, and may continue to release, guidance in our quarterly earnings conference call, quarterly earnings releases, or otherwise, regarding our future performance that represents our management's estimates as of the date of release. This guidance, which includes forward-looking statements, has been and will be based on projections prepared by our management. These projections are not prepared with a view toward compliance with published guidelines of the American Institute of Certified Public Accountants, and neither our registered public accountants nor any other independent expert or outside party compiles or examines the projections. Accordingly, no such person expresses any opinion or any other form of assurance with respect to the projections.

Projections are based upon a number of assumptions and estimates that, while presented with numerical specificity, are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control and are based upon specific assumptions with respect to future business decisions, some of which will change. We intend to state possible outcomes as high and low ranges which are intended to provide a sensitivity analysis as variables are changed but are not intended to imply that actual results could not fall outside of the suggested ranges. The principal reason that we release guidance is to provide a basis for our management to discuss our business outlook with analysts and investors. We do not accept any responsibility for any projections or reports published by any such third parties.

Guidance is necessarily speculative in nature, and it can be expected that some or all of the assumptions underlying the guidance furnished by us will not materialize or will vary significantly from actual results. Accordingly, our guidance is only an estimate of what management believes is realizable as of the date of release. Actual results may vary from our guidance and the variations may be material. In light of the foregoing, investors are urged not to rely upon our guidance in making an investment decision regarding our common stock.

Any failure to successfully implement our operating strategy or the occurrence of any of the events or circumstances set forth in this “Risk Factors” section in this Quarterly Report on Form 10-Q could result in the actual operating results being different from our guidance, and the differences may be adverse and material.

If securities or industry analysts do not publish research, or publish inaccurate or unfavorable research, about our business, our stock price and trading volume could decline.

The trading market for our common stock depends in part on the research and reports that securities or industry analysts publish about us or our business. If one or more of the securities or industry analysts who publish research about us or our business downgrade our stock or publish inaccurate or unfavorable evaluations of our company or our stock, the price of our stock could decline. If one or more of these analysts cease coverage of our company, our stock may lose visibility in the market, which in turn could cause our stock price to decline.

The market price of our common stock has been and is likely to continue to be volatile, and you may be unable to sell your shares at or above the price at which you purchased them.

The market price of our common stock has been and is likely to continue to fluctuate widely. Factors affecting the market price of our common stock include:

- variations in our operating results, earnings per share, cash flows from operating activities, and key financial and operational metrics, and how those results compare to analyst expectations;
- forward-looking guidance that we provide to the public and industry and financial analysts related to future revenue and profitability, and any change in that guidance or our failure to achieve the results reflected in that guidance;
- the net increases in the number of members, either independently or as compared with published expectations of industry, financial or other analysts that cover our company;
- changes in the estimates of our operating results or changes in recommendations by securities analysts that elect to follow our common stock;
- announcements of changes to our medical plan, strategic alliances or significant agreements by us or by our competitors;
- announcements by us or by our competitors of mergers or other strategic acquisitions, or rumors of such transactions involving us or our competitors;
- recruitment or departure of key personnel;
- the economy as a whole and market conditions in our industry;
- trading activity by a limited number of stockholders who together beneficially own a majority of our outstanding common stock;
- the number of shares of our stock trading on a regular basis; and
- any other factors discussed in these risk factors.

In addition, if the market for stock in our industry or the stock market in general experiences uneven investor confidence, the market price of our common stock could decline for reasons unrelated to our business, operating results or financial condition. The market price of our common stock might also decline in reaction to events that affect other companies within, or outside, our industry even if these events do not directly affect us. Some companies that have experienced volatility in the trading price of their stock have been the subject of securities class action litigation. If we are the subject of such litigation, it could result in substantial costs and a diversion of our management’s attention and resources.

We have broad discretion in the use of the net proceeds from our initial public offering and may not use them effectively.

We received net proceeds of approximately \$72.8 million from our initial public offering in July 2014. We have broad discretion in the application of these net proceeds. Because of the number and variability of factors that will determine our use of the net proceeds from our IPO, their ultimate use may vary substantially from their intended use. The failure by our management to apply these funds effectively could harm our business. Pending their use, we may invest the net proceeds from our IPO in short-term, investment-grade interest-bearing securities such as money market accounts, certificates of deposit, commercial paper and guaranteed obligations of the U.S. government that may not generate a high yield to our stockholders.

We do not intend to pay dividends on our common stock and, therefore, any returns will be limited to the value of our stock.

We have never declared or paid any cash dividends on our common stock. We currently intend to retain all available funds and any future earnings for the development, operation and expansion of our business and do not anticipate declaring or paying any cash dividends for the foreseeable future. In addition, our ability to pay cash dividends on our common stock is limited by the terms of our credit agreement, APIC's ability to pay dividends is limited by New York state insurance laws, and WICL Segregated Account AX's ability to pay dividends is limited by our agreements with WICL as well as WICL's regulatory requirements. Any return to stockholders will therefore be limited to the increase, if any, of our stock price.

Our directors and principal stockholders own a significant percentage of our stock and will be able to exert significant control over matters subject to stockholder approval.

As of September 30, 2015, our directors, five percent or greater stockholders and their respective affiliates beneficially held in the aggregate approximately 70% of our outstanding voting stock. Therefore, these stockholders have the ability to influence us through this ownership position. These stockholders may be able to determine all matters requiring stockholder approval. For example, these stockholders may be able to control elections of directors, amendments of our organizational documents, or approval of any merger, sale of assets, or other major corporate transaction. This may prevent or discourage unsolicited acquisition proposals or offers for our common stock that you or other stockholders may feel are in your or their best interest as one of our stockholders.

Provisions in our restated certificate of incorporation, restated bylaws and Delaware law might discourage, delay or prevent a change in control of our company or changes in our management and, therefore, depress the market price of our common stock.

Our restated certificate of incorporation and restated bylaws contain provisions that could depress the market price of our common stock by acting to discourage, delay or prevent a change in control of our company or changes in our management that the stockholders of our company may deem advantageous. These provisions, among other things:

- establish a classified board of directors so that not all members of our board are elected at one time;
- permit only the board of directors to establish the number of directors and fill vacancies on the board;
- provide that directors may only be removed "for cause" and only with the approval of two-thirds of our stockholders;
- require super-majority voting to amend some provisions in our restated certificate of incorporation and restated bylaws;
- authorize the issuance of "blank check" preferred stock that our board could use to implement a stockholder rights plan (also known as a "poison pill");
- eliminate the ability of our stockholders to call special meetings of stockholders;
- prohibit stockholder action by written consent, which requires all stockholder actions to be taken at a meeting of our stockholders;
- prohibit cumulative voting; and
- establish advance notice requirements for nominations for election to our board or for proposing matters that can be acted upon by stockholders at annual stockholder meetings.

In addition, Section 203 of the Delaware General Corporation Law may discourage, delay or prevent a change in control of our company. Section 203 imposes certain restrictions on mergers, business combinations and other transactions between us and holders of 15% or more of our common stock.

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

a) Sales of Unregistered Securities

None.

(b) Use of Proceeds

On July 17, 2014, our registration statement on Form S-1 (File No. 333-196814) was declared effective by the Securities and Exchange Commission for our initial public offering pursuant to which we sold an aggregate of 8,193,750 shares of our common stock at a price to the public of \$10.00 per share resulting in net proceeds to us of \$72.8 million, after deducting underwriting discounts and commissions and offering expenses. There has been no material change in the planned use of proceeds from our initial public offering as described in our final prospectus filed with the Securities and Exchange Commission on July 18, 2014 pursuant to Rule 424(b).

c) Issuer Purchases of Equity Securities

Not applicable.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Quarterly Report on Form 10-Q to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Seattle, State of Washington, on this 4th day of November 2015.

TRUPANION, INC.

Date: November 04, 2015

/s/ Darryl Rawlings

Darryl Rawlings
Chief Executive Officer and President
(Principal Executive Officer)

Date: November 04, 2015

/s/ Michael Banks

Michael Banks
Chief Financial Officer
(Principal Financial and Accounting Officer)

EXHIBIT INDEX

Exhibit Number	Exhibit Description	Filed/Furnished Herewith
10.1	Office Lease Agreement between Trupanion Inc. and Benaroya Capital Company, LLC, dated August 10, 2014.	X
10.2	Eighth Amendment to Amended and Restated Loan and Security Agreement entered into as of September 4, 2015 between Square One Bank and Trupanion, Inc.	X
31.1	Certification of Principal Executive Officer, pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	X
31.2	Certification of Principal Financial Officer, pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	X
32.1*	Certification of Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	X
32.2*	Certification of Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	X
101.INS	XBRL Instance Document.	X
101.SCH	XBRL Taxonomy Extension Schema Document.	X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.	X
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.	X
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document.	X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.	X

* This certification is deemed not filed for purpose of section 18 of the Exchange Act or otherwise subject to the liability of that section, nor shall it be deemed incorporated by reference into any filing under the Securities Act or the Exchange Act.

OFFICE LEASE

THIS LEASE AGREEMENT made this 10th day of August, 2015, by and between Benaroya Capital Company, LLC, a Washington Limited Liability Company (the "Landlord") and Trupanion, Inc., a Delaware corporation (the "Tenant").

1. **Premises.** Landlord does hereby lease to Tenant those certain premises, to wit: approximately 108,218 rentable square feet of office space (including approximately 4,968 rentable square feet of daycare space) comprising the entire first and second floors as outlined on the Floor Plan attached hereto as Exhibit B (hereinafter called the "Premises") in the Building known as The 6100 Building located at 6100 Fourth Avenue South in Seattle, Washington, situated on land legally described on Exhibit A attached hereto and incorporated herein. Delivery of the Premises to Tenant will be in Phases (the "Phase In Period") as follows:

Premises- Phase In Period

Date:	Floor	RSF Leased and pro rata share
4/1/16 Initial Phase	2 1 (daycare)	67,189 4,968 31.63%
4/1/17 Phase I	2 1 (daycare) 1	67,189 4,968 18,228 39.62%
4/1/18 Phase II	2 1(daycare) 1 1	67,189 4,968 36,061 Total=108,218 47.44%

The phased portions of the Premises are shown on Exhibit B (each, a "Phase"). The day care portion of the premises shall have access to adjacent outdoor space of a size and configuration as required by code for operation of a day care facility of the size and capacity described in this Lease for the exclusive use of the day care facility. The applicable Phase shall be delivered in the condition described in Section 11 and Exhibit E below; provided, however, if Landlord delivers a Phase prior to the dates above Tenant shall not be obligated to pay Rent on such Phase (other than pursuant to any Early Occupancy Space) prior to the applicable date above. Tenant shall have the right to occupy additional portions of the first floor space (prior to the scheduled occupancy dates of April 1, 2017 and April 1, 2018), upon delivery of notice for early occupancy to Landlord, specifying the amount of space Tenant desires to occupy early, but each space taken down shall be not less than 5,000 square feet (an "Early Occupancy Notice"). Upon receipt of an Early Occupancy Notice, Landlord will complete the improvements for the applicable portion of the first floor premises and provide Tenant with access and occupancy to such portion of the premises as soon as possible, but in no event longer than nine (9) months following Tenant's delivery of the Early Occupancy Notice to Landlord (the "Early Occupancy Space").

The Building is hereafter sometimes referred to as the "Project". In addition, the Tenant has the right, in common with other tenants in the Project and subject to the Rules and Regulations, to use of the Common Areas. The Common Areas shall include a new state of the art building conference room seating 100 people or more, a new fitness center, including showers and lockers that will be accessible to a new secure bicycle storage area as depicted on the Floor Plan – Exhibit B (the "New Common Amenities"). The New Common Amenities shall be available to Tenant at no charge. Prior to the Commencement Date, the exact final space plan will be determined, usable and rentable square footage of the Premises will be measured by a credited and mutually agreed upon third party professional in accordance with BOMA 2010 (ANSI/BOMA Z65.1 – 2010) standard for measuring rentable area in the Building. The measurement will include the common areas and service areas of the Building; The Floor Plan for the Initial Phase has been measured as provided above. The rentable square footage of the Premises is 108,218 square feet; the useable area of the Premises is 98,921 square feet. The total rentable area of the Building is 228,137 square feet.

2. **Term.** This Lease shall be for a term of one hundred twenty (120) months commencing on Substantial Completion of Landlord's Work (as defined in section 11 below) for the first Phase, but in no event prior to April 1, 2016 (the "Commencement Date") and terminating one hundred twenty (120) months thereafter. The Commencement Date is currently estimated to be on or about April 1, 2016. Rent for any fractional calendar month shall be the prorated portion of the rent computed on a daily basis. When determined, the parties agree to sign a memorandum commemorating the Commencement Date. Landlord will provide Tenant nonexclusive early access to the Premises 60 days prior to Landlord's estimated date for substantial completion for the limited purpose of setting up and installing furniture, fixtures and equipment ("Early Access Period"). During the Early Access Period all of the terms and conditions of this Lease shall apply (other than with regard to the obligations to pay Rent). If Landlord fails to deliver possession of the first Phase of the Premises to Tenant in the condition required under this Lease on or before: (i) June 1, 2016 (such date, as may be extended by force majeure, being the "Late Delivery Date") Tenant shall be entitled to one (1) day's free Base Rent for each day following such Late Delivery Date until the earlier of (x) the actual Delivery Date and (y) August 1, 2016 (such date, as may be extended by force majeure, being the "Penalty Delivery Date") and (ii) the Penalty Delivery Date, Tenant shall be entitled to two (2) days of free Base Rent for each day following the Penalty Delivery Date until the earlier of (z) the actual Delivery Date and (zz) the Outside Delivery Date. If the Delivery Date has not occurred on or before September 1, 2016 (the "Outside Delivery Date"), then Tenant shall have the right to terminate this Lease in its entirety upon thirty (30) days' notice by delivering written notice of the exercise of such right to Landlord. Such termination right may be exercised by Tenant during the period commencing on the day after the Outside Delivery Date and continuing until date Landlord delivers the Premises to Tenant in the condition required under this Lease. Upon any such termination, Landlord shall pay to Tenant damages in the amount of free Base Rent that has accumulated pursuant to this Section 2.

If Landlord fails to deliver possession of any subsequent Phase of the Premises (or space that Tenant has requested pursuant to an Early Occupancy Notice) to Tenant in the condition required under this Lease on or before: (i) the date due (April 1, 2017 with respect to the second Phase; April 1, 2018 with respect to the third Phase; and nine (9) months after Tenant's delivery of an Early Occupancy Notice with respect to the space selected in such Early Occupancy Notice (a "Late Delivery Date") Each such date may be extended by force majeure and by any delay caused or contributed to by Tenant. Tenant shall be entitled to one (1) day's free Base Rent (calculated for the Premises not timely delivered) for each day following such Late Delivery Date until the earlier of (x) the actual Delivery Date and (y) sixty days after the Late Delivery Date (such date, as may be extended by force majeure, being the "Penalty Delivery Date") and (ii) the Penalty Delivery Date, Tenant shall be entitled to two (2) days of free Base Rent for each day following the Penalty Delivery Date until the actual Delivery Date.

3. **Monthly Minimum Rent.** Tenant covenants and agrees to pay Landlord at 3600 136th Place SE, Suite 250, Bellevue, WA 98006, or to such other party or at such other place as Landlord may hereafter designate in writing, Monthly Minimum Rent in the following amounts according to the schedule below and Additional Rent, as provided in Section 9, in advance without offset or deduction (except as may otherwise be provided herein), on or before the first (1st) business day of each month of the Lease Term. Any amount payable by Tenant to Landlord under this Lease shall be considered “Rent”:

<u>Period :</u>	<u>Monthly Minimum Rent (Base Rent) :* </u>
Commencement Date through month 12	monthly based on \$16.85 /rsf per year
Months 13 through 24	monthly based on \$17.60 /rsf per year
Months 25 through 36	monthly based on \$18.35 /rsf per year
Months 37 through 48	monthly based on \$19.10 /rsf per year
Months 49 through 60	monthly based on \$19.85 /rsf per year
Months 61 through 72	monthly based on \$20.60 /rsf per year
Months 73 through 84	monthly based on \$21.35 /rsf per year
Months 85 through 96	monthly based on \$22.10 /rsf per year
Months 97 through 108	monthly based on \$22.85 /rsf per year
Months 109 through 120	monthly based on \$23.60 /rsf per year

*During the Phase In Period Rent will be applicable to each Phase when it is delivered to Tenant. If Tenant elects to take down Early Occupancy Space (as provided in Section 1 above) then during the early occupancy period (prior to the dates in Section 1 above) Rent shall apply only to the Early Occupancy Space.

Based on the schedule above, and if there is no request for Early Occupancy Space the Rent schedule will be as follows:

<u>Period :</u>	<u>Monthly Minimum Rent (Base Rent) :* </u>
April 1, 2016 through March 31, 2017	\$101,320.45
April 1, 2017 through March 31, 2018	\$132,564.67
April 1, 2018 through March 31, 2019	\$165,483.36
April 1, 2019 through March 31, 2020	\$172,246.98
April 1, 2020 through March 31, 2021	\$179,010.61
April 1, 2021 through March 31, 2022	\$185,774.23
April 1, 2022 through March 31, 2023	\$192,537.86
April 1, 2023 through March 31, 2024	\$199,301.48
April 1, 2024 through March 31, 2025	\$206,065.11
April 1, 2025 through March 31, 2026	\$212,828.73

4. **Security Deposit.** Within thirty (30) days after mutual execution of this Lease, Tenant shall deposit with Landlord an irrevocable, standby Letter of Credit (“LOC”) in the amount of One Million One Hundred Thousand and No/100 Dollars (\$1,100,000) as security for the full and faithful performance of every provision of this Lease to be performed by Tenant (“Security Deposit”). The Letter of Credit must: (a) be drawn on an FDIC insured financial institution in the Seattle area reasonably satisfactory to Landlord (provided, however, that Square 1 Financial is approved by Landlord); and, (b) name Landlord as the Beneficiary, (c) allow draws, including partial draws, in Seattle or Bellevue, Washington; and (d) be unconditional except for receipt of Landlord’s written statement that it is entitled to the amount being drawn; and (e) be for a term of not less than one year and automatically

renewed unless Landlord receives at least 30 days written notice from the issuer that it will not be renewed; and, be assignable to a Purchaser of the Building. Alternatively, at the option of Tenant, such Security Deposit may be paid by Tenant in cash. The Security Deposit shall be held by Landlord as security for the faithful performance by Tenant of all the terms, covenants and conditions of this Lease to be kept and performed by Tenant during the entire Term hereof. If Tenant defaults with respect to any provision of this Lease, including, but not limited to, the provisions relating to the payment of Rent or other charges or sums due under this Lease, Landlord may (but shall not be required to) use, apply or retain all or any part of the security deposit for the payment of any Rent or other charges or sums due under this Lease or any sum in default, or for the payment of any amount which Landlord may spend or become obligated to spend by reason of Tenant's default, or to compensate Landlord for any other loss, damage, cost or expense (including attorneys' fees) which Landlord may suffer or incur by reason of Tenant's default. If any portion of said Security Deposit is so used or applied, Tenant shall, within ten (10) days after written demand therefore, deposit a certified or cashier's check with Landlord in an amount sufficient to restore the Security Deposit to its original amount and Tenant's failure to do so shall be a default under this Lease. Landlord shall not be required to keep the security deposit separate from its general funds and Tenant shall not be entitled to interest on such deposit. At any time during the term of this Lease if the value of the Tenant's outstanding shares (Market Capitalization) is below One Hundred Sixty Million and No/100 Dollars (\$160,000,000.00) the required amount of the Security Deposit will be increased to Two Million Five Hundred Thousand and No/100 Dollars (\$2,500,000.00). Tenant will deliver the additional amount to Landlord within ten (10) days following notice by Landlord that the additional deposit is required. If the Market Capitalization thereafter increases to Two Hundred Forty Million and No/100 Dollars (\$240,000,000.00) or more for a period of six consecutive months the required amount of the Security Deposit will be reduced back to One Million One hundred Thousand and No/100 Dollars (\$1,100,000.00) and the Landlord will return the excess amount to Tenant within five (5) days following Tenant's notification to Landlord that the condition for return of the additional deposit has been met. In other words any time that the Tenant's Market Capitalization is below One Hundred Sixty Million and No/100 Dollars (\$160,000,000.00) the required Security Deposit will be Two Million Five Hundred Thousand and No/100 Dollars (\$2,500,000.00) and any time that the Tenant's Market Capitalization has been above Two Hundred Forty Million and No/100 Dollars (\$240,000,000.00) for a period of six consecutive months the required Security Deposit will be One Million One hundred Thousand and No/100 Dollars (\$1,100,000.00). If Tenant shall fully and faithfully perform every provision of this Lease to be performed by it, the Security Deposit or any balance thereof after deduction hereunder by Landlord shall be returned to Tenant (or, at Landlord's option, to the last assignee of Tenant's interest hereunder) within thirty (30) days following expiration of the Lease Term; provided, that in the event this Lease shall be terminated upon the default of the Tenant, the Security Deposit shall be retained by Landlord and all of Tenant's interest therein shall terminate and the Security Deposit will be applied against the damages suffered by Landlord by reason of the Tenant's default. In the event of termination of Landlord's interest in this Lease, Landlord shall transfer the Security Deposit to Landlord's successor in interest.

5. **Use.** Tenant shall use and occupy the Premises for general office purposes, including, but not limited to, operation of a contact and claims handling center, and operation of a daycare in up to 5,000 square feet of the Premises, and shall comply with all governmental laws, ordinances, regulations, orders and directives and insurance requirements applicable to Tenant's use of the Premises. Except for the daycare use, Tenant shall not occupy or use or permit any portion of the Premises to be occupied or used in such a manner or for any purpose which would materially increase the cost of insurance coverage upon the Premises, the building or the contents thereof.
6. **Rules and Regulations.** Tenant agrees to comply with the Rules and Regulations attached hereto as Exhibit C, any recorded Covenants, Conditions and Restrictions affecting the Project, as well as such other reasonable rules and regulations as may from time to time be adopted by Landlord and of which Tenant has received reasonably appropriate prior written notice and which shall be equitably

applied to all tenants of the Project, for the management, good order and safety of common areas, the building and its tenants. Landlord represents that none of the recorded instruments affecting the Project would adversely affect, restrict or prohibit Tenant's use of the Premises for the uses described herein. Tenant shall be responsible for the compliance with such rules and regulations by its employees, agents and invitees. Landlord's failure to enforce any of such rules and regulations against Tenant or any other tenant shall not be deemed to be a waiver of same, however, Landlord shall apply any such rules and regulations uniformly and shall not discriminate against Tenant with regard to enforcement of same. In the event of any conflict between the Rules and Regulations (either attached, or as may be modified) and the provisions of this Lease, the provisions of this Lease shall govern and control. Landlord acknowledges the benefit of allowing employees to have dogs on the Premises and welcomes Tenant's employees to bring dogs and cats to the Premises. Rule # 26 applies to allowing dogs and cats on the Premises.

7. **Maintenance and Repairs.**

A. **Tenant Obligations.** By entry hereunder, Tenant shall accept the Premises as being in good and sanitary order, condition and repair, subject to completion by Landlord of Landlord's Work (to the extent Tenant enters the Premises prior thereto). Without limiting Landlord's obligations in Section 7B below, Tenant shall, at its expense, keep, maintain and preserve the Premises in first class condition. Tenant shall, upon the expiration or sooner termination of the term hereof, surrender the Premises to Landlord in the same condition as when received, except for reasonable wear and tear and with all components and systems in good working order and repair. Except as may otherwise be provided herein, Tenant shall not alter, remodel, improve, or repair the Premises or any part thereof without first obtaining the prior written permission of Landlord.

B. **Landlord Obligations.** Notwithstanding Section 7A, Landlord shall maintain and repair (including replacement) the structural portions of the Building and the Premises, the plumbing, heating, ventilating, air conditioning, elevator and electrical systems furnished by Landlord, the windows, light bulbs, light fixtures and plumbing fixtures. The costs of the foregoing shall be Operating Expenses, unless such maintenance and repairs are caused by the act, neglect or omission of Tenant, its agents, servants, employees or invitees, in which case Tenant shall pay to Landlord, as Additional Rent, the reasonable cost of such maintenance and repairs. If the Building equipment or machinery ceases to function properly for any cause whatsoever, or any of the services in Sections 7 or 8 are interrupted, Landlord shall use reasonable diligence to repair the same promptly. Landlord's inability to furnish the Project services set forth in Sections 7 and 8 due to causes beyond its control, or any cessation thereof resulting from any causes, including any entry for repairs pursuant to this Lease, and any renovation, redecoration or rehabilitation of any area of the Building, shall not render Landlord liable for damages to either person or property or for interruption or loss to Tenant's business, nor be construed as an eviction of Tenant, nor relieve Tenant from fulfillment of any covenant or agreement hereof; provided, however, if any entry by Landlord and/or interruption of service prevents Tenant from using all or any portion of the Premises, (i) and the reason for the interference is Landlord's entry or the reason(s) for that interruption of services lie within Landlord's control, then upon written notice of such interference or interruption from Tenant to Landlord, Base Rent shall abate in proportion to the portion of the Premises Tenant is prevented from using from one (1) business day after the date of the notice until the redelivery of that portion of the Premises and/or restoration of all services to that portion of the Premises, or if (ii) the reason(s) for that interruption do not lie within Landlord's control and the interruption continues for more than three (3) consecutive business days after written notice of such interruption from Tenant to Landlord, then Base Rent shall abate in proportion to the portion of the Premises Tenant is prevented from using, and Tenant does not use, from and after the expiration of that three (3) day period until the redelivery of that portion of the Premises and/or restoration of all services to that portion of the Premises.

8. **Utilities and Services** . Landlord shall provide utilities and services as set forth in Exhibit D hereto. Landlord may install separate meter(s) for the Premises, at Landlord's expense, and Tenant thereafter shall pay all charges so metered, without administrative fee or mark-up.
9. **Additional Rent and Monthly Operating Expense Adjustments** . For each calendar year during this Lease, or portion thereof, in addition to the Monthly Minimum Rent as provided in Section 3 above, Tenant shall also pay "Additional Rent". The term "Additional Rent" means: "any amount in addition to Monthly Minimum Rent payable by Tenant under this Lease including Tenant's pro rata share of Operating Expenses for each year." Prior to the beginning of each Calendar Year, Landlord shall reasonably estimate Tenant's payment amount (the "Estimate"). This estimated amount shall be divided into equal monthly installments, one payable with each installment of the Monthly Minimum Rent. If, subsequent to an Estimate, Landlord reasonably determines that the estimate has changed by 5% or more, Landlord shall provide a new Estimate, and the monthly payment shall be adjusted consistent with the new Estimate. As soon as practical following each calendar year (but in no event more than 180 days after the end of the applicable calendar year in question), Landlord shall prepare an accounting of actual Operating Expenses incurred during the prior calendar year and such accounting shall reflect Tenant's pro rata share, and shall include in reasonable detail the breakdown of such Operating Expenses so that Tenant may reasonably verify the accuracy of such statement. If the Additional Rent paid by Tenant under this Section 9 during the preceding calendar year was less than the actual amount of Tenant's pro rata share of Operating Expenses, Landlord shall notify Tenant and Tenant shall pay such amount to Landlord within thirty (30) days of receipt of such notice. If Tenant's payments were greater than the actual amount due, then such overpayment shall be immediately credited to Tenant.

For the purposes of this Section 9, "Operating Expenses" shall include, but not be limited to:

Real Estate taxes and assessments, all costs of management, operation, maintenance and repair (including replacement) of the Premises, the building and the Land, including without limitation the following: all charges for light, heat, water, sewer, garbage, fire protection, and other utilities and services attributable to the Premises to the extent not paid separately by Tenant, and all license fees and other governmental charges levied on Tenant's property and the operation of Tenant's business on the Premises; wages and salaries of employees at or below the position of building manager; janitorial, cleaning, maintenance of building exterior, roof maintenance, parking, landscaping, and all common areas and facilities, and other services; electricity, water, waste disposal and other utilities furnished to Common Areas; heating, ventilating and air conditioning; materials and supplies; painting, repairs and other maintenance; insurance; all real and personal property taxes, assessments, and charges levied upon or with respect to the Land, the Building or Landlord's interest in the same; commercially reasonable management fees not to exceed 4% of Rent and not in excess of fees charged in competing buildings for comparable management services; expenses incurred to operate an onsite management office; and other costs directly attributable to the management of the property. If any portion of the Property, or any system or equipment is replaced by Landlord, the cost of such replacement will be amortized over its useful life and included as an Operating Expense. With respect to Operating Expenses that are within the reasonable control of Landlord, for example, without limitation, landscaping, common area maintenance, and janitorial, property management and professional fees (but not utility costs, real estate taxes, insurance, and capital expenses) (the "Controllable Operating Expenses"), Tenant shall not be obligated to pay

for any Controllable Operating Expenses to the extent such Controllable Operating Expenses increase by more than five percent (5%) per year on a cumulative and compounded basis over the same constituent set of Controllable Operating Expenses payable in 2016.

Operating Expenses shall not include (A) leasing commissions to agents of Landlord or to other persons or brokers, (B) salaries, fringe benefits and other compensation of Landlord's personnel above the grade of Building manager or other off-site personnel, (C) the total cost of capital improvements in the year incurred (but rather shall include only amortization as specifically provided above in this Section 9), (D) any interest, fine, penalty or other late charges payable by Landlord and incurred as a result of late payments, except to the extent the same was incurred with respect to a payment, part or all of which, was the responsibility of Tenant hereunder and with respect to which Tenant did not make a payment in a timely fashion or did not make same at all, (E) any expenses for which Landlord is compensated through proceeds of insurance, (F) the cost of any tenant improvements or alterations for Tenant or other tenants in the Building, (G) the cost of repair or rebuilding caused by fire or other casualty or condemnation (except for the amount of commercially reasonable deductibles), (H) advertising and promotional expenditures, (I) legal and auditing fees other than reasonable legal and auditing fees necessarily incurred in connection with the operation or management of the Building and/or the Project, (J) expenses of relocating or moving tenants and of leasing to and processing new tenants, including lease concessions, and lease takeover costs, (K) costs incurred by Landlord which result from Landlord's or other tenant's breach of a lease, Landlord's negligence or willful misconduct or Landlord's indemnification of any tenant of the Building pursuant to the provisions of such tenant's lease, (L) transfer, gains, franchise, inheritance, estate, occupancy, succession, gift, corporation unincorporated business gross receipts, business and occupation taxes, profit and income taxes imposed upon Landlord, (M) mortgage interest and amortization, (N) the cost of electrical energy furnished to any space leased in the Building to third parties, the costs and fees of any electrical meter reading company retained by Landlord to read meters that measure such electrical energy and the costs and expenses of providing any additional meters for space leased in the Building to third parties, (O) ground rent or any other payments paid under any superior leases, (P) depreciation, (Q) costs and expenditures payable to persons or entities that control, are controlled by, or are under common control with, Landlord, to the extent that such costs and expenditures exceed what the costs and expenditures for the items in questions would have been, but for such relationship to Landlord, (R) costs incurred with respect to a sale or transfer of all or any portion of the Building or any interest therein or in any person of whatever tier owning an interest therein, (S) financing and refinancing costs with respect to the Building, Project or any portion thereof, (T) expenses incurred in connection with services or other benefits of a type that are not provided to Tenant (or are provided at separate or additional charge) but that are provided to another tenant or occupant of the Building (including, without limitation, Landlord's performance of non-structural alterations in another tenant's premises, which alteration is required to be performed in accordance with requirements of general applicability to office tenants), (U) amounts otherwise includable in Operating Expenses but reimbursed to Landlord directly by Tenant or other tenants, (V) to the extent any costs includable in Operating Expenses are incurred with respect to both the Building and other properties (including, without limitation, salaries, fringe benefits and other compensation of Landlord's personnel who provide services to both the Building and other properties), there shall be excluded from Operating Expenses a fair and reasonable percentage thereof which is properly allocable to such other properties, (W) the cost of any judgment, settlement, or arbitration award resulting from any liability of Landlord which is the result of negligence, willful misconduct or fraud (other than a liability for amounts otherwise includable in Operating Expenses hereunder) and all expenses incurred in connection therewith, (X) costs relating to withdrawal

liability or unfunded pension liability under the Multi-Employer Pension Plan Act or similar law, (Y) the cost of operating any specialty facility such as an observatory, broadcasting facilities, luncheon club, athletic or recreational club, child care facility, auditorium, cafeteria or dining facility, conference center or similar facilities, unless such facility is made available to Tenant, (Z) any compensation paid to clerks, attendants or other persons in commercial concessions operated by Landlord, (AA) costs incurred to remedy violations of laws and/or requirements of public authorities that arise by reason of Landlord's negligent or willful failure to construct, maintain or operate the Building or any part thereof in compliance with such laws and/or requirements of public authorities (excluding the costs of permits and approvals to comply with laws and/or requirements of public authorities in the ordinary course of the operation of the Building), other than such costs incurred in order to achieve compliance with new laws and/or requirements of public authorities, (BB) expenses allocable directly and solely to retail space of the Building, if any (including, without limitation, plate glass insurance for retail space) and to any garage in the Building, (CC) costs incurred in connection with the acquisition or sale of air rights, transferable development rights, easements or other real property interests, (DD) expenditures for repairing and/or replacing any defective workmanship performed by Landlord pursuant to the provisions of this Lease, and (EE) any capital costs incurred prior to the Commencement Date or incurred for the improvements listed on Exhibit G.

Even after this Lease has expired or been terminated, when final determination is made of Tenant's pro rata share of Operating Expenses for the year in which this Lease expires or terminates, Tenant shall pay any shortfall due within thirty (30) days after invoice, except to the extent Landlord is at that time indebted to Tenant. Conversely, any overpayment made shall be rebated by Landlord to Tenant, except to the extent Tenant at that time is indebted to Landlord.

The determination of Tenant's pro rata share of actual costs and estimated costs allocable to the Premises shall be made by Landlord. Expenditures common to the Project will be allocated to Tenant based on its prorata share of space within the Project. Expenditures that are not common to the Project will be allocated to some but not all of the tenants in the Building, based on its estimated usage or other commercially reasonable method reasonably determined by Landlord. Landlord or its agent shall keep records showing all expenditures made for the items enumerated above, which records shall be available for inspection and review by Tenant. The Tenant shall have the right, at reasonable times and upon reasonable prior notice to the Landlord to review the Landlord's records relating to the actual costs and estimated costs allocable to the Premises for a particular Lease Year, which review must be conducted within twelve (12) months after Tenant's receipt of the statement of actual costs allocable to the Premises for that particular Lease Year. If such review is not conducted within such twelve (12) month period, then the matters set forth in the statement of actual costs allocable to the Premises for that particular Lease Year shall be deemed conclusive. The Tenant shall pay the costs and expenses of such review unless such review reveals that the Landlord has overstated Tenant's Operating Expenses for the Lease Year in question by an amount equal to five percent (5%) or more for that particular Lease Year in which event the Landlord shall pay up to \$5,000.00 of the actual costs incurred by Tenant in the performance of such review. Tenant will not hire a reviewer/auditor that is compensated on a contingency basis.

10. **Landlord's Reservations**. Landlord reserves the right without liability to Tenant but on reasonable prior verbal or written notice at reasonable times: (a) to inspect the Premises, and to show them to prospective tenants, partners or lenders; (b) to retain at all times and to use in appropriate instances keys to doors within and into the Premises; (c) to make repairs, alterations, additions or improvements, whether structural or otherwise, in or about the Building, and for such purposes to enter upon the Premises and during the continuance of any work, to close common areas and to

interrupt or temporarily suspend building services and facilities, all without affecting any of Tenant's obligations hereunder, except as provided herein, so long as the Premises are reasonably accessible; and (d) generally to perform any act relating to the safety, protection and preservation of the Premises or building.

11. **Possession**. As a condition to the Commencement Date, Landlord will complete the improvements described on the Work Letter attached hereto as Exhibit E for the first Phase. The "Delivery Date" will occur after Landlord's delivery to Tenant a notice of substantial completion of the improvements described in Exhibit E for the first Phase. As a condition to rent commencement for each subsequent Phase, Landlord shall complete the improvements described on the Work Letter attached hereto as Exhibit E for each such Phase. Landlord will regularly keep Tenant informed regarding the progress of construction on a regular basis.
12. **Assignment and Subletting**. Tenant shall not either voluntarily or by operation of law assign, transfer, convey or encumber this Lease or any interest under it, or sublet its right to occupy or use all or any portion of the Premises (collectively, a "Transfer") without Landlord's prior written consent, which shall not be unreasonably conditioned, delayed or withheld. Among the criteria to be used by Landlord in evaluating a request for a Transfer will be (i) the proposed use of the Premises; (ii) the anticipated impact, if any, on parking; (iii) the financial capacity of the assignee/subTenant to perform the obligations under this Lease; (iv) the compatibility of the proposed user with the remainder of the tenants and operation of the Building. In the event that Landlord gives its consent, Tenant shall pay Landlord a reasonable fee, not to exceed One Thousand and No/100 Dollars (\$1,000.00) to reimburse Landlord for processing costs incurred in connection with such consent. Landlord's consent shall not release or discharge Tenant from future liability under this Lease and shall not waive Landlord's right to consent to any future Transfer. Any Transfer without Landlord's consent shall be void and shall, at Landlord's option, constitute a default under this Lease.

Unless Tenant is a corporation that is publicly traded on a reputable United States stock exchange, any sale, assignment, transfer, sublease or disposition, whether for value, by operation of law, gift, will, or intestacy in a single transaction or a series of related transactions or within any twelve (12) month period, of fifty percent (50%) or more of the ownership interests in Tenant, if Tenant is a partnership, joint venture, or limited liability company or any other type of legal entity or of operating control over Tenant (whether by management agreement, stock sale or other means) shall be deemed to constitute a Transfer. So long as Tenant is a corporation that is publically traded on a reputable United States stock exchange, any sale of Tenant stock shall not constitute a Transfer.

Notwithstanding anything to the contrary in this Lease, so long as such Transfer is not effectuated as part of a transaction or series of transactions orchestrated in order to avoid the requirement to obtain Landlord's consent to a Transfer, Tenant may, without obtaining Landlord's consent, enter into a Transfer to any other entity which (a) controls or is controlled by Tenant; or (b) is controlled by Tenant's parent company; or (c) purchases all or substantially all of the assets of Tenant; or (d) purchases all or substantially all of the ownership interests of Tenant (each of which is referred to herein as a "Permitted Transfer" and the transferee under any Permitted Transfer is referred to herein as a "Permitted Transferee"). Additionally, Tenant shall be permitted to sublease or license the day care portion of the Premises to a third party provider of day care services. In connection with any Permitted Transfer, Tenant shall continue to remain fully liable under the Lease, on a joint and several basis with the assignee or acquirer of such assets or stock. Unless constrained by a confidentiality requirement, Tenant must give Landlord at least thirty (30) days written notice in advance of any such Permitted Transfer and must provide evidence reasonably satisfactory to Landlord that the transaction qualifies as a Permitted Transfer. In the event that Tenant is prevented from providing Landlord with such prior notice of a Permitted Transfer due to a confidentiality requirement, then Tenant shall provide written notice of such Permitted Transfer to Landlord no later than ten (10) days after the occurrence of such Permitted Transfer. In addition, if Tenant is merged or consolidated

with another entity, in accordance with applicable statutory provisions governing merger or consolidation of entities, such Transfer shall be a Permitted Transfer, so long as (A) Tenant's obligations hereunder are assumed by the entity surviving such merger or created by such consolidation; and (B) Tenant demonstrates to Landlord's reasonable satisfaction that the tangible net worth of the surviving or created entity is not less than the tangible net worth of Tenant as of the date immediately prior to such merger or consolidation.

The Tenant shall not assign its interest in or under this Lease for security purposes, nor shall the Tenant grant any security interest, lien or encumbrance against its interest in this Lease or in or to any property in or affixed to the Premises without the prior written consent of the Landlord, which consent shall be granted, withheld or conditioned in Landlord's sole discretion. In no event shall the Tenant grant, or allow to exist, any security interest in, or lien or encumbrance against the fee title to the Premises, the building in which the Premises is located or the real property on which the building is located.

13. **Alterations**. All alterations to the Premises shall require Landlord's consent, which shall not be unreasonably withheld, delayed or conditioned. Landlord agrees to comment as to Tenant's plans and specifications within ten (10) days of receipt of same, failing which, such plans and specifications shall be deemed approved. Promptly upon completion of any material alterations, Tenant shall furnish Landlord with an as-built set of plans therefore. All such alterations, additions or improvements become the property of Landlord immediately upon installation in the Premises and shall be conclusively presumed to have been conveyed by Tenant to Landlord under this Lease as a bill of sale, without compensation, allowance, or credit to Tenant. Tenant agrees to save Landlord harmless from any damage, loss, or expense arising from the construction of any alterations, additions and improvements and to comply with all laws, ordinances, rules and regulations. Upon termination of this Lease, all alterations, additions and improvements made in, to or on the Premises (including without limitation all electrical, lighting, plumbing, heating, air conditioning, and communications equipment and systems, doors, windows, partitions, drapery, carpeting, shelving, counters, and physically attached fixtures unless excluded by written agreement annexed hereto), shall remain upon and be surrendered as a part of the Premises; provided however, upon Landlord's request Tenant shall remove its communications cabling and those additions, alterations, or improvements as specified by Landlord at the time Landlord approves such alteration, addition or improvements, and repair and restore the Premises at Tenant's sole cost and expense prior to expiration of the Term. Tenant may install a backup generator, at Tenant's sole cost, at a location and based on specifications reasonably approved by Landlord. Tenant will be responsible to obtain any necessary permits or approvals required to install the generator and for ongoing repairs and maintenance. **For additional terms related to the initial improvements to the Premises see the Work Letter attached as Exhibit E.**
14. **Liens**. Tenant shall keep the Premises free from any liens arising out of any work performed, materials furnished, equipment supplied, or obligations incurred by or on behalf of Tenant. No work performed, material furnished, equipment supplied or obligations incurred by or on behalf of Tenant shall be deemed to be for the immediate use and benefit of Landlord so that no mechanic's lien or other lien shall be allowed against Landlord's estate in the premises. Within a reasonable time after completion of any work by or on behalf of Tenant, Tenant shall provide, at Tenant's own cost, waivers of lien signed by any party (including the Tenant) who performs work, furnishes materials, or supplies equipment to the Premises. Landlord may require, at Tenant's sole cost and expense, a lien release and completion bond in an amount equal to either the actual contract price or one and one-half times the estimated cost of any improvements, additions or alterations in the Premises which Tenant desires to make, to insure Landlord against any liability for lien and to insure completion of the work.
15. **Signs**. All signs or symbols placed by Tenant in the windows and doors of the Premises, or upon any exterior part of the building, shall be subject to Landlord's prior written approval, which shall

not be unreasonably withheld, delayed or conditioned. Prior to termination of this Lease, Tenant will remove all signs placed by it upon the Premises, and will repair any damages caused by such removal. Tenant may install a highly visible exterior building sign on the parapet of the building in a location that is mutually acceptable to both Landlord and Tenant. The exterior signage shall be subject to Tenant obtaining any necessary approval from the City of Seattle.

16. **Insurance**.

A Landlord's Insurance. All insurance maintained by Landlord shall be for the sole benefit of Landlord and under Landlord's sole control. Landlord agrees to maintain property insurance insuring the Building against damage or destruction due to risk including fire, vandalism, and malicious mischief in an amount not less than one hundred percent (100%) (or such greater percentage as may be necessary to comply with the provisions of any co insurance clauses of the policy) of the replacement cost thereof, in the form and with deductibles and endorsements as selected by Landlord. At its election, Landlord may instead (but shall have no obligation to) obtain "All Risk" coverage, and may also obtain earthquake, pollution, and/or flood insurance in amounts selected by Landlord. Landlord shall not be obligated to insure, and shall have no responsibility whatsoever for any damage to, any furniture, machinery, goods, inventory or supplies, or other personal property or fixtures which Tenant may keep or maintain in the Premises, or any leasehold improvements, additions or alterations within the Premises.

B Tenant's Insurance. Tenant shall, at its sole expense, purchase and keep in force during the Term of this Lease the following:

i. Property Insurance. Property insurance on all personal property and fixtures of Tenant and all improvements, additions or alterations made by or for Tenant to the Premises on an "All Risk" or "Special Form" basis, insuring such property for its full replacement value.

ii. Liability Insurance. Commercial general liability insurance in the amount of not less than Five Million Dollars (\$5,000,000.00) combined single limit per occurrence and Five Million Dollars (\$5,000,000.00) in the annual aggregate, covering bodily injury, personal and advertising injury and property damage liability occurring in or about the Premises or arising out of the use and occupancy of the Premises and the Building, and any part of either, and any areas adjacent thereto, and the business operated by Tenant or by any other occupant of the Premises. Such insurance shall (1) include contractual liability coverage; (2) be written to apply to all bodily injury (including death), property damage or loss (broad form), fire legal liability, products completed operations, medical payments, personal and advertising injury and other covered loss; (3) shall provide for the severability of interests of insureds; (4) shall be written on an "occurrence" basis, which shall afford coverage for all claims based on acts, omissions, injury and damage, which occurred or arose (or the onset of which occurred or arose) in whole or in part during the policy period; (5) the policy shall include an endorsement providing that the general aggregate limit shall be on a per location basis, to include the leased premises; and (6) shall include coverage for sexual abuse and molestation exposures. The above coverages and limits may be achieved by using excess or umbrella policies.

iii. Workers' Compensation Insurance. Tenant shall maintain all required coverages including employer's liability at a limit of not less than \$1,000,000.

iv. Auto Liability Insurance. Tenant shall maintain auto liability for all owned, non-owned and hired autos at a limit of not less than \$1,000,000 per accident.

v. General Insurance Requirements. All coverages described in this section shall (1) include Landlord, Landlord's property manager, and the members, managers, partners, trustees, officers, directors, shareholders, parents affiliates and subsidiaries of Landlord, its representatives,

assigns, licensees, beneficiaries, agents and employees (the "Landlord Entities") as additional insured on the commercial general liability policy and as additional insured/loss payee on the property insurance policy with respect to Landlord's interest in improvements and alterations; (2) be issued by an insurance company rated A-VII or better in "Best's Insurance Guide" and authorized to do business in the State of Washington; (3) be primary and provide that any insurance coverage maintained by Landlord shall be considered excess and non-contributing to the policies required by this section; (4) endeavor to provide Landlord with forty-five (45) days' notice of cancellation (ten (10) days for cancellation due to non-payment of premium); and (5) to the extent permitted by law, waive all rights of subrogation by the insurance carrier against Landlord. The certificates for such insurance policies shall be delivered to Landlord by Tenant upon the earlier of (x) Tenant's possession of the Premises, or (y) the Commencement Date of this Lease, and upon each renewal of such insurance throughout the term of this Lease. The coverage afforded to Landlord must be at least as broad as that afforded to Tenant and may not contain any terms, conditions, exclusions or limitations applicable to Landlord that do not apply to Tenant. If at any time during the Term the amount or coverage of insurance which Tenant is required to carry under this section is, in Landlord's reasonable judgment, materially less than the amount or type of insurance coverage typically carried by Tenants of properties located in the general area in which the Premises are located, or if Tenant's use of the Premises changes with or without Landlord's consent, Landlord shall have the right to require Tenant to increase the amount or change the types of insurance coverage required under this section. If Tenant fails to procure such insurance, or to deliver such policies or certificates, Landlord may, after written notice to Tenant and expiration of a thirty (30) day cure period, at Landlord's option and in addition to Landlord's other remedies in the event of a default by Tenant hereunder, procure and maintain insurance for such items and interests to protect Landlord in such amounts as Landlord may determine to be appropriate and any and all premiums paid or payable by Landlord therefore shall be deemed to be additional rent and shall be due on the payment date of the next installment of Rent hereunder.

vi. Increase in Insurance Premium. Notwithstanding anything in this Lease to the contrary, Tenant shall not keep, use, sell or offer for sale in or upon the Leased Premises any article, nor conduct any activities or operations, which are or may be prohibited by Landlord's insurance carriers; provided however, Tenant shall be permitted to operate a day care in the day care portion of the Premises. Tenant shall pay any increase in premiums for property or liability insurance maintained by Landlord resulting from Tenant's use or occupancy of the Leased Premises, whether or not Landlord has consented thereto. In the event of such increased insurance premiums to Landlord, Tenant also shall pay to Landlord an amount equal to any additional premium on the insurance policy or policies that Landlord may carry for its protection against loss resulting from any insured event. In determining whether increased premiums are the result of Tenant's use or occupancy of the Leased Premises, the carrier underwriting the rates and premiums shall decide. Landlord shall deliver bills for such additional amounts to Tenant at such times as Landlord may elect, and Tenant shall pay Landlord therefor within thirty (30) days.

17. **Indemnity Against Liability for Loss or Damage**

A. Except to the extent the same arise as a result of the acts, omissions or negligence of Landlord, its agents, employees or contractors, Tenant assumes all liability for and shall indemnify, hold harmless and defend Landlord from and against all loss, damage or expense which the Landlord may sustain or incur, and against any and all claims, demands, suits and actions whatsoever, including expense of investigation and litigation, on account of injury to or death of persons, including without limitation employees of Landlord, employees of Tenant or its affiliated companies or on account of damage to or destruction of property, including without limitation property owned by and property in the care, custody or control of Landlord during the Term, due to or arising in any manner from:

- (i) The acts or gross negligence of Tenant or any contractor, subcontractor, or agent of Tenant or their respective employees;
- (ii) The condition, use or operation of the Premises and/or materials or substances used by Tenant or any of its contractors, subcontractors or agents of Tenant or by their respective employees, regardless of whether or not furnished by Landlord under this Lease or otherwise;
- (iii) Any damage or injury to persons or property arising out of Tenant's breach of this Lease, including, but not limited to, obligations of Tenant under Section 7, Maintenance.

B. Except to the extent the same arise as a result of the acts, omissions or negligence of Tenant, its agents, employees or contractors, Landlord assumes all liability for and shall indemnify, hold harmless and defend Tenant from and against all loss, damage or expense which the Tenant may sustain or incur, and against any and all claims, demands, suits and actions whatsoever, including expense of investigation and litigation, on account of injury to or death of persons, including without limitation employees of Tenant or its affiliated companies, employees of Landlord or its affiliated companies or on account of damage to or destruction of property, including without limitation property owned by and property in the care, custody or control of Tenant during the Term, due to or arising in any manner from:

- (i) The acts or gross negligence of Landlord or any contractor, subcontractor, or agent of Tenant or their respective employees;
- (ii) The condition, use or operation of the Building (other than the Premises) and/or materials or substances used by Landlord or any of its contractors, subcontractors or agents of Landlord or by their respective employees;
- (iii) Any damage or injury to persons or property arising out of Landlord's breach of this Lease, including, but not limited to, obligations of Landlord under Section 7, Maintenance.

C. Neither party shall be obligated to indemnify the other for the portion of any claim or liability caused by or arising from the act, or negligence of such party.

D. It is mutually understood and agreed that the assumption of liabilities and indemnification provided for in this Section 17 shall survive any termination of this Lease.

E. Solely for the purpose of effectuating Landlord's and Tenant's indemnification obligations under this Lease, and not for the benefit of any third parties (including but not limited to employees of Landlord and Tenant), each of Landlord and Tenant agree not to assert as a defense any immunity provided under the Washington State Industrial Insurance Act, Title 51 of the Revised Code of Washington and Landlord's and Tenant's indemnification obligations under this Lease shall not be limited in any way by any limitation on the amount or type of damages, compensation or benefits payable to Landlord's and Tenant's employees or any third party under such act or any similar Law.

18. **Damage or Destruction** . If any of the Premises, or a substantial part of the building in which the Premises are located, shall be damaged or destroyed by fire or other insured casualty, and repair of the damage cannot be completed within one hundred eighty (180) days, following receipt by Landlord of actual notice of such damage or destruction Landlord shall have the option either (a) to repair or rebuild within a reasonable time utilizing the insurance proceeds to effect such repair, or (b) not to repair or rebuild, and to cancel this Lease on thirty (30) days' notice. If Landlord fails to give Tenant

written notice of its election within thirty (30) days from the date of damage, or if the restoration of the Premises cannot be completed within two hundred seventy (270) days from date of notice, Tenant may cancel this Lease at its option on three (3) days notice. During the period of untenantability rent shall abate in the same ratio as the portion of the Premises rendered untenantable bears to the whole of the Premises; provided that if the damage is due to the fault or neglect of Tenant, there shall be no abatement of rent.

If the Premises or the building in which the Premises are located shall be damaged or destroyed by fire or other insured casualty, and repair of the damage can be completed within one hundred eighty (180) days, Landlord shall repair or rebuild within a reasonable time utilizing the insurance proceeds to effect such repair.

If any part of the Premises or the building in which the Premises are located shall be damaged or destroyed by an uninsured casualty Landlord shall have the option either (a) to repair or rebuild within a reasonable time, or (b) not to repair or rebuild, and to cancel this Lease on thirty (30) days notice. In the event of cancellation by Landlord as a result of an uninsured casualty, Tenant shall have the right, within fifteen (15) days following Landlord's notice of cancellation, to override such cancellation by agreeing to repair the damage at Tenant's sole cost and expense and offset such costs against Rent. In such event, the Tenant shall repair or rebuild within a reasonable time following the damage or destruction.

19. **Eminent Domain**. If the whole of the Premises shall be taken by any public authority under the power of eminent domain, or purchased by the condemnor in lieu thereof, then the term of this Lease shall cease as of the date possession is taken by such public authority. If only part of the Premises shall be so taken, the Lease shall terminate only as to the portion taken, and shall continue in full force and effect as to the remainder of said Premises, and the monthly rent shall be reduced proportionately; provided, however, if the remainder of the Premises cannot be made tenantable for the purposes for which Tenant has been using the Premises or if more than twenty-five percent (25%) of the rentable square footage of the Premises shall be so taken, then either party, by written notice to the other, given at least thirty (30) days prior to the date that possession must be surrendered to the public authority, may terminate this Lease effective as of such surrender of possession. If any part of the building other than the Premises shall be so taken so as to render in Landlord's opinion the termination of this Lease beneficial to the remaining portion of the building, Landlord shall have the right within sixty (60) days of said taking to terminate this Lease upon thirty (30) days written notice to Tenant. In the event of any taking, whether whole or partial, Landlord shall be entitled to all awards, settlements, or compensation which may be given for the land and buildings. Tenant shall have no claim against Landlord for the value of any unexpired term of this Lease. Tenant shall have the right to seek an independent and separate award from the condemning authority for relocation benefits and for any tangible personal property of the Tenant taken so long as such award does not diminish the amount of the award payable to Landlord.
20. **Insolvency**. If Tenant shall be judicially declared insolvent or bankrupt, or if Tenant's leasehold interest herein shall be levied upon or seized under writ of any court of law, or if a trustee, receiver or assignee be appointed for the property of Tenant, whether under operation of State or Federal statutes (and any of such circumstances lasts for more than sixty (60) days), then Landlord may, at its option, immediately, without notice (notice being expressly waived), terminate this Lease and take possession of said Premises.
21. **Default and Re-Entry**. If Tenant fails to keep or perform any of the covenants and agreements herein contained, then the same shall constitute a breach hereof. If the breach is Tenant's failure to pay rent or other charges provided for herein, then the Lease is in default upon Tenant's failure to

pay such amount within five (5) business days after written notice from Landlord. If Tenant has not remedied other types of breaches within thirty (30) days after written notice thereof from Landlord, except that if the breach cannot reasonably be cured within such thirty (30) day period, then if Tenant fails to commence to cure within such thirty (30) day period and thereafter, diligently prosecute such cure to completion, then the same shall be a default. Notwithstanding the foregoing, Tenant's failure to comply with the same Lease term or covenant beyond the applicable cure period on three (3) occasions during the Term, even if such breach is cured within the applicable cure period, will constitute a default.

Upon and at any time after any default Landlord may, at its option, without further notice or demand:

A. Cure such breach for the account and at the expense of Tenant (including entry upon the Premises to make repairs on behalf of the Tenant where Tenant has failed to make such repairs as required under this Lease) and such expense shall be deemed Additional Rent due on the first of the following month; or

B. Re-enter the Premises, remove all persons therefrom, take possession of the Premises and remove all personal property therein at Tenant's risk and expense and (1) terminate this Lease, or (2) without terminating the Lease, terminate the right of possession hereunder. In either event, any moneys received from Tenant and any deposit or other amounts held by Landlord may first be applied by Landlord to any damages suffered by Landlord as a result of such default, including without limitation, costs and expenses incurred on re-entry and re-letting, any unamortized tenant improvements and commissions, cleaning, necessary repairs, restoration and alteration, and any commissions incurred on re-letting ("Re-leasing Costs"), and the balance of such amounts may be applied toward payment of other sums due to Landlord hereunder. In the event the Premises are re-let for Tenant's account, Tenant shall pay to Landlord monthly any deficiency; however, Landlord shall not be required to pay any excess to Tenant. Upon termination of this Lease or of Tenant's right to possession, Landlord reserves and has the right to recover damages arising from the breach of the Lease from Tenant including, but not limited to: (w) Re-leasing Costs; (x) The Worth (see interest calculation below) of the unpaid rent and other charges provided for herein that had been earned at the time of such termination; (y) The worth of the amount of the unpaid rent and other charges provided for herein that would have been earned for the balance of the term of this Lease after the date of such termination; and (z) Any other amount, including court, attorney and collection costs, necessary to compensate Landlord. "The Worth," as used in Clause (x) above is to be calculated with interest at 18% per year (or, if applicable, at such lower rate as may represent the highest legal limit allowed in the State of Washington). "The worth" as used in Clause (y) above is to be computed by discounting the amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of termination. The above remedies of Landlord are cumulative and in addition to any other remedies now or hereafter allowed by law or elsewhere provided for in this Lease.

C. Landlord shall not be liable for damages by reason of the re-entry described in section B, above.

D. Landlord shall use reasonable efforts to mitigate its damages in the event of a breach or default by Tenant.

22. **Removal of Property**. Any property of Tenant removed by Landlord in accordance with Section 21 above may be stored, sold, or disposed of by Landlord without any additional notice to Tenant at the sole risk and expense of Tenant and without any further responsibility of Landlord. Proceeds therefrom may be applied by Landlord upon any indebtedness due from Tenant to Landlord. Tenant waives all claims for damages that may be caused by Landlord re-entering the Premises and removing or disposing of said property as herein provided.

23. **Costs and Attorneys' Fees**. If there is litigation between the parties concerning this Lease (including any litigation or other proceeding in Bankruptcy Court), the prevailing party shall be entitled to recover from the losing party the cost and expenses of such action, including reasonable collection fees, attorneys' fees (including without limitation the allocated cost of in-house counsel) and court costs, including but not limited to those incurred at and in preparation for discovery (including depositions), arbitration, trial, appeal and review.

Any dispute relating to this Lease shall be brought in the State or Federal Court in the County in which the Premises are located or, at Landlord's or Tenant's election, in King County, Washington; provided, however, that Landlord has the right to initiate binding arbitration conducted by Judicial Dispute Resolution, LLC, in Seattle, Washington.

24. **Subrogation Waiver**. Landlord and Tenant each herewith and hereby release and relieve the other and waive its entire right of recovery against the other for loss or damage arising out of or incident to the perils of fire, explosion or any other perils described in the "all risk" insurance and the events covered under the property insurance coverages required under this Lease, whether due to the negligence of either party, their agents, employees or otherwise. Each party shall obtain from its respective insurer under each insurance policy that it maintains a waiver of all rights of subrogation which the insurer may have against the other party for claims that are released under this Section 24.

25. **Holding Over**. If Tenant, with the express consent of Landlord, shall hold over after the expiration of the term of this Lease, Tenant shall remain bound by all the covenants and agreements herein, except that (a) the tenancy shall be from month-to-month and (b) the monthly rent to be paid by Tenant shall be determined by multiplying the monthly rent in effect immediately preceding such expiration times 150% (or such other amount as agreed by Landlord and Tenant). If Tenant holds possession of the Demised Premises after the expiration of the Lease without the express written consent of Landlord, Tenant shall remain bound by all the covenants and agreements herein, except that (a) the tenancy shall be at sufferance and (b) the monthly rent to be paid by Tenant shall be the greater of twice the monthly rent in effect immediately preceding such expiration or the total loss to Landlord as a result of Tenant's holdover if, effective during the term of such holdover, Landlord has leased all or part of the Premises to other Tenant(s). Any such tenancy may be terminated with twenty (20) days prior notice as provided by Washington State law.

In the event of any unauthorized holding over, Tenant shall also indemnify and hold Landlord harmless from and against all liability, losses, claims, causes of action, damages, costs and expenses (including without limitation attorney fees) resulting from Tenant's failure to surrender the Premises, including without limitation claims made by succeeding Tenants resulting from Tenant's failure to surrender the Premises.

Tenant's obligations under this Section 25 shall survive the expiration or termination of this Lease.

26. **Subordination and Attornment; Mortgage Protection**.

A. **Subordination-Notice to Mortgagee**. At the request of Landlord, Tenant shall promptly execute, acknowledge and deliver, commercially reasonable instruments which may be required to subordinate this Lease to any existing or future mortgages, deeds of trust and/or other security documents on or encumbering the Premises or on the leasehold interest held by Landlord, and to any extensions, renewals, or replacements thereof, provided that the mortgagee or beneficiary, as the case may be, shall agree to recognize this Lease in the event of foreclosure if Tenant is not in material default at such time. Landlord represents that there is currently no mortgage or ground lease affecting the Premises, Building or Project.

B. Nondisturbance . In the event of subordination of this Lease, Landlord shall obtain from Landlord's Mortgagee, a written nondisturbance agreement to the effect that (a) in the event of a foreclosure or other action taken under the Mortgage by the holder thereof, this Lease and the rights of Tenant hereunder shall not be disturbed but shall continue in full force and effect so long as Tenant shall not be in default hereunder, and (b) Landlord's Mortgagee will agree that in the event it shall be in possession of the Premises, that so long as Tenant is not in default under this Lease, Landlord's Mortgagee will perform all obligations of Landlord required to be performed under this Lease.

C. Tenant's Certificate . Tenant shall at any time and from time to time within ten (10) business days after written notice from Landlord execute, acknowledge and deliver to Landlord a statement in writing (a) certifying that this Lease is unmodified and in full force and effect (or, if modified, stating the nature of such modification and certifying that this Lease as so modified is in full force and effect), and the date to which the rental and other charges are paid in advance, if any; and (b) acknowledging that there are not, to Tenant's knowledge, any uncured defaults on the part of the Landlord or Tenant hereunder, or specifying such defaults if any are claimed; and (c) setting forth the date of commencement of rents and expiration of the Lease Term hereof; and, (d) such other information as the Landlord shall reasonably require. Any such statement may be relied upon by any prospective purchaser or encumbrancer of all or any portion of the Premises of which the Premises are a part.

D. Mortgagee Protection Clause . Tenant agrees to notify any mortgagee and/or trust deed holders, by registered mail, with a copy of any notice of default served upon the Landlord, provided that prior to such notice Tenant has been notified in writing (by way of Notice of Assignment of Rents and Lease, or otherwise) of the addresses of such mortgagees and/or trust deed holders. Tenant further agrees that if Landlord shall have failed to cure such default, then Tenant shall provide such mortgagees and/or trust deed holders a commercially reasonable right to cure such default.

27. **Surrender of Possession** . Tenant shall, prior to the termination of this Lease or of Tenant's right to possession, remove from the Premises all personal property which Tenant is entitled to remove and those alterations, additions, improvements or signs which may be required by Landlord to be removed including cabling and signs, pursuant to Sections 13 and 15 above, and shall repair or pay for all damage to the Premises caused by such removal. All such property remaining and every interest of Tenant in the same shall be conclusively presumed to have been conveyed by Tenant to Landlord under this Lease as a bill of sale, without compensation, allowance, or credit to Tenant. Tenant shall upon termination of this Lease or of Tenant's right of possession, deliver all keys to Landlord and peacefully quit and surrender the Premises without notice, neat and clean, and in as good condition as when Tenant took possession, except for reasonable wear and tear and with all components and systems in good working order and repair.
28. **Late Payment and Interest** . If any amount due from Tenant is not received in the office of Landlord on or before the fifth (5th) day following notice from Landlord that such payment is late, a late charge of five percent (5%) of said amount shall become immediately due and payable, which late charge Landlord and Tenant agree represents a fair and reasonable estimate of the processing and accounting costs that Landlord will incur by reason of such late payment. All past due amounts owing to Landlord or Tenant under this Lease, including rent, shall be assessed interest at an annual percentage rate of twelve percent (12%) from the date due until paid.
29. **Notice** . Any notice, communication or remittance required or permitted by this Lease by either party to the other shall be deemed given, served or delivered, in writing, delivered personally or by courier, addressed to the Landlord at the address specified for the payment of rent under Section 3 of this Lease.
To Tenant:

(prior to Commencement Date) Trupanion, Inc., Attn: General Counsel, 907 NW Ballard Way, Seattle, WA 98107, and by email to legal@trupanion.com

(after Commencement Date) Trupanion, Inc., Attn: General Counsel, 6100 4th Ave S., Seattle, WA 98108, and by email to legal@trupanion.com

or to such other address as either party may designate to the other in writing from time to time.

30. **No Waiver of Covenants**. Time is of the essence of this Lease. Any waiver by either party of any breach hereof by the other shall not be considered a waiver of any future similar or other breach.
31. **Entire Agreement**. It is expressly understood and agreed by Landlord and Tenant that there are no promises, agreements, conditions, understandings, inducements, warranties, or representations, oral or written, express or implied, between them, other than as herein set forth and that this Lease shall not be modified in any manner except by an instrument in writing executed by the parties.
32. **Binding on Heirs, Successors and Assigns**. The covenants and agreements of this Lease shall be binding upon the heirs, executors, administrators, successors and assigns of both parties hereto, except as hereinabove provided.
33. **Landlord's Assignment**. It is fully understood that Landlord shall have the full right to assign this Lease, without any prior notice to Tenant, and Tenant will attorn to such assignee, thereby relieving Landlord from all and any liabilities; provided however, that the assignee recognizes Tenant's occupancy pursuant to this Lease, and assumes in writing all Landlord's responsibilities as set forth in this Lease.
34. **Environmental**. See Rider One attached and incorporated into this Lease by this reference.
35. **Brokers; Agency Disclosure; Brokerage Relationships**.
- A. **Payment of Brokers**. Landlord shall pay the commissions due those real estate brokers or agents named below pursuant to separate written agreements. If Tenant has dealt with any other person or real estate broker with respect to leasing or renting space in the Building, Tenant shall be solely responsible for the payment of any fee due said person or firm and Tenant shall hold Landlord free and harmless against any liability in respect thereto, including attorney's fees and costs. If Landlord has dealt with any other person or real estate broker with respect to leasing or renting space in the Building, Landlord shall be solely responsible for the payment of any fee due said person or firm and Landlord shall hold Tenant free and harmless against any liability in respect thereto, including attorney's fees and costs.
- B. **Agency Disclosure**. At the signing of this Lease Agreement Landlord's Leasing Agent, Laura Ford of Colliers International represented Landlord and Tenant's agents, Larry Almeleh and Clay Nielsen of Washington Partners, Inc. represented Tenant. Each party signing this document confirms that the prior oral and/or written disclosure of agency was provided to him/her in this transaction. (As required by WAC 308-124D-040).
36. **Force Majeure**. Neither party shall have any liability to the other on account of the following acts of "force majeure," which shall include (a) the inability of a party to fulfill, or delay in fulfilling, any of the party's obligations under this Lease by reason of strike, lockout, other labor trouble, dispute or disturbance; (b) governmental regulation, moratorium, action, inaction, preemption or priorities or other controls, including delays in receipt of permits; (c) shortages of fuel, supplies or labor; (d) any failure or defect in the supply, quantity or character of electricity or water furnished

to the Premises by reason of any requirement, act or omission of the public utility or others furnishing the Building with electricity or water; or (e) for any other reason, whether similar or dissimilar to the above, or for act of God, beyond the party's reasonable control. If this Lease specifies a time period for performance of an obligation of a party, that time period shall be extended by the period of any delay in the party's performance caused by any of the events of force majeure described herein. The provisions of this Section 36 do not apply to any monetary obligations of the parties.

37. **Limitation of Liability**. The recourse of Tenant to recover any claim against Landlord arising under this Lease shall be limited to Landlord's interest in the Building and to the rents, issues and profits from the Building. Tenant waives any and all recourse for any such liability against Landlord's members, partners, shareholders, trustees or beneficiaries, or any property or assets of Landlord other than the Building.
38. **Option to Extend**. Provided Tenant has not been in default of any term or condition of the Lease beyond any applicable notice and/or cure period more than once in the twelve (12) months preceding its Exercise Notice, and is not in default at the time it delivers the Exercise Notice, Tenant shall have the Option to Extend this Lease for the entire Premises on all of the terms and conditions contained in this Lease, except Monthly Minimum Rent, for either one 10 year term or two (2) consecutive terms of five (5) years each (each an "Extended Term") following expiration of the Initial Term. The Monthly Minimum Rent for each Extended Term shall be the Market Rent as determined hereunder. Tenant shall notify Landlord of its exercise of the option not less than twelve (12) months prior to the expiration of the Initial Term or the first Extended Term, as applicable (an "Exercise Notice").

Within ten (10) days after Landlord's receipt of Tenant's Exercise Notice, Landlord shall deliver notice ("**Option Rent Notice**") to Tenant setting forth the Landlord's determination of the Market Rent for the Extended Term. Within ten (10) business days after receipt of the Option Rent Notice, Tenant shall provide Landlord with irrevocable written notice ("**Tenant's Response**") stating either (a) that Tenant accepts Landlord's determination of Market Rent in the Option Rent Notice, or (b) that Tenant objects to Landlord's determination of Market Rent and elects to determine Market Rent as set for the below. If Tenant fails to timely deliver a Tenant's Response, Tenant shall be deemed to have objected to the Base Rent in the Option Rent Notice and elected to determine Market Rent as set forth below. Time is of the essence hereof and late notice shall not be effective.

If Tenant's Response elects to determine Market Rent under this provision, Landlord and Tenant shall negotiate in good faith to attempt to agree upon the Market Rent. If Landlord and Tenant do not reach agreement within ten (10) business days after delivery of Tenant's Response to Landlord ("**Outside Agreement Date**"), then each party shall make a separate determination of the Market Rent (which determination may include periodic adjustments) which shall be submitted to each other and to arbitration in accordance with the following terms. The parties shall deliver their separate determinations of Market Rent simultaneously on the Outside Agreement Date. The determination of the arbitrators shall be limited solely to deciding whether Landlord's or Tenant's submitted Market Rent schedule is the closest to the actual Market Rent as determined by the arbitrators and the arbitrators shall have no ability to amend this Lease, modify the definition of Market Rent or to propose a middle ground.

(a) Within ten (10) days of the Outside Agreement Date Landlord and Tenant shall each appoint one arbitrator and shall notify the other party in writing of such selection. Each arbitrator shall by profession be a current real estate broker or appraiser of office space in the immediate vicinity of the Project, and who has been active in the Georgetown and SODO submarkets of Seattle over the last five (5) years.

(b) The two (2) arbitrators so appointed shall, within five (5) business days of the date of the appointment of the last appointed arbitrator, agree upon and appoint a third arbitrator who shall be qualified under the same criteria set forth above and, in addition, shall not have acted on behalf of either party, except as a neutral arbitrator, in the prior three (3) years. If the two arbitrators fail to agree upon and appoint a third arbitrator, then either party can petition a court to appoint the third arbitrator meeting the qualifications set forth herein.

(c) The three (3) arbitrators shall within fifteen (15) days of the appointment of the third arbitrator to determine which party's submitted Market Rent schedule is the closest to the actual Market Rent as determined by the arbitrators. The arbitrators shall consider all written materials submitted and may, upon notice to both parties, request additional information be submitted in writing but shall not hold a hearing or take oral testimony. The arbitrators shall notify Landlord and Tenant of their decision in writing. The decision of the majority of the three (3) arbitrators shall be binding upon Landlord and Tenant. The arbitrators shall have no power to modify the provisions of this Lease.

(d) If either Landlord or Tenant fails to appoint an arbitrator within ten (10) days after the applicable Outside Agreement Date, the single arbitrator appointed shall determine the Market Rent and shall notify Landlord and Tenant thereof, and such arbitrator's decision shall be binding upon Landlord and Tenant for the Extended Term.

(e) All arbitration costs will be paid by the party whose suggested rate was not selected as the Market Rate.

"Market Rent" shall mean the rental rate and concessions that Landlord and landlords of competing and comparable buildings in Georgetown and SODO submarket areas, (with special emphasis given to leases in the Building), have achieved in new and renewal office leases in the twelve (12) month period prior to the effective date of such determination for non-equity transactions for comparable space with comparable tenant improvements, and views to a new tenant with comparable financial standing. The determination of Market Rent shall take into consideration: location in the Building or other building, existing tenant improvements, proposed term of lease, the means of reimbursing Landlord for operating costs and taxes, the time the particular rate under consideration became or is to become effective, rent concessions, and tenant improvement and other allowances (if any) that are typical in the market at the time for a similar lease term, and any other relevant terms or conditions except as provided herein. Costs which are incurred by a landlord in connection with the negotiation and documentation of a lease transaction, and other costs incurred by a landlord which are not paid to or for the direct benefit of the tenant, shall not be considered. Comparable transactions in which the rent for a renewal was discounted to a rate below the fair market rate, whether by the application of a percentage to the fair market rate or otherwise, shall be adjusted to reflect the fair market rate before the discount was applied. Renewal transactions in which the rent was either established at a pre-determined amount by reason of the exercise by the tenant of an option to renew or extend at a fixed rental rate or was established due to the operation of a pre-determined minimum or maximum amount shall not be regarded as comparable transactions. Sublease transactions shall not be considered in establishing Market Rent. Market Rent may include periodic or annual increases if such increases are consistent with then-existing market conditions.

39. **Right of First Opportunity** . Provided Tenant has not been in default of any term or condition of the Lease beyond any applicable notice and/or cure period more than once in the prior twelve (12) months, and subject to the specific rights of the tenant within such space and the rights of existing tenants in the building as of the date of this Lease, as stated in Exhibit F, if any space within the Building in which the Premises is located is available for lease or if the Landlord becomes aware that any such space is to become available, Landlord will provide Tenant with notice of such availability (the "First Opportunity Notice"). Landlord shall use reasonable efforts to keep Tenant apprised of potential vacancies as Landlord becomes aware of them and to give Tenant advance

notice that Landlord intends to deliver a First Opportunity Notice. The First Opportunity Notice will contain the following information:

1. The description of the specific space within the Building (the "First Opportunity Space").
2. The date on which the space will become available
3. The Rental Rate and concessions that Landlord is willing to accept for such space.

Within seven (7) days following receipt of the First Opportunity Notice, Tenant will notify Landlord if it chooses to exercise its right to lease the space identified in the notice on the terms specified. If Tenant either waives its right or fails to notify Landlord within seven (7) days then Landlord will be free to lease such space to any third party. Thereafter, if Landlord agrees with another prospective tenant to accept terms for any part of the First Opportunity Space that are less favorable to Landlord than the terms Landlord offered to Tenant, then Landlord will notify Tenant of the terms and Tenant shall have five (5) days to agree to lease that space on those terms.

If Tenant exercises its right to lease the identified space, the lease term will expire on the termination date of this Lease.

40. **Option to Purchase.** Provided Tenant has not been in default of any term or condition of the Lease beyond any applicable notice and/or cure period more than two times in the twelve (12) months prior to a Landlord notice, Tenant shall have an ongoing Right of First Opportunity to Purchase the Building. Landlord will provide Tenant with prior notice if it decides to sell or market the building for sale at any time during the Lease Term. Landlord agrees that it will not sell or transfer (or offer to sell or transfer) the Building on or before the 30th month of the term of the Lease. Landlord also agrees that it will provide Tenant a First Opportunity to acquire the Building sometime between the 30th and the 40th month of the term of the Lease. The notice will specify the material terms of a proposed sale, including the Purchase Price, earnest money, feasibility period, time to closing (not to be less than forty five (45) days) and other matters that Landlord is willing to accept. Should Landlord and Tenant not agree on the material terms within ten (10) days following Tenant's receipt of the notice, Landlord shall have the right to enter into a binding Purchase and Sale Agreement to sell the building to another buyer within the following six (6) month period (with a closing date not more than nine (9) months after Landlord's notice), however, if Landlord is prepared to agree to material terms with another buyer that are more favorable than or equal to the material terms Landlord offered to Tenant (including the net sale price after adjustment for any commission), then Landlord will notify Tenant of the terms and Tenant shall have five (5) days to agree to purchase the Building at the agreed-upon equal or lower material terms. If Tenant waives its right to purchase the Building and Landlord has not successfully completed the execution of a binding Purchase and Sale Agreement for sale of the Building to a third party within the aforementioned six (6) months, or if the sale fails to close on the specified Closing Date (as the date may be extended), but in no event more than nine (9) months after Landlord's notice, Tenant's Right of First Opportunity shall apply again on an ongoing basis.

If the building is not under contract to sell by the 60th month of the lease term, Landlord agrees to provide Tenant with a First Opportunity Notice at the end of the 60th month of the lease term. Following such notice Tenant shall have ten (10) days to elect to purchase the Property. If, at that time, the parties cannot agree upon Purchase Price within the ten (10) day period, the Purchase Price under such election shall be determined pursuant to the arbitration process set forth in Section 38 above, provided, however, that the parties shall simultaneously deliver fair market value of the property Notices to one another within ten (10) business days after they have reached an impasse as to Purchase Price. The fair market value of the Property shall be determined based upon the same arbitration process (using three arbitrators), with the arbitrators determining what the fair market value of the Property is (rather than what fair market rent may be). Provided, however, in no instance

shall the purchase price established by such arbitration be less than Landlord's cost basis in the Property. In addition, Landlord has agreed to provide Tenant with Purchase Money financing on the following basic terms:

Term: 2 years (utilizing a 30 year amortization schedule)

Loan Fee: 1% of Loan Amount

Interest Rate (calculated on an actual/360 basis):

Loan to Value Interest Rate Spread over 30 day LIBOR:

60% $3\frac{3}{4}$ %

65% $4\frac{1}{8}$ %

70% $4\frac{5}{8}$ %

75% $5\frac{1}{4}$ %

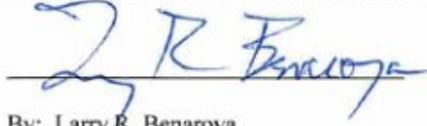
Open to prepayment at any time with no penalty

41. **Parking.** The Building has and Tenant will have 2.34 stalls/1000 RSF at no cost to Tenant. Ten (10) of the stalls that Tenant is entitled to use will be reserved for Tenant's exclusive use and will be signed to so indicate and two (2) stalls will be reserved for the load/unload activities of Tenant's childcare operation. Landlord will not be required to police or enforce the exclusivity of the stalls. At its cost, Landlord shall provide a secured parking area with a secured access system, undercover in the current loading dock on the southern location of the east side of the building, of which Tenant shall have access to its proportionate share 24/7. Tenant shall also have the right to install a generator for Tenant's use in the parking area or such other location as mutually agreed upon with Landlord.
42. **Survival.** The obligations and liabilities of Tenant hereunder, as well as the release, indemnity and attorney fee provisions of this Lease, shall survive the expiration of this Lease and/or the termination of this Lease and/or the termination of Tenant's right of possession.
43. **Not an Offer.** Submission of this document for examination and signature by Tenant is not an offer to lease and does not create a reservation or option to lease; no claim for reliance, estoppel, contract, breach of good faith, or other claim can be made based upon the circulation of this Lease. This document will become effective and binding only upon full execution and delivery by both Tenant and Landlord.
44. **Access.** Tenant shall be permitted access to the Premises twenty-four (24) hours per day, seven (7) days per week.
45. **Memorandum of Lease.** Upon the request of Tenant, Landlord and Tenant will execute and deliver, in recordable form, a memorandum or short form of this Lease, which shall be recorded in the real property records of King County, Washington.
46. **Exhibits.** The following exhibits or riders are made a part of this Lease and are incorporated herein by reference:
 - Rider One - Environmental
 - Exhibit A - Legal Description of Land
 - Exhibit B - Floor Plan of Premises

Exhibit C - Rules and Regulations
Exhibit D - Standards for Utilities and Services
Exhibit E - Work Letter Agreement
Exhibit F - Pre-existing Lease Rights
Exhibit G – Excluded Capital Projects

LANDLORD:

BENAROYA CAPITAL COMPANY, L.L.C.



By: Larry R. Benaroya

Its: Manager

Date: 8/10/15

TENANT:

TRUPANION, INC.



By: Darnyl Rawlings
(PLEASE PRINT)

Its: CEO

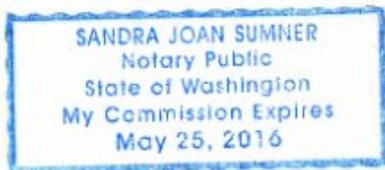
Date: 8-5-15

LANDLORD NOTARY

STATE OF WASHINGTON)
) ss.
COUNTY OF KING)

I certify that I know or have satisfactory evidence that Larry R. Benaroya is the person who appeared before me, and said person acknowledged that he signed this instrument, on oath stated that he was authorized to execute the instrument and acknowledged it as the Manager of Benaroya Capital Company, LLC, a Washington limited liability company, to be the free and voluntary act of such limited liability company for the uses and purposes mentioned in the instrument.

DATED: August 10, 2015



Sandra Joan Sumner
(Signature)

Sandra Joan Sumner
(Please print name legibly)

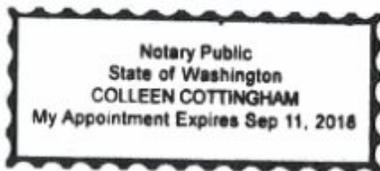
NOTARY PUBLIC in and for the State of
Washington, residing at MountainHake Terrace
My commission expires May 25, 2016

TENANT NOTARY

STATE OF Washington)
) ss.
COUNTY OF King)

I certify that I know or have satisfactory evidence that Darryl Rawlings is the person who appeared before me, and said person acknowledged that he signed this instrument as the CEO of Impanson, a Delaware corporation, and on oath acknowledged it to be the free and voluntary act of such corporation for the uses and purposes mentioned in the instrument, and on oath stated that he was authorized to execute this instrument on behalf of such corporation.

DATED: 8-5-15



Colleen Cottingham
(Signature)

Colleen Cottingham
(Please print name legibly)

NOTARY PUBLIC in and for the State of
Washington
residing at 906 Dexter Ave N #L220, Seattle, WA 98109
My commission expires September 11, 2016

RIDER ONE

EMISSIONS; STORAGE, USE AND DISPOSAL OF WASTE

- a. **Emissions**. Tenant shall not knowingly (i) discharge, emit or permit to be discharged or emitted, any liquid, solid or gaseous matter, or any combination thereof, into the atmosphere, the ground or any body of water, which does or may pollute or contaminate the same, or does or may adversely affect the health or safety of persons, or the use or enjoyment of the Premises; nor (ii) transmit, receive or permit to be transmitted or received, any electromagnetic, microwave or other radiation in, on or about the Premises.
- b. **Storage**. If, with or without violation of this Lease, Tenant possesses at the Premises any matter described in Section A above or any Hazardous Substances (as defined below), Tenant shall store the same in appropriate leak proof containers and/or areas which comply with all laws and all prudent practices.
- c. **Disposal of Waste**. Tenant shall not keep any trash, garbage, waste or other refuse on the Premises except in sanitary containers and shall regularly and frequently remove same from the Premises. Tenant shall keep all such containers in a clean and sanitary condition. Tenant shall properly dispose of all sanitary sewage and shall not use the sewage system for the disposal of anything except sanitary sewage, nor in excess of capacity. Tenant shall not cause any obstruction in the sewage disposal system.
- d. **Compliance of Law**. Subject to the provisions in the Lease to the contrary, Tenant shall comply with all Laws in complying with its obligations under this Lease, and in particular, Laws relating to the storage, use and disposal of Hazardous Substances (as defined below). (1) Landlord represents that the Premises and the Building are in compliance, as aforesaid, as of the Commencement Date. To the extent there are any violations as affect the Premises or Tenant's use thereof, Landlord shall cure same promptly; and (2) in no event shall Tenant be required to make structural repairs or alterations to comply with Laws unless Tenant has violated such Laws by its use of the Premises for purposes not authorized under this Lease.
- e. **Indemnification for Breach**. Tenant shall defend, indemnify and hold Landlord, the Project and the holder of a trust deed or mortgage on the Project harmless from any loss, claim, liability or expense, including, without limitation, reasonable attorneys fees and costs, at trial and/or on appeal and review, arising out of or in connection with its failure to observe or comply with the provisions of this Rider. This indemnity shall survive the expiration or earlier termination of the term of the Lease or the termination of Tenant's right of possession and be fully enforceable thereafter.
- f. **Indemnification Regarding Hazardous Substances**. In addition to the indemnity obligations contained elsewhere herein, Tenant shall indemnify, defend and hold harmless Landlord, the Premises, the Project, and the holder of a trust deed or mortgage on the Project, from and against all claims, losses, damages, monitoring costs, response costs, liabilities, and other costs expenses caused by, arising out of, or in connection with, the generation, release, handling, storage, discharge, transportation, deposit or disposal in, on, under or about the Premises by Tenant or any of Tenant's agents of the following (collectively referred to as "Hazardous Substances"): hazardous materials, hazardous substances, toxic wastes, toxic substances, pollutants, petroleum products, underground tanks, oils, pollution, asbestos, PCB's, radioactive materials, or contaminants, as those terms are commonly used or as defined by federal, state, and/or local law or regulation related to protection of health or the environment as any of same may be amended from time to time, and/or by any rules and regulations promulgated thereunder. Such damages, costs, liability and expenses shall include such as are claimed by any regulating and/or administering agency, any ground Landlord or master Landlord of the Project, the holder of any Mortgage or Deed of Trust on the Project, and/or any successor of the Landlord named herein. This indemnity shall include (i) claims of third parties, including governmental agencies, for damages, fines, penalties, response costs, monitoring costs, injunctive or other relief; (ii) the costs, expenses or losses resulting from any injunctive relief, including preliminary or temporary injunctive relief; (iii) the expenses, including reasonable fees of attorneys and experts, of report the existence of Hazardous Substances to an agency of the State of which the Premises is located or of the United States as required by applicable laws and regulations; and (iv) any and all expenses or obligations, including reasonable attorney's fees, incurred at, before and after any administrative proceeding, trial, appeal and review. This indemnity shall survive the expiration

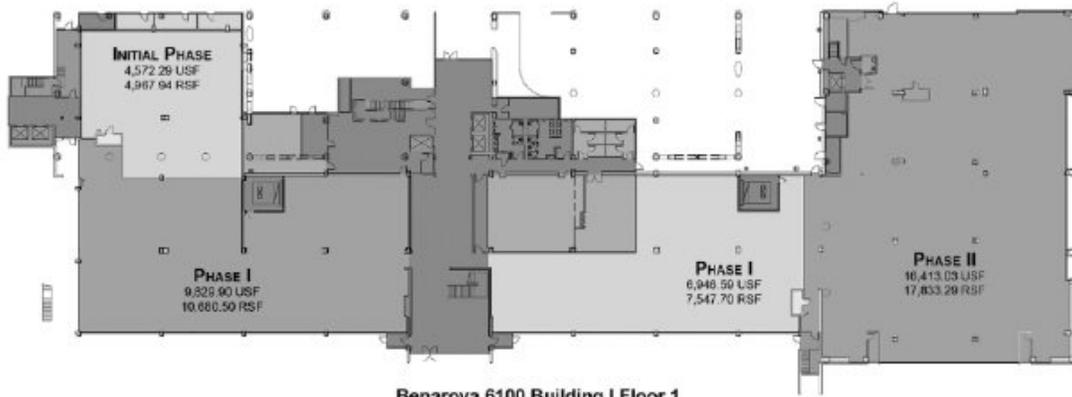
or earlier termination of the term of the Lease or the termination of Tenant's right of possession and shall remain fully enforceable thereafter. In no event shall Tenant be liable or in any way responsible hereunder unless the Hazardous Substances were introduced by Tenant, its agents, employees, guests or contractor.

- g. **Landlord Indemnification.** Landlord covenants and agrees to indemnify, defend and hold Tenant and the Tenant Parties harmless from any and all claims, losses, liabilities, penalties, costs or expenses of any kind or nature whatsoever, including without limitation, attorney, consultant and expert fees, which may at any time during or after Tenant's occupancy, be asserted or imposed against Tenant or the Tenant Parties, and which arise out of, or are a direct or indirect result of, or caused by: (A) any Hazardous Materials which were Released at or existed in, under or on the Premises before the Commencement Date of this Lease; (B) any violation of any Environmental Law (defined below) with respect to the Premises before the Commencement Date of this Lease, including any continuation of any such violation after the Commencement Date of this Lease; (C) any violation of Environmental Laws after the Commencement Date of this Lease or any release or threatened release of Hazardous Material after the Commencement Date of this Lease, which violation or release or threatened release was caused by or through Landlord
- h. **Information.** Tenant shall give prior written notice to Landlord of any use, whether incidental or otherwise, of Hazardous Substances on the Premises, and shall immediately deliver to Landlord a copy of any notice of any violation of any Law with respect to such use. Tenant shall also provide to Landlord, upon request, with any and all information regarding Hazardous Substances in the Premises, including contemporaneous copies of all filings and reports to governmental entities, and any other information requested by Landlord. In the event of any accident, spill or other incident involving Hazardous Substances, Tenant shall immediately report the same to Landlord and supply Landlord with all information and reports with respect to the same. All information described herein shall be provided to Landlord regardless of any claim by Tenant that it is confidential or privileged.

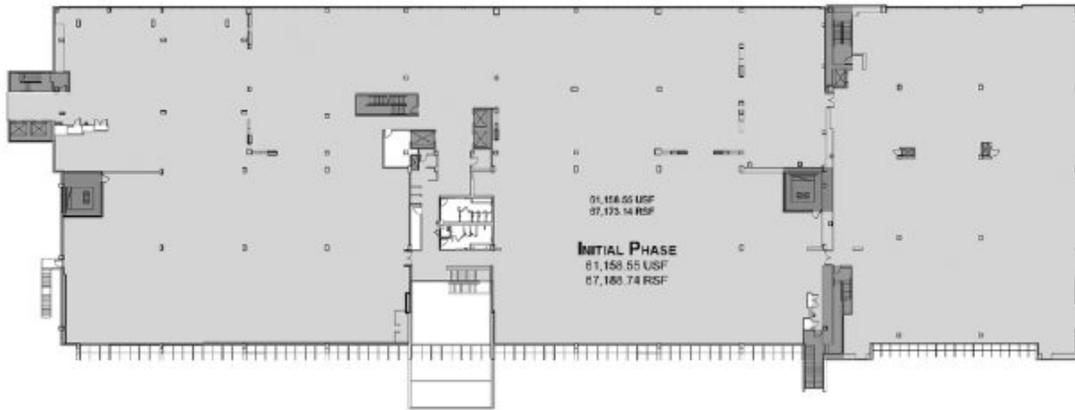
EXHIBIT A
LEGAL DESCRIPTION OF LAND

All of Lots 1 through 14, 28 through 41, the North 20.10 feet of Lot 15, the North 20.10 feet of Lot 27, together with vacated alley adjoining, all in Block 5 of Joseph J. McLaughlin's Waterfront Addition to the City of Seattle, according to plat thereof recorded in Volume 13 of Plats, page 28, in King County, Washington.

**EXHIBIT B
FLOOR PLAN OF PREMISES**



Benaroya 6100 Building | Floor 1



Benaroya 6100 Building | Floor 2

EXHIBIT C
RULES AND REGULATIONS

1. Bicycles. No bicycles of any kind are allowed in the Building, other than the bike storage area, at any time. Landlord will provide a secure enclosed bike storage area.
 2. Building Access. Tenant, its employees, agents, invitees, and guests shall comply with Building access, registration and identification policies as solely determined by Landlord; failure to comply shall be cause for denial of access. Tenant shall be responsible for the actions of persons and pets admitted to the Building by Tenant. Landlord reserves the right, in its sole discretion, to exclude or expel any person who violates the policies rules or regulations from the Building. Landlord will comply with all government laws rules and regulations regarding discrimination and will not discriminate against any person based on race, gender, religion, sexual orientation or any other protected class. Neither Building management nor Landlord shall be liable for damages due to any error in admitting or excluding any person from the Building or the Premises. Tenant shall be liable for the actions of persons admitted to the Building by Tenant.
 3. Building Security.
 - 3.1 Landlord has the right to control and prevent access thereto by all persons and pets whose presence is viewed to be a potential significant hazard to the safety, character, reputation and interests of the Building and its Tenants. Landlord shall have the right to monitor the common areas of the Building using video surveillance.
 - 3.2 No persons engaged in illegal activities, intoxicated or in violation of any of the Building Rules and Regulations will be allowed to remain in the Building. Tenant is responsible for the doors of their premises being closed and securely locked before leaving the Building.
 4. Common Areas. The common area sidewalks, halls, passages, exits, entrances, elevators and stairways shall not be obstructed by the Tenant or used for any purpose, including storage or placement of trash.
 5. Deliveries, Freight Room and Storage.
 - 5.1. Tenant shall move furniture, merchandise, and other bulky objects, as well as supplies and any other “freight type materials” only through the freight entrances, loading docks and freight elevators, of the Building, and shall not use the passenger elevators for the transport of any of the above items.
 - 5.2. Landlord shall not be responsible for any damage, loss theft or shortage by reason of Landlord’s receipt, acceptance, holding or delivery of such goods.
 6. Emergency Contacts. Tenant shall keep Landlord advised of the current telephone number(s) of Tenant and those of Tenant’s employees who may be contacted in an emergency.
 7. Entry Locks. Tenants shall not place any new or additional locks or any bolts on any door of the Building or the Premises for any reason. If Tenant violates this rule, Tenant shall be responsible to Landlord for all costs incurred by Landlord in rekeying the locks to Building standard accessible with Landlord’s master keys. All keys must be ordered from Landlord and Tenant may not duplicate keys. Upon termination of the Lease all keys issued to Tenant must be returned to Landlord. Landlord’s employees and agents may retain a passkey to the Premises.
 8. Events. All meetings, seminars, promotions, or other gatherings that are held in the Common Areas must be approved and coordinated with Landlord. Landlord may require, on behalf of the Tenant hosting
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such event, additional Building services and/or security. The Tenant hosting the event shall be responsible for the cost of any additional services required or necessitated as a result of an approved event, and the same shall be payable to Landlord on demand. This rule does not apply to the conference and meeting space referred to in the Lease.

9. Fire/Life Safety. Tenant, its agents, employees and guests shall comply with Landlord's systems and procedures for the Building, including all fire / life safety procedures as adopted by Landlord from time to time.

10. Garbage and Recycling. Tenant shall properly dispose of its garbage in the designated waste disposal areas of the Building and comply with any specific instructions regarding garbage and recycling. Tenant shall participate in standardized waste procedures including recycling all light bulbs, cardboard, packing materials and mixed paper in designated containers.

11. Hazardous Materials. Tenant shall not keep or use in or upon the Premises any lit candles, oil, kerosene or other burning fluid, gasoline or other combustible or explosive material. Tenant shall dispose of latex, or oil base paint, stain, glue or sealant according to the State of Washington hazardous materials program and shall not dispose of such items in or around the Building.

12. Hours of Operation. Except as provided in Exhibit D which provides Tenant with services on Monday through Friday, (except holidays), from 7 a.m. to 7 p.m., and Saturday from 9 a.m. to 1 p.m., the general Hours of Operation for the Building are from 8 a.m. to 6 p.m., Monday through Friday, as such hours or days may hereafter be amended by Landlord. The term "After Hours" as used in the Lease to which these Rules and Regulations are attached, means all hours outside the stated Hours of Operation.

13. Interference or Nuisance. Tenant shall not do or permit to be done within the Premises or any Common Areas any activity that may be dangerous to life, limb or property, nor permit any noise, odor or vibrations, or unreasonably annoy or interfere with the rights of other Tenants of the Building. Tenant shall not use or permit the use of the Premises as sleeping or lodging quarters.

14. Lost or Stolen Property. Tenant is responsible for the protection and safety of Tenant's property and Landlord shall not be responsible or liable to Tenant for any damage or loss of property in the Building or Premises at any time.

15. Parking. Subject to the terms of Section 41 of the Lease:

15.1. Tenant and its employees may only park in such areas as may be designated by Landlord. Landlord shall have sole control over the operation of the parking areas. Landlord is not responsible for providing access for Tenant and its employees to vehicles parked in unauthorized areas. Tenant shall park at its own risk and Landlord is not responsible for any injury, loss or damage that may occur.

15.2. Landlord reserves the right, without notice to Tenant, and at Tenant's expense, to tow any vehicle parked in an unauthorized area. Tenant shall comply with all time limits established by Landlord for parking within the load/unload zones serving the Building. Any of Tenant's vehicles violating such time limits shall be towed without notice to Tenant and at Tenant's expense.

16. Plumbing and Restroom Use. The restrooms, including but not limited to the toilets, urinals, washbowls, and other apparatus and common area sinks and drinking fountains, shall not be used for any purpose other than that for which they were constructed, and no foreign substance of any kind whatsoever shall be thrown therein. Tenant must observe strict care and caution that all water faucets or water apparatus inside the Premises are shut off before locking up at the end of a business day. The expense of breakage, stoppage or damage resulting from the violation of this rule by Tenant, its agents, employees, guests and invitees, shall be borne by Tenant.

17. Signs. Tenant shall not display signs, labels, pictures, advertisements or notices on any part of the Building or on the Premises windows or glass of the Premises without the prior written consent of Landlord. All signs shall be consistent throughout the Building and Tenant must obtain Landlord's written consent before installing any signs visible from the exterior of the Premises or in any Common Areas of the Building. Tenant may not put any object (including signs, symbols, canopies, awnings, window coverings or other advertising or decorative materials) in the windows, on the walls, exterior doors or any part of the Premises visible from the exterior without the prior written consent of Landlord.

18. Smoking. Smoking is prohibited in all areas of the Building including Tenant's Premises. Neither Tenant, nor its agents, employees, or guests may smoke or permit smoking within fifty (50) feet of any public entrance to the Building. Smoking shall be permitted in areas designated for such use by Landlord. This rule applies at all times, including after business hours, weekends and during special events.

19. Soliciting. Canvassing, soliciting, or peddling in or about the Building, or in the entries or parking areas, is not permitted, and Tenant shall cooperate to prevent all such activities.

20. Tenant Security Systems. Tenant shall provide Landlord with alarm codes for disabling any alarms located in the Premises, in the event Landlord requires access to the Premises.

21. Use of Common Areas. Tenant shall not permit its employees or guests to loiter in or about the Common Areas, obstruct any of the entries, passages, corridors, or stairwells of the Common Areas except for the purpose of ingress to and egress from the Premises. Neither Tenant nor its employees or guests shall go upon the roof of the Building.

22. Utilities.

22.1. Tenant shall not waste or use electricity, water, or HVAC (heating, ventilation and air conditioning) in amounts in excess of those established by Landlord as reasonable for the use and occupancy of the Premises, and Tenant shall cooperate fully with Landlord to ensure the most cost effective operation of the Building's systems.

22.2. Tenant shall not use any method of heating or air conditioning other than that which is supplied by the Building's HVAC systems.

23. Vehicles and Animals. Except as provided in the Dog and Cat Rules listed below, no vehicles or animals, except those assisting disabled persons, shall be brought into the Building. An official designation vest or identification tag must be worn at all times for the assistance animal to be allowed in the Building. The animal's owner will be liable for any damage or injury caused to the Buildings, grounds or people.

24. Vending Machines. Vending machine may be installed, maintained or operated upon the Premises with the prior written consent of Landlord which consent will be based only on the weight of the vending machine relative to floor load limitations. Arrangements for delivery or removal of the same must be scheduled in advance with Landlord.

25. Tenant shall not overload the floor of the Premises or mark, drive nails, screw, or drill into the partitions, woodwork or plaster, or in any way deface the Premises or any part thereof. Tenant shall not bore holes, cut or string wires, or lay floor tile, carpet or other floor covering in or around the Premises in any manner, except as approved in writing by Landlord. The expense of repairing any damage resulting from a violation of this rule or removal of any floor covering shall be borne by the Tenant by whom, or by whose contractors, employees, or invitees, the damage shall have been caused.

26. Dog and Cat Rules. Employees of Tenant will be permitted to bring dogs and cats to the Premises subject to compliance with the following:

Employees of Tenant will be permitted to bring dogs and cats (“Pets”) to the Premises subject to compliance with the following: pets must be friendly to humans and other pets and have a good social personality; pets must be completely housebroken; pets must be clean, free of fleas, infection or illness and must be current on all vaccinations, employees must be responsible for any damage or harm to equipment, the facility, personal property or other pets; pets must be kept near the employee’s work space, leashed, or behind a baby gate; pets must be on a leash whenever not near the employee’s work space; when walking their pets, pet owners will use the area designated by Landlord if walking on the Property and will promptly dispose of pet waste by placing in exterior public waste containers; failure to properly dispose of pet waste may result in permanent removal of the pet from the building. Landlord may designate a pet free zone in the common areas of the Building for the benefit of anyone who might have allergies or who are frightened of pets; Tenant will be responsible in the monitoring and enforcement of said rules. In the event that said pet does not conform to said rules, the pet will be permanently banned from the building and the owner and the person acting on the owner’s behalf, if applicable, will thereafter be prohibited from bringing a pet or pets to the Building.

Landlord acknowledges that the presence of pets is a positive and can enhance the environment of the workplace; however, Landlord may remove from, or prohibit admission to the premises, any pet if landlord determines in its sole discretion that such a pet is disruptive or is likely to be disruptive to the workplace or employees or tenants or in any way interferes with or is likely to interfere with the operation of the building or in any way poses or is likely to pose a health, safety, or sanitation threat of any kind, causes or is likely to cause damage of any kind to the building, or of the presence of such pet in the building violates or would violate any applicable law or regulation, (or for any other reason whatsoever, whether or not for specific cause). Landlord may from time to time promulgate such rules and regulations regarding pets as landlord may in its sole discretion deem appropriate.

Landlord and Tenant shall work together to improve the current size and layout of the existing dog area so that it is a usable and enjoyable for Tenants needs, estimating daily usage of at up to 300 dogs at full capacity, by the Commencement Date.

27. Landlord reserves the right, by written notice to Tenant, to rescind, substitute, alter or waive any rule or regulation at any time prescribed for the building when, in Landlord’s judgment, it is necessary, desirable or proper for the best interest of the Building and its tenants.

EXHIBIT D
STANDARDS FOR UTILITIES AND SERVICES

The following Standards for Utilities and Services are in effect. Landlord reserves the right to adopt nondiscriminatory modifications and additions hereto.

1. Non-attended automatic elevator facilities at all times.
2. Monday through Friday, except holidays, from 7 a.m. to 6 p.m., (and other times for the amount per hour, established from time to time by Landlord to reimburse Landlord for the actual costs incurred as a result of such use), ventilate the Premises and furnish air conditioning or heating on such days and hours, when in the reasonable judgment of Landlord it may be required for the comfortable occupancy of the Premises. Tenant intends to occupy portions of the Premises on a 24/7 basis, and Landlord will work with Tenant to develop appropriate zones for the HVAC system, to permit Tenant to utilize after hour services on an efficient basis. Tenant agrees to cooperate fully at all times with Landlord, and to abide by all reasonable regulations and requirements which Landlord may prescribe for the proper function and protection of said air conditioning system. Tenant agrees not to connect any apparatus, device, conduit or pipe to the building chilled and hot water air conditioning supply lines. Tenant further agrees that neither Tenant nor its, employees, agents, visitors, licensees or contractors shall at any time enter mechanical installations or facilities of the Building or adjust, tamper with, touch or otherwise in any manner affect said installations or facilities. The cost of maintenance and service calls to adjust and regulate the air conditioning system shall be charged to Tenant if the need for maintenance work results from either Tenant's adjustment of room thermostats or Tenant's failure to comply with its obligations under this section. Such work shall be charged at hourly rates equal to then-current journeymen's wages to air conditioning mechanics.
3. Electric current as required by the building standard office lighting and fractional horsepower office business machines in an amount to provide power for the intended use thereof. Tenant agrees, should its electrical installation or electrical consumption be in excess of the aforesaid quantity or extend beyond normal business hours, to reimburse Landlord monthly for the measured consumption at the average cost per kilowatt hour charged to the building during the period. If a separate meter is not installed at Tenant's cost, such excess costs will be established by an estimate agreed upon by Landlord and Tenant, and if the parties fail to agree, as established by an independent licensed engineer. It is understood that a separate meter will be installed for the second floor. Tenant agrees not to use any apparatus or device in, or upon, or about the Premises which materially increases the amount of such services usually furnished or supplied to said Premises, and Tenant further agrees not to connect any apparatus or devise with wires, conduits or pipes, or the other means by which such services are supplied, for the purpose of using additional or unusual amounts of such services without the prior written consent of Landlord. Should Tenant use the same to excess, Tenant shall pay to Landlord the amount reasonably established by Landlord for such excess charge as Additional Rent. At all times Tenant's use of electric current shall never exceed the capacity of the feeders to the building or the risers or wiring installation and Tenant shall not install or use or permit the installation or use of any unusually high weight or high electrical consumption computer or electronic data processing equipment in the Premises without the prior written consent of Landlord.
4. Provide janitor service to the Premises, provided the same are used exclusively for the uses permitted under this Lease, and are kept reasonably in order by Tenant, and if to be kept clean by Tenant, no one other than persons approved by Landlord shall be permitted to enter the Premises for such purposes. If the Premises are not used exclusively as offices, and day care, they shall be kept clean and in order by Tenant, at Tenant's expense, and to the satisfaction of Landlord, and by persons approved by Landlord. Tenant shall pay to Landlord the cost of removal of any of Tenant's refuse and rubbish to the extent that the same exceeds the refuse and rubbish usually attendant upon the use of the Premises as offices.

Landlord reserves the right to stop service of the elevator, plumbing, ventilation, air conditioning and electric systems, when necessary, by reason of accident or emergency or for repairs, alterations or improvements, in the judgment of Landlord desirable or necessary to be made, until said repairs, alterations or improvements, shall have been completed.

5. Tenant shall not use or install in the Premises any heat generating equipment, except as specifically authorized herein, or installed pursuant to the Work Letter Agreement, without Landlord's prior written consent. The inclusion of this restriction is to ensure that the HVAC system is adequate to service the Building and the various uses of tenants that occupy the Building.
6. Replacement of light bulbs, tubes, ballasts and starters for fixtures within the Premises provided that the cost thereof may be billed directly to Tenant or included in Operating Expenses.
7. Water and normal sanitary sewage service that is, in Landlord's commercially reasonable judgment, customarily furnished in comparable office buildings suitable for the Permitted Use of the Premises.

EXHIBIT E
WORK LETTER AGREEMENT

THIS WORK LETTER AGREEMENT (this “Work Letter Agreement”) is entered into as of the 10th day of August, 2015, by and between BENAROYA CAPITAL COMPANY, LLC, a Washington limited liability company (“Landlord”), and TRUPANION, INC., a Washington corporation (“Tenant”).

RECITALS

A. Concurrently with the execution of this Work Letter Agreement, Landlord and Tenant have entered into a Lease Agreement (the “Lease”) covering certain premises (the “Premises”), as more specifically specified and defined in the Lease. Any and all defined terms, not specifically defined herein shall have the meanings set forth in the Lease as if specifically included and set forth in this Work Letter Agreement.

B. This Work Letter Agreement has been executed for the purpose of describing and providing the terms for Landlord’s performance of the Tenant Improvement work for the Premises.

WORK LETTER AGREEMENT

1. Landlord shall, at its expense complete the improvements to the Premises (including the Base Building Shell and Core items and the new Common Amenities), in turn key condition, ready for occupancy, as described and delineated in a space plan and Work Letter to be prepared by mYamaguchi or another mutually acceptable architect (“Architect”) on or before August 11, 2015. Landlord and Tenant intend that the general fit out and finishes for the Tenant Improvements shall be similar in style and quality to those of the AeroTECH space recently built by Landlord on the third floor of the Building, and, with respect to the day care space and adjacent outdoor space, consistent with code requirements for day care use and in a quality similar to other commercial office building day care (exclusive of fixtures, furniture and equipment, which shall be Tenant’s responsibility). A description of the Landlord’s Shell and Core Work is attached to this Exhibit E. On or before the date of Substantial Completion of the Landlord’s Work, a representative of Landlord and a representative of Tenant, together with Landlord’s architect and Landlord’s contractor, shall inspect the Premises and, within five (5) business Days thereafter, generate and sign a punchlist of defective or incomplete items relating to the completion of construction of Landlord’s Work, including any item that, because of the season or weather, or the nature of the item, is not practicable to complete at that time, which, individually and in the aggregate, do not materially interfere with or prevent Tenant’s ability to use and occupy the Premises (the “Punchlist”). Landlord shall complete all Punchlist items within thirty (30) days after the Punchlist is prepared and agreed upon by Landlord and Tenant (or such longer period as is reasonably required, provided that Landlord has commenced completion of the items identified on the Punchlist within ten (10) business Days after the Punchlist is prepared and agreed upon by Landlord and Tenant and is diligently pursuing completion thereof). The Landlord’s Work shall be considered "Substantially Complete" when a Punchlist is prepared and when Tenant has received a Certificate of Substantial Completion signed by the contractor and the architect. The Construction Schedule is attached to this Work Letter. Landlord shall cause to be prepared the space plan and the final drawings (“Construction Drawings”) for the Tenant Improvements that are consistent with and are logical evolutions of the space plans. Landlord shall use mYamaguchi for preparation of the Construction Drawings unless otherwise agreed to by Tenant and shall have the right to select the architect (subject to Tenant’s reasonable approval). As soon as such Construction Drawings are completed, Landlord shall deliver the same to Tenant for approval. Tenant shall promptly review and approve the Construction Drawings within seven (7) business days after the date of receipt thereof and shall initial two (2) copies of the Construction Drawings as indication of its approval thereof. Approval of the Construction Drawings by both parties shall constitute Landlord’s agreement to complete the Tenant

Improvements in accordance with such Construction Drawings. If Landlord does not receive a response from Tenant within ten (10) business days after Tenant's receipt of the Construction Drawings, such drawings shall be deemed approved. If Tenant shall request any change in the Construction Drawings, Landlord shall promptly notify Tenant in writing of the additional costs of construction of the Landlord's Work required by such change, including other related costs to complete the Tenant Improvements.

2. Tenant shall be solely responsible for the suitability of the design and function of the Tenant Improvements for Tenant's needs and business. Tenant shall also be responsible for procuring or installing in the Premises any trade fixtures, equipment, furniture, furnishings, telephone equipment or other personal property (collectively, "Personal Property") to be used in the Premises by Tenant, and the cost of such Personal Property shall be paid by Tenant. Tenant shall conform to the Building's wiring standards in installing any telephone and computer equipment and shall be subject to any and all rules of the site during construction of the Tenant Improvements.

3. If the completion of the Tenant Improvements in the Premises is delayed (i) at the request of Tenant, (ii) by Tenant's failure to comply with the foregoing provisions, (iii) by changes in the work requested (whether or not Tenant authorizes Landlord to proceed therewith) or ordered by Tenant or by extra work ordered by Tenant, or (iv) because Tenant chooses to have additional work performed by Landlord (each, a "Lease Delay"), then Tenant shall be responsible for all costs and expenses occasioned by such delays, including, without limitation, any costs and expenses attributable to increases in labor or materials, and there shall be no delay in the commencement of Tenant's obligation to pay rent if the completion of the Tenant Improvements is delayed as a result of the foregoing.

4. Tenant may, with Landlord's written consent, enter the Premises 60 days prior to the Commencement Date solely for the purpose of installing Tenant's Work Stations and Conference Room Equipment (the "Tenant's Work") as long as such entry does not interfere with the orderly construction and completion of Landlord's work. Tenant shall notify Landlord of its desired time(s) of entry and shall submit for Landlord's approval the scope of the work to be performed and the name(s) of the contractor(s) who will perform such work. Tenant hereby indemnifies and agrees to protect, defend and hold Landlord harmless from and against any and all suits, claims, actions, losses, costs or expenses (including claims for worker's compensation) for any nature whatsoever, together with reasonable attorney fees for counsel of Landlord's choice, arising out of or in connection with the Tenant's Work (including, but not limited to, claims for breach of warranty, personal injury or property damage).

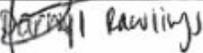
BENAROYA CAPITAL COMPANY, L.L.C.



Larry R. Benaroya

TRUPANION, INC.



By: 

DESCRIPTION OF LANDLORD'S WORK

SHELL & CORE DESCRIPTION

General	
Floor Loading	<ul style="list-style-type: none"> • Provide 70 PSF live load at Tenant floors, reducible (including 20 PSF partition allowance). • At ground floor (if within Tenant Premises), core areas and all areas within 15' of the core, provide 100 PSF live load, reducible (including 20 PSF partition allowance).
Floor Design Tolerance	<ul style="list-style-type: none"> • Provide broom-clean concrete floors ready to receive Tenant floor covering. • Furnish and install any slab edge closures required.
Exterior Wall	<ul style="list-style-type: none"> • Provide perimeter walls complete with required framing, vapor barrier insulation and fire-safing, and ready for GWB installation by Tenant. • Provide any rated shell & core walls complete with GWB and fire-taping required by code. • Provide stud framing at sill walls, columns, and concrete walls unless otherwise requested by Tenant.
Tenant Area Ceilings	<ul style="list-style-type: none"> • Landlord will provide all new building standard acoustic ceiling within Tenant spaces,.
Restrooms	<p>Provide code- and ADA-compliant restrooms complete with finishes and mechanical and plumbing utilities as follows:</p> <ul style="list-style-type: none"> • Designed to accommodate Tenant's anticipated density • Porcelain or ceramic tile on floor and wet walls to a minimum of 6 feet high • Ceiling-hung toilet partitions • Stone or solid-composite surface vanities with under-mount sinks • All restroom accessories, lighting fixtures, and plumbing fixtures • Hollow metal frames painted both sides with pre-finished wood doors
Electrical / Mechanical Rooms	<ul style="list-style-type: none"> • Provide at each floor with walls taped and primed and/or concrete walls unfinished. Concrete floors sealed. • Hollow metal doors and frames painted both sides or pre-finished wood doors and frames.
Janitor Closets	<ul style="list-style-type: none"> • Provide janitor closets with mop sinks on all floors.
Telephone Equipment Rooms	<ul style="list-style-type: none"> • Provide telephone distribution within combination telephone/electrical room on each floor with plywood backboards and grounding. • See 'Electrical' below
Typical Floor Elevator Lobbies	<ul style="list-style-type: none"> • On any floors fully occupied by Tenant, provide factory finish elevator doors, frames, call buttons, and lanterns. All other finishes are by Tenant. • On any floors partially occupied by Tenant, provide fully finished building standard elevator lobby and z-corridors.
Lobby and ground floor elevator lobby	<ul style="list-style-type: none"> • Provide main lobby (to include elevator lobby) on ground floor, designed and finished to a level consistent with other Class A office buildings.

Core Stairs, Stair Doors & Frame	<ul style="list-style-type: none"> • Provide a Trupanion exclusive entrance with code compliant stairs to its second floor Premises with hollow metal doors with frames painted both sides or pre-finished wood doors and frames to match stairs.
Core Area Doors and Hardware	<ul style="list-style-type: none"> • Provide all core area doors, which will be either hollow metal doors with frames painted both sides or pre-finished wood doors and frames.
Window Coverings	<ul style="list-style-type: none"> • Provide and install building-standard perimeter window coverings.
Mail Rooms	<ul style="list-style-type: none"> • Landlord to provide common mail room.
Elevators	<ul style="list-style-type: none"> •
Passenger Elevators	<ul style="list-style-type: none"> • Provide passenger elevators complete and approved by inspection agency. Proposed capacities, elevator quantities and speeds to be verified and approved by Tenant's third party elevator consultant prior as a condition of the lease. Passenger elevators cabs will be finished comparable to other Class-A office buildings in Seattle. <p>Provide card readers in elevator cabs.</p>
Freight Elevator	<ul style="list-style-type: none"> • Provide one (1) freight elevator from the loading dock to all office levels, complete and approved by inspection agency. Elevator to include card reader which controls access times and can be programmed to block out individual floors. • Freight elevator may serve as "swing" elevator (passenger and service use), provided such use verified and approved by Tenant's third party elevator consultant, as noted above.
Fire Protection Systems	<ul style="list-style-type: none"> •
Core areas and any areas outside Tenant Premises	<ul style="list-style-type: none"> • Provide complete system with risers, main loops and drops with heads as they now exist.
Tenant Area	<ul style="list-style-type: none"> • Provide mains and branch lines installed through or below bottom of floor framing, sized to accommodate open space plan layout. • Furnish and install upturned quick response heads as required to obtain shell TCO and to meet NFPA 13 requirements. <p>Tenant is responsible for modifications to the fire sprinkler system to meet the code requirements of Tenant improvements.</p>
Other Items	<ul style="list-style-type: none"> • Provide core fire extinguishers and cabinets. Provide fire hose connections and cabinets per code. • Provide smoke/fire dampers at main HVAC shafts at each floor and smoke detectors per code requirements.
HVAC & Plumbing	<ul style="list-style-type: none"> •
HVAC Design Criteria	<ul style="list-style-type: none"> • Provide sufficient capacity to meet Tenant's design criteria of [120] RSF per person, and electrical loads as stated herein

HVAC System	<p>Provide the following base building HVAC system, or a Tenant-approved equivalent:</p> <ul style="list-style-type: none"> • Floor by floor air handlers with rooftop cooling tower. • Building heating is provided by electrical heating coils in fan powered VAV terminal units. • Vertical shafts and controls stubbed to each floor. • Fire/smoke dampers at each floor to support Tenant-installed medium pressure loop and HVAC distribution. • Fully installed and commissioned distribution system at all common areas, including all restrooms. • Provide freeze protection VAV boxes as required.
Acoustical	<ul style="list-style-type: none"> • Provide Class-A sound attenuation at all Shell & Core equipment.
Restroom Plumbing	Provide code required fixture count with drinking fountain(s) located on each floor. Provide water heaters for restrooms and janitor closets only.
Plumbing	Three distributed water, and waste and vent riser(s) sources on the floor to facilitate future connections by Tenant. Tenant shall provide domestic hot water heater as needed for Tenant kitchenettes and related amenities.
Special Cooling (24 / 7 loads)	<ul style="list-style-type: none"> • None (Split system-by Tenant)
Exhaust	<ul style="list-style-type: none"> • Provide access to restroom exhaust for Tenant exhaust requirements.
HVAC Controls	<ul style="list-style-type: none"> • Furnish and install a fully automated state of the art HVAC control system. The DDC system controls, manages and monitors all of the shell & core HVAC equipment and is fully expandable (or contains adequate capacity) to accommodate future Tenant buildout.
Electrical / Data	<ul style="list-style-type: none"> •
Design Criteria	<ul style="list-style-type: none"> • Provide a minimum of 6.0 watts/RSF based on the following for Tenant's convenience power (120/208V). • In addition to convenience power requirements, provide adequate power for Tenant's lighting and mechanical equipment.

Power Backbone	<p>Provide the following:</p> <ul style="list-style-type: none"> • Switchboards with sufficient capacity for both shell & core and Tenant improvements loads. • (1) 480/277 volt panel per floor sized to meet Tenant load requirements (per above) and fed by Landlord-provided bus plug • 480/277 volt bus way sized to meet Tenant load requirements (per above) plus any shell & core loads. • Lighting, convenience power and special server room power/cooling will be metered. • • On floors 2 , 3, part of 4 and 5, the air handling units will be metered. • • On floors 1 (because of large common area) and part of 4 (for now) the air handling units will be prorated based on SF. • • The cooling tower power will be prorated based on SF. • Common areas will be separately measured. • Provide transient surge protection at main switchgear and lighting panels.
Lighting	<ul style="list-style-type: none"> • Provide common area lighting and any code required emergency and exit lighting/signage for empty shell & core. • Furnish and install a lighting control system that controls shell & core lighting. <p>Tenant to provide all remaining light fixtures and lighting controls in their Premises.</p>
Telephone and Communications	<ul style="list-style-type: none"> • Provide combination telephone/electrical distribution room on each floor, including plywood backboards and grounding. • Provide demark room raceways to vaults for service provider access, and raceways to riser room (if applicable). • Provide sleeves in floors and ceiling of room for use by Tenant. • Provide at least one (1) 2” sleeves to the roof in weather head(s) to accommodate rooftop Tenant equipment, as needed. •
Fire Alarm	<ul style="list-style-type: none"> • Provide base building fire alarm system complete and approved by inspection agency. • Provide code required fire alarm panel on ground floor fire control room and connection of the main system to a 24-hour monitoring. • Provide all fire alarm devices for unfinished open shell layout. • Shell & core fire panel to provide adequate capacity for tie-in of all future Tenant devices. •
Security	<ul style="list-style-type: none"> • Provide an electronic access control system with card readers installed at the ground floor main entries, all elevator lobbies and in any locker/shower rooms and bike lockers.
Tenant Generator	<ul style="list-style-type: none"> • Designate a location for Tenant-provided generator and UPS.

EXHIBIT F
PRE-EXISTING LEASE RIGHTS

Sur La Table

Option to Expand 7,000 contiguous space at the south end of 4th Floor

Notice by: April 17, 2017

Right of First Opportunity on all space in the Building, with one week to respond

AeroTEC

Subject to rights of Sur La Table

Right of First Opportunity on all space on floors 2 and 4 with one week to respond

EXHIBIT G
EXCLUDED CAPITAL PROJECTS

1. New Roof
 - a. 2nd floor 2011
 - b. 5th floor 2015 (balance of building)
2. New HVAC System - excluding cooling tower
 - a. Sur La Table – 2014
 - b. Balance of building 2015/2016
3. West curtain wall – Floors 3 – 5, 2014
4. East Curtain Wall – Floors 2 – 5, 2015
5. Garage security gates – 2016
6. Main lobby upgrades – 2016
7. New stair and loading dock modifications – 2016
8. 100 person conference room – 2016
9. Fitness center – 2016
10. Shower rooms – 2016
11. Bike storage – 2014
12. Dog relief area – 2014 and enlarged in 2016

**EIGHTH AMENDMENT
TO
AMENDED AND RESTATED LOAN AND SECURITY AGREEMENT**

This Eighth Amendment to Amended and Restated Loan and Security Agreement is made and entered into as of September 4, 2015 (the “*Amendment*”) by and among SQUARE 1 BANK (“*Bank*”) and TRUPANION, INC. and TRUPANION MANAGERS USA, INC. (each a “*Borrower*”, and collectively “*Borrowers*”).

RECITALS

Borrowers and Bank are parties to that certain Amended and Restated Loan and Security Agreement dated as of August 24, 2012 (as amended from time to time, the “*Agreement*”). The parties desire to amend the Agreement in accordance with the terms of this Amendment.

NOW, THEREFORE, the parties agree as follows:

1) Section 2.1(b)(iii) of the Agreement is hereby amended and restated, as follows:

(iii) Ancillary Services Sublimit . Subject to the availability under the Revolving Line, at any time and from time to time from the date hereof through the Business Day immediately prior to the Revolving Maturity Date, Borrowers may request the provision of Ancillary Services from Bank. The aggregate limit of the Ancillary Services shall not exceed the Ancillary Services Sublimit, provided that availability under the Revolving Line shall be reduced by the aggregate limits of (i) any outstanding and undrawn amounts under all Letters of Credit issued hereunder, (ii) corporate credit card services provided to Borrower, (iii) the total amount of any Automated Clearing House processing reserves, (iv) the applicable Foreign Exchange Reserve Percentage, and (v) any other reserves taken by Bank in connection with other treasury management services requested by Borrower and approved by Bank. In addition, Bank may, in its sole discretion, charge as Advances any amounts for which Bank becomes liable to third parties in connection with the provision of the Ancillary Services. The terms and conditions (including repayment and fees) of such Ancillary Services shall be subject to the terms and conditions of the Bank’s standard forms of application and agreement for the applicable Ancillary Services, which Borrowers hereby agree to execute.

2) The following defined term set forth in Exhibit A to the Agreement is hereby amended and restated, as follows:

“Ancillary Services Sublimit” means a sublimit for Ancillary Services under the Revolving Line not to exceed \$3,000,000.

3) Unless otherwise defined, all initially capitalized terms in this Amendment shall be as defined in the Agreement. The Agreement, as amended hereby, shall be and remain in full force and effect in accordance with its respective terms and hereby is ratified and confirmed in all respects. Except as expressly set forth herein, the execution, delivery, and performance of this Amendment shall not operate as a waiver of, or as an amendment of, any right, power, or remedy of Bank under the Agreement, as in effect prior to the date hereof. Each Borrower ratifies and reaffirms the continuing effectiveness of all agreements entered into in connection with the Agreement.

- 4) Each Borrower represents and warrants that the representations and warranties contained in the Agreement are true and correct as of the date of this Amendment.
- 5) This Amendment may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one instrument.
- 6) As a condition to the effectiveness of this Amendment, Bank shall have received, in form and substance satisfactory to Bank, the following:
 - a) this Amendment, duly executed by each Borrower;
 - b) payment of all Bank Expenses, including Bank's expenses for the documentation of this amendment and any related documents, and any UCC, good standing or intellectual property search or filing fees, which may be debited from any of Borrowers' accounts; and
 - c) such other documents and completion of such other matters, as Bank may reasonably deem necessary or appropriate.

[Remainder of page intentionally left blank]

IN WITNESS WHEREOF, the undersigned have executed this Amendment as of the first date above written.

TRUPANION, INC.

By: Michael O. Banks
Name: Michael Banks
Title: Chief Financial Officer

TRUPANION MANAGERS USA, INC.

By: Michael O. Banks
Name: Michael Banks
Title: Chief Financial Officer

SQUARE 1 BANK

By: Evan Travis
Name: Evan Travis
Title: V.P.

*[Signature page to Eighth Amendment
to Amended and Restated Loan and Security Agreement]*

**Certification of Principal Executive Officer
Pursuant To Exchange Act Rule 13a-14(a)/15d-14a
As Adopted Pursuant To Section 302 of the Sarbanes-Oxley Act Of 2002**

I, Darryl Rawlings, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Trupanion, 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 most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 4, 2015

/s/ Darryl Rawlings

Darryl Rawlings
Chief Executive Officer and President
(Principal Executive Officer)

**Certification of Principal Financial Officer
Pursuant To Exchange Act Rule 13a-14(a)/15d-14a
As Adopted Pursuant To Section 302 of the Sarbanes-Oxley Act Of 2002**

I, Michael Banks, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Trupanion, 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 most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 4, 2015

/s/ Michael Banks

Michael Banks
Chief Financial Officer
(Principal Financial Officer)

**Certification of Chief Executive Officer
Pursuant to 18 U.S.C. Section 1350,
As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

I, Darryl Rawlings, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

1. The Quarterly Report of Trupanion, Inc. on Form 10-Q for the quarterly period ended March 31, 2015, as filed with the Securities and Exchange Commission, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in such Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Trupanion, Inc.

Date: November 4, 2015

/s/ Darryl Rawlings

Darryl Rawlings
Chief Executive Officer and President
(Principal Executive Officer)

**Certification of Chief Financial Officer
Pursuant to 18 U.S.C. Section 1350,
As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

I, Michael Banks, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

1. The Quarterly Report of Trupanion, Inc. on Form 10-Q for the quarterly period ended March 31, 2015, as filed with the Securities and Exchange Commission, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in such Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Trupanion, Inc.

Date: November 4, 2015

/s/ Michael Banks

Michael Banks
Chief Financial Officer
(Principal Financial Officer)