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TRUPANION INC.

Form 10-Q

May 02, 2018

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**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 March 31, 2018

**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)

6100 4th Avenue S, Suite 200

Seattle, Washington 98108

(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

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(§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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

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

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

As of April 25, 2018, there were approximately 31,186,900 shares of the registrant's common stock outstanding.

TRUPANION, INC.
Quarterly Report on Form 10-Q
For the Period Ended March 31, 2018
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Note About Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and section 27A of the Securities Act of 1933, as amended (Securities Act). 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 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 “we,” “us,” “our” and similar references refer to Trupanion, Inc. and its subsidiaries taken as a whole.

PART I - FINANCIAL INFORMATION**Item 1. Financial Statements****TRUPANION, INC.****Consolidated Statements of Operations****(in thousands, except share data)****(unaudited)**

	Three Months Ended	
	March 31,	
	2018	2017
Revenue	\$69,760	\$ 54,729
Cost of revenue:		
Veterinary invoice expense	50,113	39,187
Other cost of revenue	8,583	6,387
Gross profit	11,064	9,155
Operating expenses:		
Technology and development	2,164	2,403
General and administrative	4,458	4,012
Sales and marketing	5,938	4,089
Total operating expenses	12,560	10,504
Operating loss	(1,496)	(1,349)
Interest expense	219	137
Other (income) expense, net	(140)	(28)
Loss before income taxes	(1,575)	(1,458)
Income tax (benefit) expense	(95)	24
Net loss	\$(1,480)	\$(1,482)
Net loss per share:		
Basic and diluted	\$(0.05)	\$(0.05)
Weighted-average common shares outstanding:		
Basic and diluted	30,246,582	29,254,681

See accompanying notes to the consolidated financial statements.

TRUPANION, INC.

Consolidated Statements of Comprehensive Loss

(in thousands)

(unaudited)

	Three Months Ended	
	March 31,	
	2018	2017
Net loss	\$(1,480)	\$(1,482)
Other comprehensive (loss) income:		
Foreign currency translation adjustments	(190)	12)
Net unrealized (loss) on available-for-sale debt securities	(15)	(7)
Other comprehensive (loss) income, net of taxes	(205)	5)
Comprehensive loss	\$(1,685)	\$(1,477)

See accompanying notes to the consolidated financial statements.

TRUPANION, INC.
Consolidated Balance Sheets
(in thousands, except share data)

	March 31, 2018 (unaudited)	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	\$30,786	\$25,706
Short-term investments	39,360	37,590
Accounts and other receivables	24,317	20,367
Prepaid expenses and other assets	3,046	2,895
Total current assets	97,509	86,558
Restricted cash	600	600
Long-term investments, at fair value	3,238	3,237
Property and equipment, net	8,275	7,868
Intangible assets, net	5,000	4,972
Other long-term assets	2,596	2,624
Total assets	\$117,218	\$105,859
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$3,343	\$2,716
Accrued liabilities and other current liabilities	8,347	7,660
Reserve for veterinary invoices	13,450	12,756
Deferred revenue	26,757	22,734
Total current liabilities	51,897	45,866
Long-term debt	14,851	9,324
Deferred tax liabilities	1,002	1,002
Other liabilities	1,221	1,233
Total liabilities	68,971	57,425
Stockholders' equity:		
Common stock: \$0.00001 par value, 100,000,000 shares authorized; 31,181,627 and 30,430,915 shares issued and outstanding at March 31, 2018; 30,778,796 and 30,121,496 shares issued and outstanding at December 31, 2017	—	—
Preferred stock: \$0.00001 par value, 10,000,000 shares authorized; no shares issued and outstanding	—	—
Additional paid-in capital	139,009	134,511
Accumulated other comprehensive loss	(297)	(92)
Accumulated deficit	(84,264)	(82,784)
Treasury stock, at cost: 755,985 shares at March 31, 2018 and 657,300 shares at December 31, 2017	(6,201)	(3,201)
Total stockholders' equity	48,247	48,434
Total liabilities and stockholders' equity	\$117,218	\$105,859
See accompanying notes to the consolidated financial statements.		

TRUPANION, INC.
Consolidated Statements of Cash Flows
(in thousands)
(unaudited)

	Three Months Ended	
	March 31,	
	2018	2017
Operating activities		
Net loss	\$(1,480)	\$(1,482)
Adjustments to reconcile net loss to cash provided by operating activities:		
Depreciation and amortization	927	1,036
Stock-based compensation expense	968	781
Other, net	23	97
Changes in operating assets and liabilities:		
Accounts and other receivables	(3,926)	(3,372)
Prepaid expenses and other assets	(129)	(219)
Accounts payable, accrued liabilities, and other liabilities	910	(295)
Reserve for veterinary invoices	743	1,093
Deferred revenue	4,041	4,218
Net cash provided by operating activities	2,077	1,857
Investing activities		
Purchases of investment securities	(7,140)	(5,172)
Maturities of investment securities	5,300	3,871
Purchases of property and equipment	(992)	(462)
Other investments	—	(2,710)
Net cash used in investing activities	(2,832)	(4,473)
Financing activities		
Proceeds from exercise of stock options	481	1,037
Proceeds from debt financing, net of financing fees	5,500	—
Other financing	(216)	(142)
Net cash provided by financing activities	5,765	895
Effect of foreign exchange rate changes on cash, cash equivalents, and restricted cash, net	70	21
Net change in cash, cash equivalents, and restricted cash	5,080	(1,700)
Cash, cash equivalents, and restricted cash at beginning of period	26,306	24,237
Cash, cash equivalents, and restricted cash at end of period	\$31,386	\$22,537
Supplemental disclosures		
Noncash investing and financing activities:		
Purchases of property and equipment included in accounts payable and accrued liabilities	680	93
Property and equipment acquired under lease	—	45
Issuance of common stock for cashless exercise of warrants	3,000	—
See accompanying notes to the consolidated financial statements.		

TRUPANION, INC.

Notes to the Consolidated Financial Statements (unaudited)

1. Nature of Operations and Significant Accounting Policies

Description of Business and Basis of Presentation

Trupanion, Inc. (collectively with its wholly-owned subsidiaries, the Company) provides medical insurance for cats and dogs throughout the United States, Canada and Puerto Rico.

The financial data as of December 31, 2017 was derived from the Company's audited consolidated financial statements. The accompanying unaudited interim consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) and, in management's opinion, have been prepared on the same basis as the audited financial statements and include all adjustments, consisting of normal recurring adjustments, necessary for the fair presentation of the Company's financial position, results of operations, comprehensive loss, and cash flows for the interim periods. These unaudited interim consolidated financial statements should be read in conjunction with the Company's audited financial statements included in the Company's Annual Report on Form 10-K, filed with the U.S. Securities and Exchange Commission (SEC) on February 13, 2018 (the 2017 10-K). The Company's accounting policies are described in Note 1 to the audited financial statements included in the 2017 10-K. Operating results for the three months ended March 31, 2018 are not necessarily indicative of the results that may be expected for the full fiscal year or any other interim period.

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 amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from such estimates. See Note 1 to the audited financial statements included in the 2017 10-K for additional discussion of these estimates and assumptions.

Accumulated Other Comprehensive Loss

There were no reclassifications out of accumulated other comprehensive loss during the three months ended March 31, 2018 and 2017.

Income Taxes

On December 22, 2017, the U.S. government enacted the Tax Cuts and Jobs Act (Tax Act), making broad and complex changes to the Internal Revenue Code. The Company has made significant judgments and estimates in accordance with its interpretation of the Tax Act. As additional guidance on the Tax Act becomes available, the Company may adjust its interpretation of the requirements, which may result in a material change to income tax benefit or expense in the period in which the adjustment is made.

Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (FASB) issued an Accounting Standards Update (ASU) amending the lease presentation guidance. The ASU requires organizations that lease assets to recognize the rights and obligations created by those leases on the consolidated balance sheets. This ASU is effective for fiscal years beginning after December 15, 2018 including interim periods within that reporting period, with early adoption permitted. The Company has determined this guidance will require recognition of a lease liability and corresponding asset on the consolidated balance sheets equal to the present value of minimum lease payments. The carrying amount of the asset is derived from the amount of the lease liability at the end of each reporting period. The Company plans to adopt this guidance as of January 1, 2019, and is in the process of evaluating the impact on its consolidated financial statements.

2. Net Loss per Share

Basic net loss per share is computed using the weighted-average number of shares of common stock outstanding during the period. Diluted net loss per share is calculated using the weighted-average number of shares of common stock plus, when dilutive, potential common shares outstanding using the treasury-stock method. Potential common shares outstanding include stock options, unvested restricted stock awards and restricted stock units, and warrants.

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

	Three Months Ended March 31,	
	2018	2017
Stock options	3,878,716	3,983,098
Restricted stock awards and restricted stock units	546,638	351,702
Warrants	510,000	810,000

3. Investment Securities

The amortized cost, gross unrealized holding gains and losses, fair value of long-term investments, which are classified as available-for-sale, and fair value of short-term investments by major security type and class of security were as follows as of March 31, 2018 and December 31, 2017 (in thousands):

	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
As of March 31, 2018				
Available-for-sale:				
Foreign deposits	\$2,253	\$ —	\$ —	\$2,253
Municipal bond	1,000	—	(15)	985
	\$3,253	\$ —	\$ (15)	\$3,238
Short-term investments:				
U.S. Treasury securities	\$5,784	\$ —	\$ (2)	\$5,782
Certificates of deposit	690	—	—	690
U.S. government funds	32,886	—	—	32,886
	\$39,360	\$ —	\$ (2)	\$39,358

	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
As of December 31, 2017				
Available-for-sale:				
Foreign deposits	\$2,237	\$ —	\$ —	\$2,237
Municipal bond	1,000	—	—	1,000
	\$3,237	\$ —	\$ —	\$3,237
Short-term investments:				
U.S. Treasury securities	\$5,783	\$ —	\$ (4)	\$5,779
Certificates of deposit	690	1	—	691
U.S. government funds	31,117	—	—	31,117
	\$37,590	\$ 1	\$ (4)	\$37,587

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

	March 31, 2018	
	Amortized Cost	Fair Value
Available-for-sale:		
Due after one year through five years	\$2,253	\$2,253
Due after five years through ten years	1,000	985
	\$3,253	\$3,238

The Company evaluated its securities for other-than-temporary impairment and considers the decline in market value for the securities to be primarily attributable to current economic and market conditions. For debt securities, the Company does not intend to sell, nor is it more likely than not that the Company will be required to sell, the securities prior to maturity or prior to the recovery of the amortized cost basis.

4. Fair Value

Investments

The following table summarizes, by major security type, the Company's assets that are measured at fair value on a recurring basis, and placement within the fair value hierarchy (in thousands):

	As of March 31, 2018		
	Fair Value	Level 1	Level 2
Assets			
Restricted cash	\$600	\$600	