TRUPANION INC.
Form 10-K
February 24, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
(Mark One)
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2014
or
o 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	83-0480694
(State or other jurisdiction of incorporation or organization)	(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)
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Exchange on Which Registered
Common Stock, $0.00001 par value per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None.
Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. o Yes x No
Indicate by check mark whether the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. o Yes x No
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. xYes o 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). x Yes o No
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x
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	o	Accelerated filer	o

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

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

As of June 30, 2014, the last business day of the registrant's most recently completed second fiscal quarter, there was no established public market for the registrant's common stock. The registrant's common stock began trading on the New York Stock Exchange on July 18, 2014. The aggregate market value of common stock held by non-affiliates of the registrant computed by reference to the price of the registrant's common stock as of July 18, 2014 (based on the last reported sale price on the New York Stock Exchange as of such date) was $56,969,288.

As of February 18, 2015, there were approximately 27,797,215 shares of the registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE Part III incorporates certain information by reference from the definitive proxy statement to be filed by the registrant in connection with the 2015 Annual Meeting of Stockholders (Proxy Statement). The Proxy Statement will be filed by the registrant with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the end of the registrant's fiscal year ended December 31, 2014.

TRUPANION, INC.
Annual Report on Form 10-K
for the Fiscal Year Ended December 31, 2014
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Note About Forward-Looking Statements

This Annual Report on Form 10-K 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 Annual Report on Form 10-K 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 con 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 Annual Report on Form 10-K. 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 Annual Report on Form 10-K 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.

PART I

Item 1. Business

Our Mission

Our mission is to help the pets we all love receive the best veterinary care.

Our Company and Approach

We are a direct-to-consumer monthly subscription service providing a medical insurance 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 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 acquisition cost.

Our target market is large and underpenetrated. We have pioneered a unique solution that sits at the center of the pet medical ecosystem, meeting the needs of pets, pet owners and veterinarians, and we believe we are uniquely positioned to disrupt the pet medical insurance market and drive increased market penetration. Our aggregate enrolled pets, including pets in our other business segment, was 232,426 as of December 31, 2014. Of this amount, the total number of pets enrolled in our subscription medical plan has increased every quarter for the last ten years. More recently, the total pets enrolled in our subscription medical plan grew from 31,207 on January 1, 2010 to 218,684 on December 31, 2014, which represents a compound annual growth rate of 48%.

Total Subscription Pets Enrolled
(in thousands)

Pet owners are often surprised by the cost of veterinary care and can be financially unprepared if their beloved pets become injured or ill. The costs of medical treatments for pets have become more onerous over time due to the availability and usage of increasingly advanced veterinary care. Although traditional pet insurance products have been offered for years, many of these products are poorly designed and confusing to pet owners and their veterinarians. These products provide limited value to both pet owners and veterinarians and they have low adoption rates. Consequently, pet owners without medical coverage or with traditional insurance products may be forced to accept sub-standard care for their pets due to financial constraints.

To address these challenges, we offer a simple, fair and comprehensive medical plan that pays 90% of actual veterinary costs for accident and illness claims, has no payout limitations, has few exclusions and can be used to cover the costs incurred at any veterinary practice, emergency care center or specialty hospital in the United States, Canada and Puerto Rico. This differentiated approach aligns the interests of pet owners and veterinarians, which allows them to focus on providing the best care for pets rather than minimizing the cost of treatment. Some of our key differentiators include:

- Superior Value Proposition. Our vertically integrated infrastructure eliminates significant frictional costs that constrain many of our competitors, which allows us to provide superior value to our members.
- Proprietary Database and Technology Platform. Our custom-built technology platform and proprietary database contains 15 years of pet health records and gives us unique insights into how to both manage our business and accurately price subscriptions to our medical plan.

- Strong Relationship with Veterinary Community. We have invested significant time and energy communicating our value proposition to thousands of veterinarians. 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 communicate the benefits of our medical plan to veterinarians through in-person visits.

We believe that these differentiators serve as competitive advantages, making our business model difficult to replicate.

We generate revenue 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. Since 2010, at least 88% of our subscription business revenue every quarter has come from existing members who had active subscriptions at the beginning of the quarter. Due to our focus on providing a superior value proposition and member experience, our members are very loyal, as evidenced by our 98.68% average monthly retention rate in 2014. For more information regarding average monthly retention, including an explanation of how we calculate this metric, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Key Financial and Operating Metrics.”

We enrolled our first pet in Canada in 2000 and our first pet in the United States in 2008. Our revenue for the year ended December 31, 2014 was $115.9 million, representing a compound annual growth rate of 57% from our revenue of $19.1 million for the year ended December 31, 2010. We have made and expect to continue to make substantial investments in member acquisition and in expanding our operations to support our expected growth. For the year ended December 31, 2014, we had a net loss of $21.2 million and our accumulated deficit was $57.2 million at December 31, 2014.

Our Solution

Our medical plan aligns the interests of pet owners and veterinarians, which allows them to focus on providing the best care for their pets rather than cost of treatment.

Benefits to Pet Owners

Predictability of costs and peace of mind. Our members can be confident that their pets will be covered in the event of injury or illness. When they make a claim that is covered by our plan, we pay 90% of the veterinary costs actually charged by the member’s veterinarian. While a significant number of our members choose a plan with no deductible, our members have the option to choose a deductible up to $1,000 and can change their deductible at any time. Our members may obtain treatment from any licensed veterinarian that they select within the United States, Canada or Puerto Rico. Our coverage has no payout limits, is not subject to a lifetime maximum payout and is not limited by the amount that a veterinarian charges or the treatment that a veterinarian recommends. Our coverage is designed to be comprehensive and to cover the treatment costs of any accident or illness. Generally, the only costs not covered by our plan are those relating to conditions existing prior to the pet’s enrollment, routine or preventative care, including examination fees and taxes. Our goal is to enable pets to receive the best medical care while helping pet owners manage the financial burdens stemming from injuries or illnesses.

Awareness of cost of care. We believe veterinarians typically have consultative relationships with pet owners and play a major role in influencing the decisions they make to care for their pets. We actively market the value of our medical plan to veterinarians, enabling them to educate pet owners effectively about the costs of veterinary care and the benefits of our medical plan. Leads generated from veterinary referrals drive membership engagement across multiple touch points ranging from our member-friendly contact center to our easy-to-use website.

Superior value proposition. We offer a comprehensive medical plan with no limitations for chronic, congenital or hereditary conditions, no payout limits and no mandates to veterinarians on the cost of treatment. We focus on providing high value to our members, rather than minimizing the monthly subscription price.

Exceptional member experience. We are highly focused on providing an exceptional member experience. We offer a simple and easy to understand medical plan. We have designed our claims process to be fair, efficient and transparent. Our goal is to help eliminate the high levels of frustration associated with traditional pet insurance products.

Benefits to Veterinarians

Freedom to be the most effective advocate for pets. Our medical plan does not limit how much can be paid for an injury or illness. This provides veterinarians with the freedom to practice veterinary medicine at the highest level and be the most effective advocate for the health of the pets.

More loyal client base. Our members visit veterinarians more frequently, which can generate significantly more annual revenue for veterinarians compared to clients without pet medical coverage. Furthermore, pet owners with medical coverage typically spend significantly more on their seriously injured or ill pet before opting to stop treatment. The result is a client base that is more engaged, spends more money on care and has healthier cats and dogs.

Reduces potential conflicts with cost-sensitive pet owners. We enable veterinarians to recommend optimal treatment without having their decisions dictated by the cost of treatment and the financial burden on the pet owner. As a result, veterinarians are able to establish stronger ties with their clients.

Our Strategy

Our strategy is focused on attracting and retaining members by providing a best-in-class value and member experience. We are focused on building a successful long-term business by pursuing the following growth strategies:

Increase the number of referring veterinary practices. We intend to increase the number of veterinary practices that are actively introducing our medical plan to their clients by continuing to expand our national independent referral network of Territory Partners and increasing direct marketing to veterinarians.

Increase the number of referrals from active veterinary practices. We intend to continue increasing the number and quality of interactions that we have with veterinarians to accelerate the rate at which active veterinary practices refer us leads.

Increase the number of third-party referrals from members. We are focused on using innovative technologies to further enhance our member experience. Generally, we believe a superior member experience will foster member referrals. For example, we recently introduced a new software technology, Trupanion Express, which is designed to facilitate the direct payment of claims to veterinary practices. We believe this, if widely adopted, will transform the claims process and could increase referrals from pet owners and veterinarians acting as ambassadors for our brand.

Improve online lead generation and conversion. We are investing in our online marketing capabilities, and intend to continue to do so in order to fully capture the online opportunity. Our online marketing initiatives play an integral role in acquiring new leads. Our website is critical to converting leads from all of our member acquisition channels, with over 82% of our new members in the year ended December 31, 2014 visiting our website prior to or during the enrollment process.

Explore other member acquisition channels. We regularly evaluate new member acquisition channels. We intend to aggressively pursue those channels that we believe will generate an attractive ratio of lifetime value relative to acquisition cost.

Expand internationally. While we are currently focused on capturing the large opportunity in the U.S. and Canadian markets, we may to explore international expansion in the future.

Pursue other revenue opportunities. We may opportunistically engage in other revenue opportunities. For example, American Pet Insurance Company, which we acquired in 2007, has written policies for an unaffiliated general agent since the end of 2012. As the industry grows and other providers consider entering the pet insurance market, we are uniquely positioned to partner with them.

Sales and Marketing

Marketing to Veterinarians

Veterinary practices represent our largest referral source. Forming long-term relationships with veterinarians is critical to our continued success, as we believe veterinary recommendations are highly persuasive to our existing and prospective members and key to increasing overall awareness of our medical plan. To reach veterinarians effectively, we utilize a national independent referral network of Territory Partners. Territory Partners serve as a critical resource for us, as the market for veterinary services is highly fragmented and includes many sole-owner veterinary practices and small veterinary practices that are difficult to reach. Our Territory Partners are independent contractors who exclusively market our medical plan and are paid fees based on activity in their regions. We believe this compensation structure aligns our interests and provides a platform that we can leverage over time to increase the contribution margin of membership generated through this channel.

Sales and Marketing to Pet Owners

We generate leads through a diverse set of third-party referrals and online member acquisition channels, which we then convert into members through our website and contact center.

- Referrals from third-parties. We actively promote the value of our medical plan with veterinarians, veterinary affiliates (including purchasing groups and other veterinary membership organizations), corporate employee benefit providers, shelters and breeders to introduce our medical plan to their clients.

- Online. We believe most of our members spend some time researching pet medical coverage online as part of their decision-making process. Online advertising represents a large source of new member enrollments. A significant portion of the members we acquire from online leads come through our paid search marketing, email marketing, social media marketing and search engine optimization initiatives.
- Referrals from existing members. For the year ended December 31, 2014, 21% of our new member enrollments were generated from existing members adding a pet and referring their friends and family.

We constantly evaluate our marketing initiatives based on their respective returns on investment, which we generally measure by comparing total sales and marketing investment for an initiative against the applicable contribution margin generated.

Member Support and Claims Operations

We utilize our award-winning, in-house contact center to maximize the effectiveness of our sales, claims handling and overall member retention rate. Our contact center employees play an essential role in communicating our brand and values to our members. When a member calls, our system automatically routes them to one of our professionals who is best equipped to handle the call, rather than sending them to an automated menu of options. Operationally, we provide 24-hour support, seven days a week, and offer support in English, Spanish and French. Members can select their preferred contact method of phone, email or web co-browsing. We meticulously measure our contact center interactions and capture meaningful member insights that can be leveraged across our business.

One of the most significant opportunities we have to interact with our members is through our claims administration process. We view each interaction with our members as an opportunity to create an ambassador for our brand. Our claims processing team has significant first-hand experience in veterinary practices. We have carefully engineered our claims process to be transparent, fair and fast, which is critical for membership experience and retention rates, and we are continually evaluating new ways to further improve our claims administration process.

Our Platform and Technology

We are a data and technology-driven company that has devoted significant resources to developing scalable infrastructures that leverage state-of-the-art technology frameworks. We have a team of product and engineering professionals dedicated to enhancing our technology platform and developing new solutions for pet owners and veterinarians.

Our team has developed proprietary, in-house software that forms the backbone of our unique technology platform:

Analytics and pricing engine. Our dynamic analytics platform draws on our extensive library of proprietary data to effectively and accurately price subscriptions to our medical plan. We leverage a broad range of information, including species, breed, age, gender and pet location. As of December 31, 2014, we used approximately 1.2 million permutations, which are regularly refined to price each pet based on its unique characteristics. As data collection is a key part of our research and development process, we are constantly looking for new and relevant data to collect and shape for this purpose.

Trupanion Express. Our software solution for veterinarians provides them with the ability to process claims electronically, often in less than five minutes. Trupanion Express integrates with veterinarians practice management software, giving us access to more data, reducing our claims handling expense and giving us the ability to deliver a significantly better experience to our members compared to the traditional reimbursement model.

Pet Organizer. Our proprietary claims processing software is at the heart of our technology platform. Custom-built to facilitate our claims administration and billing, Pet Organizer enables us to collect an ever-increasing amount of unique pet data. Pet Organizer allows our claims administration team to process a voluminous number of claims in a flexible way, which we do not believe is possible using off-the-shelf claims software.

Customer relationship management system. Using customer relationship management technology that has been modified to support the unique processes of our sales and claims professionals, our customer relationship management system provides a robust, dynamic means of creating, tracking and storing all of the data we use to better understand and manage our interactions with members, Territory Partners and veterinarians.

Contact center. Our phone system uses a multi-channel solution that intelligently routes member interactions to the best-matched skilled professional. This technology includes a workforce management solution that forecasts call volumes and schedules our professionals to meet goals, providing us with robust data capture and reporting capabilities.

Trupanion.com. Our responsive, content management system-based website provides a simple interface between Trupanion and consumer and business audiences, providing a simple interface that removes the need for labor intensive, complex steps during the enrollment process. It employs dynamic business logic to help new members complete their enrollment forms in real time. Built using digital asset management and customer relationship management system technologies, the site provides a custom-built user experience for each user based on who the user is and how the user arrived at the site. The responsive nature of the website also helps to deliver an optimal experience, regardless of where the content is accessed.

We developed our website and related infrastructure with the goal of maximizing the availability of our platform to members, veterinarians and key member acquisition channels. Our website and related infrastructure are hosted on a network located at our headquarters in Seattle, Washington and in a redundant third-party facility in Santa Clara, California.

Competition

The market for medical coverage for pets is highly competitive. We compete with consumers that self-fund veterinary costs with cash or credit, as well as traditional pet insurance providers and new entrants to 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 primarily focused on expanding the overall size of the market by improving the value proposition for consumers. We view our primary competitive challenge as educating pet owners on why our medical plan is a better alternative to self-funding.

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 providers is Veterinary Pet Insurance Company, a division of Nationwide Insurance. In addition, new entrants backed by large insurance companies with substantial financial resources have attempted to enter the market in the past and may do so again in the future. Further, traditional 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. We believe that we have competitive strengths that position us favorably related to competitors, including a compelling value proposition due in part to our vertically integrated approach that reduces frictional costs, a unique member acquisition strategy and network of territory partners, a proprietary database containing 15 years of historical data that provides actionable data insights, powerful technology infrastructure and an experienced management team.

Intellectual Property

We rely on federal, state, common law and international rights, as well as contractual restrictions, to protect our intellectual property. We control access to our proprietary technology, software and documentation by entering into confidentiality and invention assignment agreements with our employees and contractors, and confidentiality agreements with third parties, such as service providers, vendors, individuals and entities that may be exploring a business relationship with us.

In addition to these contractual arrangements, we also rely on a combination of intellectual property rights, including trade secrets, patents, copyrights, trademarks and domain names, as well as contractual protections, to establish and protect our intellectual property. As of December 31, 2014, we had two pending patent applications in the United States, one pending international patent filed under the Patent Cooperation Treaty, one pending patent application in Europe and no issued patents. We also had six registered trademarks in the United States, including "Trupanion," and two additional trademark applications. We had one registered trademark in Canada, and have 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. We also currently hold the "Trupanion.com" Internet domain name and numerous other related domain names.

Employees

As of December 31, 2014, we had 413 employees. We have not experienced any work stoppages, and we consider our relations with our employees to be good.

Regulation

Each U.S. state, the District of Columbia and U.S. territories and possessions, as well as all of the Canadian provinces, have insurance laws that apply to companies licensed to transact insurance business in the jurisdiction. The primary regulator of an insurance company, however, is located in its state of domicile. Our underwriting subsidiary American Pet Insurance Company (APIC) is domiciled in New York State and its primary regulator is therefore the New York Department of Financial Services (NY DFS). APIC is currently licensed to do business in all 50 states, Puerto Rico and the District of Columbia in the United States. As such, APIC is subject to comprehensive regulation and supervision under U.S. state and federal laws.

State insurance regulators have broad authority with respect to all aspects of the insurance industry, including the following:

- licensing of APIC to transact its line of business and approval and issuance of its certificate of authority;
- establishing minimum levels of capital and reserves required by APIC to operate as an ongoing insurance company;
- assessing the officers and directors of APIC to ensure a minimum level of competency and trustworthiness;
- licensing of individual producers and agents and business entities marketing and selling insurance products and of claims adjusters settling claims;
- admittance of assets to statutory surplus and regulating the type of investments in which APIC can invest;
- regulating premium rate levels for the insurance products APIC offers;
- approving policy forms APIC issues;
- regulating unfair trade and claims practices; and
- establishing reserve requirements and solvency standards.

Regulators also have broad authority to conduct on-site market conduct examinations of our management and operations, marketing and sales, underwriting, customer service, claims handling and licensing. Market conduct examinations can involve direct, on-site contact with a company to identify potential regulatory violations, discuss and correct an identified problem or obtain a better understanding of how the company is operating in the marketplace. Adverse state insurance regulatory actions could include limiting APIC's ability to write new policies, limiting APIC's ability to effect rate increases or to cancel, reduce or non-renew insurance coverage with respect to existing policies, disallowing premium increases or policy coverage amendments APIC seeks, reviewing the adequacy and appropriateness of our insurance products before they can be made available to our members and restricting marketing and sales by our referral sources, contact centers and producers.

State insurance laws and regulations in the United States require APIC to file financial statements with state insurance regulators everywhere it is licensed and its operations and accounts are subject to examination at any time. APIC's statutorily required financial statements are available to the public. APIC prepares statutory financial statements in accordance with accounting practices and procedures prescribed or permitted by these regulators. The National Association of Insurance Commissioners (NAIC) has approved a series of uniform statutory accounting principles (SAP) that have been adopted, in some cases with minor modifications, by all state insurance regulators. As a basis of accounting, SAP was developed to monitor and regulate the solvency of insurance companies. In developing SAP, insurance regulators were primarily concerned with assuring an insurer's ability to pay all its current and future obligations to policyholders. As a result, statutory accounting focuses on conservatively valuing the assets and liabilities of insurers, generally in accordance with standards specified by the insurer's domiciliary state. The values for assets, liabilities and equity reflected in financial statements prepared in accordance with U.S. generally accepted accounting principles are usually different from those reflected in financial statements prepared under SAP.

In Canada, our plan is written by an unaffiliated Canadian-licensed insurer, Omega General Insurance Company (Omega). Under the terms of our agreements with Omega, our subsidiary Trupanion Brokers Ontario acts as a general agent through a fronting and reinsurance agreement with Omega pursuant to which APIC retains any financial risk associated with our Canadian business. This agreement was restructured as of January 1, 2015 to include our newly formed segregated portfolio cell business, Wyndham Segregated Account, located in Bermuda. These restructured agreements may be terminated by either party with one year's written notice until they terminate pursuant to their terms on December 31, 2017, at which time they will automatically renew for successive one-year periods and remain terminable by either party with one year's written notice. Omega's Canadian insurance operations are supervised and regulated by the Canadian federal, provincial and territorial governments. Omega is a fully licensed insurer in all of the Canadian provinces and territories in which we do business.

Insurance Holding Company Regulation

APIC is subject to laws governing insurance holding companies in New York, its state of domicile. These laws impact us in a number of ways, including the following:

- We must file periodic information reports with the NY DFS, including information concerning our capital structure, ownership, financial condition and general business operations.
-

New York regulates certain transactions between APIC and our other affiliated entities, including the fee levels payable by APIC to affiliates that provide services to APIC.

- New York law restricts the ability of any one person to acquire certain levels of our voting securities without prior regulatory approval. State insurance holding company regulations generally provide that no person, corporation or other entity may acquire control of an insurance company, or a controlling interest in any parent company of an insurance company, without the prior approval of such insurance company's domiciliary state insurance regulator. Any person acquiring, directly or indirectly, 10% or more of the voting securities of an insurance company is presumed to have acquired "control" of the company. To obtain approval of any change in control, the proposed acquirer must file with the applicable insurance regulator an application disclosing, among other information, its background, financial condition, the financial condition of its affiliates, the source and amount of funds by which it will effect the acquisition, the criteria used in determining the nature and amount of consideration to be paid for the acquisition, proposed changes in the management and operations of the insurance company and other related matters. In considering an application to acquire control of an insurer, the insurance commissioner generally will consider such factors as the experience, competence and financial strength of the applicant, the integrity of the applicant's board of directors and executive officers, the acquirer's plans for the management and operation of the insurer and any anti-competitive results that may arise from the acquisition.
- New York law restricts the ability of APIC to pay dividends to its holding company parent. These 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, and dividends in larger amounts, or extraordinary dividends, are subject to approval by the NY DFS. An extraordinary dividend or distribution is defined as a dividend or distribution that, in the aggregate in any 12-month period exceeds 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, not including realized capital gains.

Financial Regulation of Insurers

Risk-Based Capital Requirements

The NAIC has adopted risk-based capital requirements for life, health and property and casualty insurance companies. The requirements provide a method for analyzing the minimum amount of adjusted 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. 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 maintained risk-based capital of $23.7 million, which exceeded the required $22.6 million of risk-based capital needed to satisfy the No Action Level. 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.

State insurance regulators use the risk-based capital requirements as an early warning tool to identify possibly inadequately capitalized insurers. An insurance company found to have insufficient statutory capital and surplus based on its risk-based capital ratio may be subject to varying levels of additional regulatory oversight depending on the level of capital inadequacy.

Risk-based capital requirements reduce the amount of risk a company can take. Risk-based capital requirements generally obligate a company with a higher amount of risk to hold a higher amount of capital relative to the premiums written. Risk-based capital provides a cushion to a company against insolvency if it fails to adequately price its insurance products and the sum of losses and expenses is greater than the premium. Risk-based capital is intended to be a minimum regulatory capital standard and not necessarily the full amount of capital that an insurer would ideally want to hold to meet its financial obligations. The risk-based capital formulas are designed to require insurers that are growing premiums quickly to hold more capital; as a result, growth of our business may increase significantly the amount we are required to retain as risk-based capital.

NAIC Insurance Regulatory Information Systems Ratios

The NAIC has developed a set of financial relationships or tests known as the Insurance Regulatory Information System, or IRIS, to assist state regulators in monitoring the financial condition of U.S. insurance companies and identifying companies requiring special attention or action. IRIS consists of a statistical phase and an analytical phase whereby financial examiners review insurers' annual statements and financial ratios. The statistical phase consists of 12 key financial ratios based on year-end data that are generated from the NAIC database annually; each ratio has a "usual range" of results. For IRIS ratio purposes, APIC submits data annually to state insurance regulators who then analyze our data using prescribed financial data ratios. A ratio falling outside the prescribed "usual range" is not considered a failing result. Rather, unusual values are viewed as part of the regulatory early monitoring system. In many cases, it is not unusual for financially sound companies to have one or more ratios that fall outside the usual range. As of December 31, 2014, APIC had three such ratios outside the usual range, relating to net premiums written to surplus, change in net premiums written and investment yield.

Regulators may investigate or monitor an insurance company if its IRIS ratios fall outside the prescribed usual range. The inquiries made by state insurance regulators into an insurance company's IRIS ratios can take various forms. In some instances, regulators may require the insurance company to provide a written explanation as to the causes of the particular ratios being outside the usual range, management's actions to produce results that will be within the usual range in future years and what, if any, actions the insurance company's domiciliary state insurance regulators have taken. Regulators are not required to take action if an IRIS ratio is outside the usual range, but, depending on the nature and scope of the particular insurance company's exception, regulators may request additional information to monitor going forward and, as a consequence, may take additional regulatory action.

Insurance Guaranty Associations, Residual Markets, Wind Pools and State-specific Reinsurance Mechanisms

Most jurisdictions in which we operate have laws or regulations that require insurance companies doing business in the state to participate in various types of guaranty associations or other similar arrangements designed to protect policyholders from losses under insurance policies issued by insurance companies that become impaired or insolvent. Typically, these associations levy assessments, up to prescribed limits, on member insurers on the basis of the member insurer's proportionate share of the business in the relevant jurisdiction in the lines of business in which the impaired or insolvent insurer is engaged. Some jurisdictions permit member insurers to recover assessments that they paid through full or partial premium tax offsets, usually over a period of years.

Some states in which APIC operates have residual markets, wind pools or state reinsurance mechanisms. The general intent behind these is to provide coverage to individuals and businesses that cannot find coverage in the private marketplace. The intent of state-specific reinsurance mechanisms generally is to stabilize the cost of, and ensure access to, reinsurance for admitted insurers writing business in the state. Historically, APIC has had minimal financial exposure to guaranty associations, residual markets, wind pools and state-specific reinsurance mechanisms; however there is no guarantee that these items will continue to be of low financial impact to APIC.

Licensing of Producers and Other Entities

Insurance agencies, producers, third-party administrators, claims adjusters, service providers and administrators are subject to licensing requirements and regulation by insurance regulators in various jurisdictions in which they conduct business. If any of our subsidiaries, referral sources, contact centers or service providers engage in these functions, they will be subject to licensing requirements and regulation by insurance regulators in various jurisdictions. If a subsidiary, referral source, contact center or service provider does not comply with licensing requirements and regulation by any insurance regulator, such insurance regulator could penalize such entity, including restricting certain activity of such entity.

Federal Initiatives

The U.S. federal government generally does not directly regulate the insurance business. From time to time, various regulatory and legislative changes have been proposed in the insurance industry. Among the proposals that have in the past been, or are at present being, considered are the possible introduction of federal regulation in addition to, or in lieu of, the current system of state regulation of insurers and proposals in various state legislatures (some of which have been enacted) to conform portions of their insurance laws and regulations to various model acts adopted by the NAIC. The NAIC has undertaken a Solvency Modernization Initiative focused on updating the U.S. insurance solvency regulation framework, including capital requirements, governance and risk management, group supervision, accounting and financial reporting and reinsurance. The NAIC Amendments are a result of these efforts. Additional requirements are also expected. For example, the NAIC has adopted the Risk Management and Own Risk and Solvency Assessment (ORSA) Model Act, which when adopted by the states will require insurers to perform an ORSA and, upon request of a state, file an ORSA Summary Report with the state. The ORSA Summary Report will be required in 2015 for medium and large insurers, subject to the various dates of adoption by states, and, if required, will describe our process for assessing our own solvency.

In July 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) established a Federal Insurance Office within the U.S. Department of the Treasury. The Federal Insurance Office initially is charged with monitoring all aspects of the insurance industry (other than health insurance, certain long-term care insurance and crop insurance), gathering data and conducting a study on methods to modernize and improve the insurance regulatory system in the United States. It is not possible to predict whether, in what form or in what jurisdictions any of these proposals might be adopted, or the effect federal involvement in insurance will have, if any, on us.

Privacy and Data Collection Regulation

There are numerous federal, state and foreign laws regarding privacy and the protection of member data. The regulatory environment in this area for online businesses is very unsettled in the United States and internationally and new legislation is frequently being proposed and enacted.

In the area of information security and data protection, many states have passed laws requiring notification to users when there is a security breach for personal data, such as the Massachusetts Data Breach Notification Law, or requiring the adoption of minimum information security standards that are often vaguely defined and difficult to practically implement. In addition, our operations subject us to certain payment card association operating rules, certification requirements and rules, including the Payment Card Industry Data Security Standard, a security standard for companies that collect, store or transmit certain data regarding credit and debit cards, credit and debit card holders and credit and debit card transactions.

Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy or obtain and use our technology or data to develop products that may compete with our offerings. Policing unauthorized use of our technology or data is difficult. The laws of other countries in which we market our medical plan may offer little or no effective protection of our proprietary technology. Our competitors could also independently develop technologies equivalent to ours, and our intellectual property rights may not be broad enough for us to prevent competitors from selling products incorporating those technologies.

Companies in our industry and in other industries may own a large number of patents, copyrights and trademarks and may frequently request license agreements, threaten litigation or file suit against us based on allegations of infringement or other violations of intellectual property rights. From time to time, we face, and we expect to face in the future, allegations that we have infringed the trademarks, copyrights, patents and other intellectual property rights of third parties, including our competitors. As we face increasing competition and as our business grows, we will likely face more claims of infringement.

Information About Segments and Geographic Revenue

Information about segments and geographic revenue is set forth in Note 13 of the Notes to Condensed Consolidated Financial Statements under Item 8 of this Annual Report on Form 10-K. In addition, financial information regarding our operations, assets and liabilities, including our total net revenue and net loss for the years ended December 31, 2014, 2013 and 2012 and our total assets as of December 31, 2014 and 2013, is included in our Condensed Consolidated Financial Statements under Item 8 of this Annual Report on Form 10-K.

Corporate Information

We were founded in Canada in 2000 as Vetinsurance Ltd. In 2006, we effected a business reorganization whereby Vetinsurance Ltd. became a consolidated subsidiary of Vetinsurance International, Inc., a Delaware corporation. In 2007, we began doing business as Trupanion. In 2013, we formally changed our name from Vetinsurance International, Inc. to Trupanion, Inc. Our principal executive offices are located at 907 NW Ballard Way, Seattle, Washington 98107, and our telephone number is

(855) 727-9079. Our website address is www.trupanion.com. Information contained on, or that can be accessed through, our website is not incorporated by reference into this prospectus, and you should not consider information on our website to be part of this Annual Report on Form 10-K.

Available Information

We are required to file annual, quarterly and other reports, proxy statements and other information with the Securities and Exchange Commission (SEC) under the Securities Exchange Act of 1934, as amended (Exchange Act). We also make available, free of charge on the investor relations portion of our website at investors.trupanion.com, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after they are filed electronically with the SEC. You can inspect and copy our reports, proxy statements and other information filed with the SEC at the offices of the SEC's Public Reference Room located at 100 F Street, NE, Washington D.C 20549 on official business days during the hours of 10 a.m. to 3 p.m. Eastern time. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the Public Reference Rooms. The SEC also maintains an Internet website at www.sec.gov/ where you can obtain our SEC filings. You can also obtain paper copies of these reports, without charge, by contacting Investor Relations at InvestorRelations@Trupanion.com.

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 $21.2 million for the year ended December 31, 2014. Additionally, as of December 31, 2014, our accumulated deficit was $57.2 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 periodically test new member acquisition channels and marketing initiatives, each of which impacts 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 lifetime value of the pets that we project 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 $11.6 million on sales and marketing to acquire new members for the year ended December 31, 2014. 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 has been generally 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. Further, if any of our competitors developed similar data systems, adopted similar 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 December 31, 2014, our claims reserve was $5.1 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.

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, to help generate leads for our medical plan subscriptions. Veterinary practices represent our largest member acquisition channel, accounting for approximately 74% of our enrollments in in the year ended December 31, 2014, 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 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 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 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, claims are denied or we fail to timely settle and pay claims, 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 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” for all purposes 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 proceedings.

We believe that Territory Partners are not 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 year ended December 31, 2014, we generated 90.6%, 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 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;

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- 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, 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 additional 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. As of December 31, 2014, approximately 25% 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 claims quickly and accurately.

We must accurately evaluate and quickly pay claims that are made under our medical plan in a manner that gives our members high satisfaction. Many factors can affect our ability to pay claims accurately, quickly and in a manner that gives our members high satisfaction, including the training, experience and skill of our claims representatives, our ability to reduce claims for non-covered conditions, our ability to recognize and respond to fraudulent or inflated claims, the claims 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 claims functions. Our failure to pay claims fairly, accurately and in a timely manner, or to deploy claims 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-fund with cash 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-funding.

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 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 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’s ability to speak with potential members quickly and in a way that is conducive to converting leads or to enroll new members;
- 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.

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 claims under our medical plan. Additionally, our members review and purchase subscriptions to our medical plan and submit claims 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 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 contact center and claims department.

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. Similarly, we recently redesigned our website, which required a significant amount of time and expense. 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, including our reporting systems, procedures and controls. 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 to or our willingness to implement pricing changes;
- the level of demand for and the price 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.

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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, 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 continue to develop the infrastructure of a public company and continue to 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.

Our business and financial condition is subject to risks related to our writing of policies for an unaffiliated general agent.

In November 2012, we began writing pet insurance policies for an unaffiliated general agent. 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 year ended December 31, 2014, premiums from these policies accounted for 8.6% 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.

We have limited experience in writing policies for unaffiliated general agents. This business is not expected to grow at the same rate as our core business and may decline. Further, this business has 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 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.

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 decide not to avail ourselves of 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 store and 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 for 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.

We 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 December 31, 2014, we had two pending patent applications in the United States, one pending international patent filed under the Patent Cooperation Treaty, one pending patent application in Europe and no issued patents. 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 December 31, 2014, we had six registered trademarks in the United States, including “Trupanion,” and two additional trademark applications. 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 may in turn, 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 exams and other investigations by state insurance regulatory agencies. For example, we are currently addressing an inquiry from the Washington State Office of Insurance Commissioner regarding various allegations including that one of our subsidiaries and its employees were not properly licensed under Washington law.

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 for pet healthcare 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 all 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.

Our indebtedness 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 our debt service obligations.

As of December 31, 2014, we had outstanding indebtedness of $14.9 million, which was secured by substantially all of our assets. We may incur additional 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 APIC's 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. Moreover, our inability to make scheduled payments on our debt obligations in the future would require us to refinance all or a portion of our indebtedness on or before maturity, sell assets, delay capital expenditures or seek additional equity investment.

Our revenue 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 jurisdiction(s) 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 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 $44.4 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.

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- 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 inquires 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 contact center employees, Territory Partners, veterinarians or other 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, 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.

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 Annual Report on Form 10-K 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 IPO and may not use them effectively.
We received net proceeds of approximately $72.8 million from our IPO 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 for the foreseeable future 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, and APIC's ability to pay dividends is limited by New York state insurance laws. 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 December 31, 2014, our directors, five percent or greater stockholders and their respective affiliates beneficially held in the aggregate approximately 61% 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 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

Our principal executive offices are located at 907 NW Ballard Way, Seattle, Washington. The lease for our principal office is for 37,500 square feet and expires in 2016, with two remaining one-year options to extend the lease. We also occupy 12,000 square feet of office space in Seattle, Washington pursuant to a lease that expires in September 2015 and 1,600 square feet of office space in Vancouver, British Columbia pursuant to a lease that expires in March 2017.

Item 3. Legal Proceedings

Our subsidiary, APIC, a New York corporation, received an inquiry from the California Department of Insurance (CDOI) in 2011 alleging APIC’s trial insurance policies issued in California are in violation of California law. We have disputed this assertion. In July 2014, the CDOI filed a notice of non-compliance regarding this issue. As of December 31, 2014, we had accrued liabilities of $0.4 million for this matter. On February 12, 2015, APIC and CDOI entered into a Stipulation and Waiver whereby APIC voluntarily agreed to remove its trial certificate program in favor of a new program that has been pre-approved by the CDOI. APIC also agreed to pay a fine and reimburse CDOI expenses in an aggregate amount of $0.4 million. Pursuant to the stipulation, APIC did not admit any wrongdoing.

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. We responded to this letter in January of 2013 confirming that our subsidiaries are licensed and that our employees are not required to be licensed under Washington law. In October 2013, OIC sent further correspondence informing APIC that the results of a market conduct examination regarding its use of unlicensed non-appointed producers were being referred to OIC’s enforcement committee and that such committee would notify APIC in the event action is taken in regard to possible violations. The Company received additional correspondence from the OIC in July 2014 informing it that the OIC is scheduling a regulatory examination to further assess the Company’s compliance. A regulatory examination took place during the third and fourth quarters of 2014. As of December 31, 2014, we had accrued liabilities of $0.2 million for this matter as a precautionary measure. 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 claims, and we are unable to estimate any potential liability we may incur.

In addition to the matters 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 4. Mine Safety Disclosures

None.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities

Market for our Common Stock

Our common stock began trading on the New York Stock Exchange (NYSE) under the symbol "TRUP" on July 18, 2014. Prior to that time, there was no public market for our common stock. The following table sets forth the high and low intra-day sales prices per share for our common stock on the NYSE.

	Fiscal Year 2014	
	High	Low
Third Quarter (From July 17, 2014)	$ 11.95	$ 7.70
Fourth Quarter	8.60	5.21

Dividend Policy

We have never declared or paid cash dividends on our capital stock. Under our credit agreement, we are restricted from paying any dividends or making any distributions on account of our capital stock. We currently intend to retain any future earnings for use in the operation of our business and do not intend to declare or pay any cash dividends in the foreseeable future. Any further determination to pay dividends on our capital stock will be at the discretion of our board of directors, subject to applicable laws and restrictions in our outstanding credit agreement, and will depend on our financial condition, results of operations, capital requirements, general business conditions and other factors that our board of directors considers relevant.

Holders of Record

As of February 18, 2015, there were 92 stockholders of record of our common stock. The actual number of stockholders is greater than this number of record holders, and includes stockholders who are beneficial owners, whose shares are held of record by banks, brokers, and other financial institutions.

Securities Authorized for Issuance under Equity Compensation Plans

The information called for by this item is incorporated by reference to our Proxy Statement for the Annual Meeting of Stockholders to be held in 2015. See Part III, Item 12 "Security Ownership of Certain Beneficial Owners and Management."

Stock Performance Graph

The following shall not be deemed "filed" for purposes of Section 18 of the Exchange Act, or incorporated by reference into any of our other filings under the Exchange Act or the Securities Act, except to the extent we specifically incorporate it by reference into such filing.

This chart compares the cumulative total return on our common stock with that of the S&P Small Cap 600 Index and the NASDAQ-100 Technology Sector Index. The chart assumes $100 was invested at the close of market on July 18, 2014, in our common stock and the S&P Small Cap 600 Index, and assumes the reinvestment of any dividends. The stock price performance on the following graph is not necessarily indicative of future stock price performance.

Company/Index	Base Period 7/18/14	7/31/2014	8/31/2014	9/30/2014	10/31/2014	11/30/2014	12/31/2014
Trupanion Inc.	$ 100	$ 87.70	$ 78.49	$ 74.57	$ 58.46	$ 53.26	$ 60.82
S&P Small Cap 600	100	97.10	101.18	95.62	102.31	101.90	104.65
NASDAQ-100 Technology Sector Index	100	98.20	102.32	101.85	104.00	110.09	108.79

Sales of Unregistered Securities

From January 1, 2014 and through July 17, 2014, we granted to our directors, officers, employees and consultants options to purchase 376,100 shares of common stock under our 2007 Equity Compensation Plan with per share exercise prices ranging from $9.07 to $12.27, and issued 116,291 shares of common stock upon exercise of such options. These transactions were exempt from the registration requirements of the Securities Act in reliance upon Rule 701 promulgated under the Securities Act or Section 4(a)(2) of the Securities Act.

In April 2014, we issued 86,956 shares of Series A convertible preferred stock upon the net exercise of a warrant and withheld 13,044 shares to cover the exercise price of $1.50 per share. The purchaser represented to us that it was an accredited investor. This transaction was exempt from the registration requirements of the Securities Act in reliance upon Regulation D promulgated under the Securities Act. In July 2014, we issued warrants to purchase an aggregate of 510,000 shares of our common stock at an exercise price of $10.00 per share to purchasers that represented to us that they were accredited investors. This transaction was exempt from the registration requirements of the Securities Act in reliance upon Regulation D promulgated under the Securities Act.

Use of Proceeds

On July 17, 2014, our registration statement on Form S-1 (File No. 333-196814) was declared effective by the SEC for our IPO 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 IPO as described in our final prospectus filed with the SEC pursuant to Rule 424(b) under the Securities Act on July 18, 2014. Pending the uses described, we have invested the net proceeds in short-term, investment-grade interest-bearing securities such as money market funds.

Issuer Purchases of Equity Securities

Not applicable.

Item 6. Selected Consolidated Financial Data

The following selected consolidated financial and other data should be read with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K. The selected consolidated statements of operations data for the years ended December 31, 2014, 2013 and 2012 and the consolidated balance sheet data as of December 31, 2014 and 2013 are derived from our audited consolidated financial statements included elsewhere in this Annual Report on Form 10-K. The selected consolidated statements of operations data for the years ended December 31, 2011 and 2010 and the consolidated balance sheet data as of December 31, 2012 and 2011 are derived from our audited consolidated financial statements not included in this Annual Report on Form 10-K. Our historical results are not necessarily indicative of the results to be expected in any future period.

	YEARS ENDED DECEMBER 31,				
	2014	2013	2012	2011	2010
	(in thousands, except share and per share data)				
Consolidated Statements of Operations Data:					
Revenue:					
Subscription business	$105,052	$76,818	$55,352	$37,045	$19,099
Other business	10,858	7,011	178	—	—
Total revenue	115,910	83,829	55,530	37,045	19,099
Cost of revenue:					
Subscription business[1]	86,402	61,905	44,185	29,002	15,326
Other business	9,634	6,280	134	—	—
Total cost of revenue	96,036	68,185	44,319	29,002	15,326
Gross profit:					
Subscription business	18,650	14,913	11,167	8,043	3,773
Other business	1,224	731	44	—	—
Total gross profit	19,874	15,644	11,211	8,043	3,773
Operating expenses:					
Sales and marketing[1]	11,608	9,091	7,149	5,206	4,264
Technology and development[1]	9,899	4,888	3,406	1,499	1,098
General and administrative[1]	14,312	8,652	6,195	4,289	3,636
Total operating expenses	35,819	22,631	16,750	10,994	8,998
Operating loss	(15,945)	(6,987)	(5,539)	(2,951)	(5,225)
Interest expense	6,726	609	535	690	577
Other (income) expense, net	(1,487)	671	252	186	146
Loss before income taxes	(21,184)	(8,267)	(6,326)	(3,827)	(5,948)
Income tax expense (benefit)	(7)	(92)	84	92	50
Net loss	$(21,177)	$(8,175)	$(6,410)	$(3,919)	$(5,998)
Net loss attributable to common stockholders	$(21,177)	$(8,175)	$(8,147)	$(3,919)	
Net loss per share attributable to common stockholders—basic and diluted[2]	$(1.64)	$(6.23)	$(9.76)	$(5.34)	
Weighted average number of shares outstanding used to compute net loss per share attributable to common stockholders—basic and diluted[2]	12,934,477	1,312,019	834,648	734,411	

	YEARS ENDED DECEMBER 31, 2014	2013	2012	2011	2010
Other Financial and Operational Data[3]:					
Total subscription pets enrolled	218,684	169,570	125,387	88,707	56,738
Monthly adjusted revenue per pet[4]	$44.27	$42.57	$41.99	$41.00	$36.61
Lifetime value of a pet[5]	$590	$612	$557	$500	$385
Average pet acquisition cost[6]	$119	$103	$100	$84	$98
Average monthly retention	98.68 %	98.65 %	98.51 %	98.24 %	98.16 %
Adjusted EBITDA	$(10,347)	$(4,351)	$(3,904)	$(1,862)	$(4,613)

	AS OF DECEMBER 31, 2014	2013	2012	2011
	(in thousands)			
Consolidated Balance Sheet Data:				
Cash and cash equivalents	$53,098	$14,939	$4,234	$8,087
Short-term investments	22,371	16,088	10,809	9,370
Working capital	62,111	13,710	7,746	12,689
Total assets	98,306	51,653	27,666	24,863
Warrant liabilities	—	4,900	551	333
Current and long-term debt	14,900	26,099	9,900	9,900
Total liabilities	39,031	52,928	23,015	17,743
Convertible preferred stock	—	31,724	31,724	25,792
Stockholders' equity (deficit)	59,275	(32,999)	(27,073)	(18,672)

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

	YEARS ENDED DECEMBER 31, 2014	2013	2012	2011	2010
Cost of revenue	$315	$230	$109	$65	$23
Sales and marketing	553	677	428	288	249
Technology and development	461	351	268	165	15
General and administrative	2,755	680	629	464	311
Total stock-based compensation expense	$4,084	$1,938	$1,434	$982	$598

(2) See note 2 to our consolidated financial statements included elsewhere in this Annual Report on Form 10-K for a description of the method used to compute basic and diluted net loss per share attributable to common stockholders.

(3) For more information about how we calculate total subscription pets enrolled, monthly adjusted revenue per pet, lifetime value of a pet, average pet acquisition cost and average monthly retention, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Financial and Operating Metrics."

(4) Monthly adjusted revenue per pet is calculated in part based on adjusted revenue, a non-GAAP financial measure, that we define as revenue from our subscription business segment excluding sign-up fee revenue and the change in deferred revenue between periods. For more information about adjusted revenue and a reconciliation of revenue to adjusted revenue, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Non-GAAP Financial Measures."

(5) Lifetime value of a pet is calculated in part based on contribution margin, a non-GAAP financial measure, that we define 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. For more information about contribution margin and a reconciliation of gross profit to contribution margin, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Non-GAAP Financial Measures.”

(6) Average pet acquisition cost is calculated in part based on acquisition cost, a non-GAAP financial measure, that we define as sales and marketing expenses, excluding stock-based compensation expense, net of sign-up fee revenue. For more information about acquisition cost and a reconciliation of sales and marketing expenses to acquisition cost, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Non-GAAP Financial Measures.”

Item 7. 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 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 actively 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 writing policies for other businesses, including policies we write for an unaffiliated general agent and from writing policies under a federal government program. These policies provide different coverage and are subject to materially different terms and conditions than our primary medical plan.

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. While these referrals accounted for a majority of our enrollments during 2014, we do not pay commissions to or otherwise compensate veterinarians for their referrals. 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 constantly 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 $83.8 million for the year ended December 31, 2013 to $115.9 million for the year ended December 31, 2014, representing 38% 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 year ended December 31, 2014, 2013, and 2012, we had a net loss of $21.2 million, $8.2 million, and $6.4 million, respectively. As of December 31, 2014, our accumulated deficit was $57.2 million.

Key Financial and Operating Metrics

We believe that one of the key operating drivers for any online subscription business is the amount of sales and marketing expenses incurred to drive new member acquisition, which typically is evaluated in relation to the lifetime value of the member's pet. In order to assess this metric, we regularly review a number of financial and operating metrics, including per pet unit economics, to evaluate our subscription business, determine the allocation of resources and make decisions regarding business strategy.

The following tables set forth our key financial and operating metrics for our subscription business for the periods ended December 31, 2014, 2013 and 2012:

	YEARS ENDED DECEMBER 31,		
	2014	2013	2012
Total subscription pets enrolled (at period end)	218,684	169,570	125,387
Monthly adjusted revenue per pet	$44.27	$42.57	$41.99
Lifetime value of a pet (LVP)	$590	$612	$557
Average pet acquisition cost (PAC)	$119	$103	$100
Average monthly retention	98.68 %	98.65 %	98.51 %
Adjusted EBITDA (in thousands)	$(10,347)	$(4,351)	$(3,904)

Total subscription pets enrolled. Total subscription pets enrolled reflects the number of pets subscribed to our plan at the end of each period presented. We monitor total subscription pets enrolled because it provides an indication of the growth of our 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. Pet acquisition cost (PAC) is calculated as acquisition cost divided by the total number of new 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, 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 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 December 31, 2014 is an average of each month's retention from January 1, 2014 through December 31, 2014. We calculate monthly retention as the number of pets that remain after subtracting all pets that cancel during a month, including 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 expense (benefit). For more information about adjusted EBITDA and a reconciliation of net loss to adjusted EBITDA, see Non-GAAP Financial Measures below.

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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, 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 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 table reflects the reconciliation of adjusted revenue to revenue:

	YEARS ENDED DECEMBER 31,		
	2014	2013	2012
	(in thousands)		
Revenue	$115,910	$83,829	$55,530
Excluding:			
Other business revenue	(10,858)	(7,011)	(178)
Change in deferred revenue	977	1,107	767
Sign-up fee revenue	(1,572)	(1,418)	(1,189)
Adjusted revenue	$104,457	$76,507	$54,930

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

	YEARS ENDED DECEMBER 31,		
	2014	2013	2012
	(in thousands)		
Gross profit	$19,874	$15,644	$11,211
Excluding:			
Stock-based compensation expense	315	230	109
Other business segment gross profit	(1,224)	(731)	(44)
Sign-up fee revenue	(1,572)	(1,418)	(1,189)
Change in deferred revenue	977	1,107	767
Contribution margin	$18,370	$14,832	$10,854

The following table reflects the reconciliation of acquisition cost to sales and marketing expenses:

	YEARS ENDED DECEMBER 31,		
	2014	2013	2012
	(in thousands)		
Sales and marketing expenses	$11,608	$9,091	$7,149
Excluding:			
Stock-based compensation expense	(553)	(677)	(428)
Net of:			
Sign-up fee revenue	(1,572)	(1,418)	(1,189)
Acquisition cost	$9,483	$6,996	$5,532

The following table reflects the reconciliation of adjusted EBITDA to net loss:

	YEARS ENDED DECEMBER 31,		
	2014	2013	2012
	(in thousands)		
Net loss	$(21,177)	$(8,175)	$(6,410)
Excluding:			
Stock-based compensation expense	4,084	1,938	1,434
Depreciation and amortization expense	1,674	892	349
Interest income	(73)	(102)	(107)
Interest expense	6,726	645	546
Change in fair value of warrant liabilities	(1,574)	543	200
Income tax (benefit) expense	(7)	(92)	84
Adjusted EBITDA	$(10,347)	$(4,351)	$(3,904)

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 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 may periodically test new member acquisition channels and marketing initiatives, such as television advertising, each of which impacts our average pet acquisition cost. We plan to expand the number of Territory Partners and their associates, 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.

Geographic mix of sales. The relative mix of our business between the United States and Canada impacts the monthly adjusted revenue per pet we receive. Prices for our plan in Canada are generally higher 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 has reduced the growth in our monthly adjusted revenue per pet. In addition, as our mix of revenue changes between the United States and Canada, our exposure to foreign exchange fluctuations will be impacted.

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, and the costs associated with being a public company, 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 increases, in order to compensate for value delivered. The implementation of such initiatives may not always coincide with the timing of price increases resulting in fluctuations in revenue and gross profit in our subscription business segment.

Other business segment. Our other business segment includes revenue and expenses related to our writing of policies for an unaffiliated general agent. This relationship can be canceled by the unaffiliated general agent with 360 days' notice and we are unlikely to be able to replace it with a similar contract quickly, if at all. A cancellation of this contract would result in the policies and revenue being run off over a period of 12 months and could have a material impact on our results of operations. Our other business segment also includes revenue and expenses related to policies written under a federal government program. We may enter into additional relationships to the extent we believe they will be profitable to us, which could also impact our operating results.

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. Our other business segment includes revenue and expenses related to our other operations, including the writing of policies for an unaffiliated

general agent and policies written under a federal government program. 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 for an unaffiliated general agent that offers pet insurance and from writing policies under a federal government program. 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.

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 our other business segment changes, 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, and employee compensation and related costs. Sales and marketing expenses are driven primarily by investments to acquire new members and retain our existing members. We plan to continue to invest in existing and new member acquisition channels and marketing initiatives to grow our business. 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 5:1.

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 as a percentage of total revenue in the near term as we

continue to devote significant resources to enhance our member experience and, thereafter, decrease as a percentage of revenue.

General and Administrative

General and administrative expenses consist primarily of personnel costs and related expenses for our finance, actuarial, human resources, 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, including higher legal, corporate insurance and accounting expenses. 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. The period-to-period comparison of financial results is not necessarily indicative of future results.

	YEARS ENDED DECEMBER 31,		
	2014	2013	2012
	(in thousands)		
Consolidated Statements of Operations Data:			
Revenue:			
Subscription business	$105,052	$76,818	$55,352
Other business	10,858	7,011	178
Total revenue	115,910	83,829	55,530
Cost of revenue:			
Subscription business[(1)]	86,402	61,905	44,185
Other business	9,634	6,280	134
Total cost of revenue	96,036	68,185	44,319
Gross profit:			
Subscription business	18,650	14,913	11,167
Other business	1,224	731	44
Total gross profit	19,874	15,644	11,211
Operating expenses:			
Sales and marketing[(1)]	11,608	9,091	7,149
Technology and development[(1)]	9,899	4,888	3,406
General and administrative[(1)]	14,312	8,652	6,195
Total operating expenses	35,819	22,631	16,750
Operating loss	(15,945)	(6,987)	(5,539)
Interest expense	6,726	609	535
Other (income) expense, net	(1,487)	671	252
Loss before income taxes	(21,184)	(8,267)	(6,326)
Income tax (benefit) expense	(7)	(92)	84
Net loss	$(21,177)	$(8,175)	$(6,410)

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

	YEARS ENDED DECEMBER 31,		
	2014	2013	2012
	(in thousands)		
Cost of revenue	$315	$230	$109
Sales and marketing	553	677	428
Technology and development	461	351	268
General and administrative	2,755	680	629
Total stock-based compensation expense	$4,084	$1,938	$1,434

	YEARS ENDED DECEMBER 31,		
	2014	2013	2012
Revenue	100 %	100 %	100 %
Cost of revenue	83	81	80
Gross profit	17	19	20
Operating expenses:			
Sales and marketing	10	11	13
Technology and development	9	6	6
General and administrative	12	10	11
Total operating expenses	31	27	30
Operating loss	(14)	(8)	(10)
Interest expense	5	1	1
Other (income) expense, net	(1)	1	1
Loss before income taxes	(18)	(10)	(12)
Income tax (benefit) expense	—	—	—
Net loss	(18)%	(10)%	(12)%

	YEARS ENDED DECEMBER 31,		
	2014	2013	2012
Subscription business revenue	100 %	100 %	100 %
Subscription business cost of revenue	82	81	80
Subscription business gross profit	18 %	19 %	20 %

Comparison of the years ended December 31, 2014, 2013 and 2012

Revenue

	YEARS ENDED DECEMBER 31, 2014	2013	2012	2014 TO 2013 % CHANGE	2013 TO 2012 % CHANGE
	(in thousands, except percentages, pet and per pet data)				
Revenue:					
Subscription business	$105,052	$76,818	$55,352	37%	39%
Other business	10,858	7,011	178	55	NM
Total revenue	$115,910	$83,829	$55,530	38	51
Percentage of Revenue by Segment:					
Subscription business	91 %	92 %	100 %		
Other business	9	8	—		
Total revenue	100 %	100 %	100 %		
Subscription Business:					
Total subscription pets enrolled	218,684	169,570	125,387	29	35
Monthly adjusted revenue per pet	$44.27	$42.57	$41.99	4	1
Average monthly retention	98.68 %	98.65 %	98.51 %		

Year ended December 31, 2014 compared to year ended December 31, 2013. Total revenue increased by $32.1 million to $115.9 million for the year ended December 31, 2014, or 38%. Revenue from our subscription business segment increased by $28.2 million to $105.1 million for the year ended December 31, 2014, or 37%. This increase in subscription business revenue primarily was due to a 29% increase in total subscription pets enrolled as of December 31, 2014 compared to December 31, 2013. Adjusted revenue per pet increased from $42.57 to $44.27, or 4%, for the same period, due to pricing increases. The impact of the increase in revenue was partially offset by an approximate $2.1 million impact of foreign exchange rates on our Canadian revenue. Revenue from our other business segment increased $3.8 million to $10.9 million for the year ended December 31, 2014, as a result of the remaining policies written for the unaffiliated general agent being transferred to us from its previous insurance company, whereas only a portion of such policies had been transferred from its previous insurance company during the year ended December 31, 2013. Included in the increase in our other business revenue is $0.9 million related to medical plans under a federal government program that started in March 2014.

Year ended December 31, 2013 compared to year ended December 31, 2012. Total revenue increased by $28.3 million to $83.8 million for the year ended December 31, 2013, or 51%. Revenue for our subscription business segment increased by $21.5 million to $76.8 million for the year ended December 31, 2013, or 39%. This increase in subscription business revenue was primarily due to a 35% increase in total subscription pets enrolled as of December 31, 2013 compared to December 31, 2012 and a slight increase in monthly adjusted revenue per pet during this period due primarily to increases in our pricing. The impact of these price increases was partially offset by a higher percentage of newly enrolled pets in the United States as compared to Canada, which have a lower monthly adjusted revenue per pet, and an approximate $0.8 million impact of foreign exchange rates on our Canadian revenue. Revenue from our other business segment increased $6.8 million to $7.0 million for the year ended December 31, 2013. We began generating revenue in our other business segment in November 2012 by writing policies for an unaffiliated general agent.

Cost of Revenue

	YEARS ENDED DECEMBER 31, 2014	2013	2012	2014 TO 2013 % CHANGE	2013 TO 2012 % CHANGE
	(in thousands, except percentages)				
Cost of Revenue:					
Subscription business:					
Claims expenses	$75,397	$53,787	$37,773	40%	42%
Other cost of revenue	11,005	8,118	6,412	36	27
Total cost of revenue	86,402	61,905	44,185		
Gross profit	18,650	14,913	11,167	25	34%
Other business:					
Claims expenses	4,516	2,850	83	58	NM
Other cost of revenue	5,118	3,430	51	49	NM
Total cost of revenue	9,634	6,280	134		
Gross profit	1,224	731	44		
Percentage of Revenue by Segment:					
Subscription business:					
Claims expenses	72 %	70 %	68 %		
Other cost of revenue	10	11	12		
Total cost of revenue	82	81	80		
Gross profit	18	19	20		
Other business:					
Claims expenses	42	41	47		
Other cost of revenue	47	49	29		
Total cost of revenue	89	90	76		
Gross profit	11	10	24		

Year ended December 31, 2014 compared to year ended December 31, 2013. Cost of revenue for our subscription business segment was $86.4 million, or 82% of revenue, for the year ended December 31, 2014, compared to $61.9 million, or 81% of revenue, for the year ended December 31, 2013. This $24.5 million increase in subscription cost of revenue primarily was the result of an increase in claims expenses, which were 72% of revenue for the year ended December 31, 2014, compared to 70% of revenue for the year ended December 31, 2013. We have in the past and expect in the future to experience changes in the claims ratio from quarter to quarter. During 2014, the claims expense ratio was higher than our historical average due to a higher frequency of claims than previous periods, which primarily was driven by the implementation of several key initiatives designed to improve our member experience. We expect that the claims expense ratio and the cost of revenue as a percent of revenue will continue to be elevated during 2015 as price increases are generally implemented on our members’ annual anniversary dates. In addition, compensation expense and related costs increased by $1.7 million due to a 43% increase in employee headcount to service our growth and improve our member experience.

Cost of revenue for our other business segment increased $3.4 million to $9.6 million for the year ended December 31, 2014. This increase is primarily a result of having the full business for the unaffiliated general agent for the entire twelve months of 2014, whereas the policies were in the process of being transferred from the previous insurance company over the first ten months of 2013, as well as the addition of a government program that began in 2014.

Year ended December 31, 2013 compared to year ended December 31, 2012. Cost of revenue for our subscription business segment increased $17.7 million to $61.9 million for the year ended December 31, 2013, or 40%. This increase was primarily a result of the $16.0 million increase in claims expenses resulting from the 35% increase in enrolled pets, offset by a $0.5 million benefit from fluctuating foreign exchange rates on our Canadian dollar-denominated payments to Canadian members. Other cost of revenue decreased as a percentage of revenue due to economies of scale resulting from the timing of a headcount increase in 2012, which we made in anticipation of continued growth in 2013.

Cost of revenue for our other business segment increased $6.1 million to $6.3 million for the year ended December 31, 2013 due to increased business with the unaffiliated general agent.

Sales and Marketing Expenses

	YEARS ENDED DECEMBER 31,			2014 TO 2013 % CHANGE	2013 TO 2012 % CHANGE
	2014	2013	2012		
	(in thousands, except percentages and per pet data)				
Sales and marketing	$11,608	$9,091	$7,149	28%	27%
Percentage of total revenue	10 %	11 %	13 %		
Subscription Business:					
Average pet acquisition cost (PAC)	$119	$103	$100	16	3

Year ended December 31, 2014 compared to year ended December 31, 2013. Sales and marketing expenses increased $2.5 million to $11.6 million for the year ended December 31, 2014, or 28%. The increase in sales and marketing expenses was primarily due to an increase of $0.7 million in expenditures related to new and expanded online marketing initiatives, a $0.7 million increase in print advertising and brand development and a $0.6 million increase related to developing our territory partner network. Additionally, compensation related costs increased $0.3 million due to increased headcount. Finally, commissions to our territory partners increased $0.2 million based on increased enrollments.

Year ended December 31, 2013 compared to year ended December 31, 2014. Sales and marketing expenses increased $1.9 million to $9.1 million for the year ended December 31, 2013, or 27%. The increase in sales and marketing expenses was primarily due to a $1.4 million increase in salaries and related employee expenses resulting from an 8% increase in sales and marketing headcount from December 31, 2012 to December 31, 2013 and an increase of $0.5 million in expenditures related to new and expanded sales and marketing initiatives. The decrease as a percentage of revenue in part reflects the impact of recurring revenue from existing members.

Technology and Development Expenses

	YEARS ENDED DECEMBER 31,			2014 TO 2013 % CHANGE	2013 TO 2012 % CHANGE
	2014	2013	2012		
	(in thousands, except percentages)				
Technology and development	$9,899	$4,888	$3,406	103%	44%
Percentage of total revenue	9 %	6 %	6 %		

Year ended December 31, 2014 compared to year ended December 31, 2013. Technology and development expenses increased $5.0 million to $9.9 million for the year ended December 31, 2014, or 103%. The increase was primarily due to a $4.2 million increase in compensation expense and related cost, resulting from increased headcount as we made investments in new technology and infrastructure, and a $0.5 million increase in system hosting to support our infrastructure growth. In addition, $0.2 million of the total increase was due to software licenses and fees as a result of our company growth. Total expenses, net of capitalization, in technology related to claims processing improvements were $4.7 million in 2014 and $1.4 million in 2013.

Year ended December 31, 2013 compared to year ended December 31, 2012. Technology and development expenses increased $1.5 million to $4.9 million for the year ended December 31, 2013, or 44%. The increase was primarily due to a $1.5 million increase in compensation expense and related costs as a result of increased headcount as we made investments in technology infrastructure and new technology related to claims processing improvements. Total expenses, net of capitalization, in technology related to claims processing improvements were $1.4 million in 2013 and $1.0 million in 2012.

General and Administrative Expenses

	YEARS ENDED DECEMBER 31, 2014	2013	2012	2014 TO 2013 % CHANGE	2013 TO 2012 % CHANGE
	(in thousands, except percentages)				
General and administrative	$14,312	$8,652	$6,195	65%	40%
Percentage of total revenue	12 %	10 %	11 %		

Year ended December 31, 2014 compared to year ended December 31, 2013. General and administrative expenses increased $5.7 million to $14.3 million for the year ended December 31, 2014, or 65%. The increase in general and administrative expenses was primarily due to the recognition of stock-based compensation expense that was contingent upon our IPO of $1.4 million. Salaries and related expenses increased $1.8 million due to increased headcount to support our growth, transition to being a public company and a severance agreement with a former employee. Additionally, regulatory expenses increased $0.5 million due to contingent regulatory matters and we incurred $0.8 million related to public company readiness activities.

Year ended December 31, 2013 compared to year ended December 31, 2012. General and administrative expenses increased $2.5 million to $8.7 million for the year ended December 31, 2013, or 40%. We moved our U.S. operations to a new facility during the third quarter of 2012, resulting in a $0.5 million increase in facilities and related expenses during 2013. Additionally, employee compensation and related expenses increased $0.4 million as we increased headcount primarily in our actuarial, legal and accounting departments and incurred other expenses in preparation for an IPO. We also incurred $0.4 million related to public company readiness activities.

Other (Income) Expense, Net

	YEARS ENDED DECEMBER 31, 2014	2013	2012
	(in thousands)		
Interest expense	$6,726	$609	$535
Other (income) expense, net	(1,487)	671	252
Total other expense, net	$5,239	$1,280	$787

Year ended December 31, 2014 compared to year ended December 31, 2013. Other expense, net for the year ended December 31, 2014 increased $4.0 million to $5.2 million. The increase was primarily due to the expensing of unamortized debt discounts associated with the repayment of debt, partially offset by income from the revaluation of warrants classified as liabilities in our consolidated balance sheet during 2014.

Year ended December 31, 2013 compared to year ended December 31, 2012. Other expenses, net increased $0.5 million to $1.3 million for the year ended December 31, 2013. This increase was primarily due to the revaluation of warrants classified as liabilities in our consolidated balance sheet.

Quarterly Results of Operations

The following tables set forth selected unaudited quarterly statements of operations data for the last eight fiscal quarters. The unaudited interim financial statements for each of these quarters have been prepared on the same basis as the audited financial statements included elsewhere in this prospectus and, in the opinion of management, reflect all adjustments, which include only normal recurring adjustments, necessary to present a fair statement of our results of operations and financial position for these periods. This data should be read in conjunction with the audited consolidated financial statements and accompanying notes included elsewhere in this prospectus. These quarterly operating results are not necessarily indicative of our operating results for any future period.

	THREE MONTHS ENDED							
	DEC. 31, 2014	SEPT. 30, 2014	JUN. 30, 2014	MAR. 31, 2014	DEC. 31, 2013	SEPT. 30, 2013	JUN. 30, 2013	MAR. 31, 2013
	(in thousands)							
Consolidated Statements of Operations Data:								
Revenue:								
Subscription business	$29,087	$27,517	$25,359	$23,089	$21,426	$20,007	$18,368	$17,017
Other business	2,781	2,795	2,731	2,551	2,585	2,127	1,474	825
Total revenue	31,868	30,312	28,090	25,640	24,011	22,134	19,842	17,842
Cost of revenue:								
Subscription business(1)	23,876	23,404	20,518	18,602	17,617	16,117	14,698	13,473
Other business	2,468	2,463	2,422	2,282	2,306	1,898	1,315	761
Total cost of revenue	26,344	25,867	22,940	20,884	19,923	18,015	16,013	14,234
Gross profit:								
Subscription business	5,211	4,113	4,841	4,487	3,809	3,890	3,670	3,544
Other business	313	332	309	269	279	229	159	64
Total gross profit	5,524	4,445	5,150	4,756	4,088	4,119	3,829	3,608
Operating expenses:								
Sales and marketing(1)	3,218	2,934	2,810	2,646	2,238	2,013	2,268	2,572
Technology and development(1)	2,614	2,532	2,553	2,200	1,697	1,156	1,152	883
General and administrative(1)	3,850	4,385	3,292	2,786	2,670	2,033	2,022	1,927
Total operating expenses	9,682	9,851	8,655	7,632	6,605	5,202	5,442	5,382
Operating loss	(4,158)	(5,406)	(3,505)	(2,876)	(2,517)	(1,083)	(1,613)	(1,774)
Interest expense	103	5,155	726	736	203	148	138	120
Other (income) expense, net	58	(2,066)	(759)	1,286	489	(7)	78	111
Loss before income taxes	(4,319)	(8,495)	(3,472)	(4,898)	(3,209)	(1,224)	(1,829)	(2,005)
Income tax (benefit) expense	(43)	14	7	15	(6)	(2)	(5)	(79)
Net loss	$(4,276)	$(8,509)	$(3,479)	$(4,913)	$(3,203)	$(1,222)	$(1,824)	$(1,926)

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	PERIOD ENDED							
	DEC. 31, 2014	SEPT. 30, 2014	JUN. 30, 2014	MAR. 31, 2014	DEC. 31, 2013	SEPT. 30, 2013	JUN. 30, 2013	MAR. 31, 2013
Other Financial and Operational Data[2]:								
Total subscription pets enrolled	218,684	207,843	194,617	181,634	169,570	160,065	147,868	136,027
Monthly adjusted revenue per pet[3]	$44.88	$44.98	$43.90	$43.12	$43.07	$42.59	$42.21	$42.30
Lifetime value of a pet[4]	$590	$584	$605	$610	$611	$617	$641	$604
Average pet acquisition cost[5]	$141	$113	$113	$111	$105	$80	$99	$132
Average monthly retention	98.68 %	98.67 %	98.65 %	98.65 %	98.65 %	98.64 %	98.62 %	98.56 %
Adjusted EBITDA[6]	$(2,903)	$(2,908)	$(2,459)	$(2,079)	$(1,780)	$(378)	$(985)	$(1,208)

(1) Includes stock-based compensation as follows, which may differ slightly from annual amounts due to rounding:

	THREE MONTHS ENDED							
	DEC. 31, 2014	SEPT. 30, 2014	JUN. 30, 2014	MAR. 31, 2014	DEC. 31, 2013	SEPT. 30, 2013	JUN. 30, 2013	MAR. 31, 2013
	(in thousands)							
Cost of revenue	$91	$78	$64	$81	$85	$57	$48	$40
Sales and marketing	147	115	144	149	185	147	202	143
Technology and development	155	110	98	98	103	83	94	71
General and administrative	497	1,698	320	239	201	191	141	147

(2) For more information about how we calculate total subscription pets enrolled, monthly adjusted revenue per pet, lifetime value of a pet, average pet acquisition cost and average monthly retention, see "—Key Financial and Operating Metrics."

(3) Monthly adjusted revenue per pet is calculated in part based on adjusted revenue, a non-GAAP financial measure, that we define as revenue from our subscription business segment excluding sign-up fee revenue and the change in deferred revenue between periods. For more information about adjusted revenue, see "—Non-GAAP Financial Measures."

(4) Lifetime value of a pet is calculated in part based on contribution margin, a non-GAAP financial measure, that we define 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. For more information about contribution margin, see "—Non-GAAP Financial Measures."

(5) Average pet acquisition cost is calculated in part based on acquisition cost, a non-GAAP financial measure, that we define as sales and marketing expenses, excluding stock-based compensation expense, net of sign-up fee revenue. For more information about acquisition cost, see "—Non-GAAP Financial Measures."

(6) 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 expense (benefit). For more information about adjusted EBITDA, see "—Non-GAAP Financial Measures."

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	THREE MONTHS ENDED							
	DEC. 31, 2014	SEPT. 30, 2014	JUN. 30, 2014	MAR. 31, 2014	DEC. 31, 2013	SEPT. 30, 2013	JUN. 30, 2013	MAR. 31, 2013
	(as a percentage of revenue)							
Revenue	100 %	100 %	100 %	100 %	100 %	100 %	100 %	100 %
Cost of revenue	83	85	82	81	83	81	81	80
Gross profit	17	15	18	19	17	19	19	20
Operating expenses:								
Sales and marketing	10	10	10	10	9	9	11	14
Technology and development	8	8	9	9	7	5	6	5
General and administrative	12	14	12	11	11	9	10	11
Total operating expenses	30	32	31	30	27	23	27	30
Operating loss	(13)	(18)	(12)	(11)	(10)	(4)	(8)	(10)
Interest expense	—	17	3	3	1	1	1	1
Other (income) expense, net	—	(7)	(3)	5	2	—	—	1
Loss before income taxes	(13)	(28)	(12)	(19)	(13)	(5)	(9)	(12)
Income tax (benefit) expense	—	—	—	—	—	—	—	—
Net loss	(13)%	(28)%	(12)%	(19)%	(13)%	(5)%	(9)%	(12)%

	THREE MONTHS ENDED							
	DEC. 31, 2014	SEPT. 30, 2014	JUN. 30, 2014	MAR. 31, 2014	DEC. 31, 2013	SEPT. 30, 2013	JUN. 30, 2013	MAR. 31, 2013
	(as a percentage of subscription revenue)							
Subscription business revenue	100 %	100 %	100 %	100 %	100 %	100 %	100 %	100 %
Subscription business cost of revenue	82	85	81	81	82	81	80	79
Subscription business gross profit	18 %	15 %	19 %	19 %	18 %	19 %	20 %	21 %

The following table reflects the reconciliation of adjusted revenue to revenue:

	THREE MONTHS ENDED							
	DEC. 31, 2014	SEPT. 30, 2014	JUN. 30, 2014	MAR. 31, 2014	DEC. 31, 2013	SEPT. 30, 2013	JUN. 30, 2013	MAR. 31, 2013
	(in thousands)							
Revenue	$31,868	$30,312	$28,090	$25,640	$24,011	$22,134	$19,842	$17,842
Excluding:								
Other business revenue	(2,781)	(2,795)	(2,731)	(2,551)	(2,585)	(2,127)	(1,474)	(825)
Change in deferred revenue	247	385	84	262	452	314	218	124
Sign-up fee revenue	(363)	(425)	(407)	(377)	(345)	(386)	(356)	(332)

Adjusted revenue	$28,971	$27,477	$25,036	$22,974	$21,533	$19,935	$18,230	$16,809

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

	TWELVE MONTHS ENDED							
	DEC. 31, 2014	SEPT. 30, 2014	JUN. 30, 2014	MAR. 31, 2014	DEC. 31, 2013	SEPT. 30, 2013	JUN. 30, 2013	MAR. 31, 2013
	(in thousands)							
Gross Profit	$19,874	$18,439	$18,113	$16,792	$15,644	$14,788	$14,263	$12,841
Excluding:								
Stock-based compensation expense	315	309	287	270	230	171	143	123
Other business segment gross profit	(1,224)	(1,189)	(1,086)	(935)	(731)	(496)	(267)	(108)
Change in deferred revenue	977	1,183	1,111	1,246	1,107	874	761	725
Sign-up fee revenue	(1,572)	(1,554)	(1,514)	(1,464)	(1,418)	(1,356)	(1,285)	(1,229)
Contribution margin	$18,370	$17,188	$16,911	$15,909	$14,832	$13,981	$13,615	$12,352

The following table reflects the reconciliation of acquisition cost to sales and marketing expenses:

	THREE MONTHS ENDED							
	DEC. 31, 2014	SEPT. 30, 2014	JUN. 30, 2014	MAR. 31, 2014	DEC. 31, 2013	SEPT. 30, 2013	JUN. 30, 2013	MAR. 31, 2013
	(in thousands)							
Sales and marketing expenses	$3,218	$2,934	$2,810	$2,646	$2,238	$2,013	$2,268	$2,572
Excluding:								
Stock-based compensation expense	(147)	(115)	(144)	(149)	(185)	(147)	(202)	(143)
Net of:								
Sign-up fee revenue	(363)	(425)	(407)	(377)	(345)	(386)	(356)	(332)
Acquisition cost	$2,708	$2,394	$2,259	$2,120	$1,708	$1,480	$1,710	$2,097

The following table reflects the reconciliation of adjusted EBITDA to net loss:

	THREE MONTHS ENDED							
	DEC. 31, 2014	SEPT. 30, 2014	JUN. 30, 2014	MAR. 31, 2014	DEC. 31, 2013	SEPT. 30, 2013	JUN. 30, 2013	MAR. 31, 2013
	(in thousands)							
Net loss	$(4,276)	$(8,509)	$(3,479)	$(4,913)	$(3,203)	$(1,222)	$(1,824)	$(1,926)
Excluding:								
Stock-based compensation expense	890	2,001	626	567	574	478	485	401
Depreciation and amortization expense	441	505	419	309	229	243	214	206
Interest (income)	(18)	(20)	(18)	(18)	(13)	(32)	(27)	(30)
Interest expense	103	5,155	726	742	225	154	144	122
Change in fair value of warrant liabilities	—	(2,054)	(740)	1,219	414	3	28	98
Income tax (benefit) expense	(43)	14	7	15	(6)	(2)	(5)	(79)
Adjusted EBITDA	$(2,903)	$(2,908)	$(2,459)	$(2,079)	$(1,780)	$(378)	$(985)	$(1,208)

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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 and servicing debt. In July 2014, we closed our IPO, pursuant to which we sold 8,193,750 shares of common stock at an offering price of $10.00 per share. We received net proceeds of approximately $72.8 million.

Sources of Funds

As of December 31, 2014, we had cash and cash equivalents of $53.1 million and short-term investments of $22.4 million. We believe that our existing cash and cash equivalents and short-term investments 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.

Long-Term Debt

Square 1 Bank Loan and Security Agreement

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, less up to $0.5 million for obligations we may have outstanding from Square 1 for other ancillary services.

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 2016, at which time it will need to be renewed or all amounts outstanding under it, including accrued interest, will become immediately due and payable.

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 December 31, 2014, we were in compliance with each of the financial and non-financial covenants.

Our obligations under the Square 1 credit facility are secured by substantially all of our assets and a pledge of certain of our subsidiaries’ stock. As of December 31, 2014, our aggregate borrowings outstanding and under the Square 1 credit facility were $14.9 million.

Regulation

As of December 31, 2014, APIC held $22.4 million in investments and $7.8 million in other current assets. Most of the assets in this entity are subject to certain capital and dividend rules and regulations prescribed by jurisdictions in which they are authorized to operate and cannot be transferred outside of that subsidiary without prior approval from regulatory authorities. As of December 31, 2014, total assets and liabilities held outside of APIC totaled $67.2 million and $23.7 million, respectively.

The majority of our investments are held by our insurance entities to satisfy risk-based capital requirements of the National Association of Insurance Commissioners. The 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. Our insurance entity 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.

To comply with these regulations, 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 additional indebtedness or pursue equity or debt financings or otherwise modify our business operations.

New York laws also restrict the ability of APIC 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. Furthermore, effective January 1, 2015, due to our newly formed segregated account in Bermuda as part of our restructured relationship with Omega General Insurance Company, we are also subject to certain Canadian and Bermudian laws, as applicable at any given time. Additionally, effective January 1, 2015, in order to meet regulatory requirements in both Canada and Bermuda, we are required to fund a Canadian Trust account with the greater of C$2.0 million or 115% of unearned Canadian premium plus 15% of outstanding Canadian claims, including all incurred by not reported claims as well as required capital of C$1.3 million.

Investments

As of December 31, 2014, we had $23.3 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 which is insured by a third-party insurance company with a rating of "A2" with Moody’s. The unused proceeds from our IPO are currently held primarily in money market funds.

Historical Cash Flow Trends

The following table shows a summary of our cash flows for the periods indicated:

	YEARS ENDED DECEMBER 31,		
	2014	2013	2012
Net cash used in operating activities	$(10,801)	$(1,023)	$(1,543)
Net cash used in investing activities	(11,926)	(5,997)	(4,544)
Net cash provided by financing activities	60,863	17,551	2,274
Effect of exchange rates on cash	23	174	(40)
Net change in cash and cash equivalents	$38,159	$10,705	$(3,853)

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 and we currently anticipate this will continue for the foreseeable future. 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 for the year ended December 31, 2014 consisted of our net loss of $21.2 million reduced by non-cash expenses, including stock-based compensation of $4.1 million and the amortization of the debt discount of $5.0 million as well as changes in our operating assets and liabilities of $1.1 million, which were primarily driven by an increase in claims paid, increased spend on marketing and technology initiatives, as well as an increase in prepaid assets due to advance payment insurance. These increases in cash used in operating activities were partially offset by increased revenue due to enrollment growth and higher adjusted revenue per pet.

Net cash used in operating activities for 2013 consisted of our net loss of $8.2 million and changes in our operating assets and liabilities of $3.6 million, which were primarily driven by increased receivables related to writing policies for an unaffiliated managing general agent, which began in November 2012 and increased until November 2013 as the unaffiliated managing general agent transitioned its business from the company that previously wrote its policies. This was partially offset by non-cash expense items including stock-based compensation of $1.9 million, depreciation and amortization of $0.9 million and expense relating to the remeasurement of warrant liabilities to fair value of $0.5 million.

Net cash used in operating activities for 2012 consisted of our net loss of $6.4 million and changes in our operating assets and liabilities of $2.8 million, which were partially offset by non-cash expense items including stock-based compensation of $1.4 million.

Investing Cash Flows

Net cash used in investing activities for each of the periods presented was primarily related to the net purchase of investments to increase our statutory capital. We expect to continue increasing our statutory capital as we expand our operations. In addition, we made investments in software to be used internally for our technology initiatives and purchased other fixed assets related to our operations.

Financing Cash Flows

Historically, we have funded our operations through the issuance of common and preferred stock and the incurrence of indebtedness. In July 2014, we completed our IPO, pursuant to which we sold 8,193,750 shares of common stock at an offering price of $10.00 per share

For the year ended December 31, 2014, net cash provided by financing activities included the net proceeds from our IPO of $72.8 million, debt financing of $17.0 million and the release of restricted cash of $3.0 million. Net cash used in financing activities consisted primarily of debt repayments of $32.0 million.

For 2013, net cash provided by financing activities consisted of the incurrence of an aggregate of $20.0 million of borrowings under our revolving line of credit and term loans. Of this amount, $3.0 million was designated as restricted cash at December 31, 2013. In addition, we received $0.6 million in proceeds from the exercise of stock options.

For 2012, net cash provided by financing activities consisted of the issuance of $6.9 million of Series C convertible preferred stock and $0.5 million in proceeds from the exercise of stock options, offset by $2.3 million for the repurchase of common stock and $2.7 million for the redemption of Series A and Series B convertible preferred stock.

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 December 31, 2014 are set forth below.

	TOTAL	LESS THAN 1 YEAR	1-3 YEARS	3-5 YEARS	MORE THAN 5 YEARS
Long-term debt obligations, including interest	$16,018	$745	$15,273	$—	$—
Operating lease obligations	1,219	766	453	—	—
Other obligations	521	101	252	102	66

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.

Critical accounting policies and estimates are those that we consider the most important to the portrayal of our financial condition and results of operations because they require our most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. Our critical accounting policies and estimates include those related to:

- stock-based compensation and warrant liabilities;
- income taxes; and
- claims reserve.

Stock-Based Compensation and Warrant Liabilities

Compensation expense related to stock-based transactions, including employee and non-employee stock option awards, is measured and recognized in the financial statements based on fair value. The fair value of each option award is estimated on the grant date using the Black-Scholes-Merton option-pricing model. The stock-based compensation expense, net of forfeitures, is recognized on a straight-line basis over the requisite service periods of the awards, which are generally four years. All of our stock-based awards have been for instruments tied to our common stock.

All warrants were classified as liabilities as of December 31, 2013 and until July 2014, as they were for redeemable shares and contained terms that allowed for the modification of the exercise price or the number of shares issuable upon exercise. Warrants to purchase shares of common stock and convertible preferred stock were recorded as a discount on the related debt and as a liability at fair value on the date of issuance. The fair value of the award was estimated on the grant date using the Black-Scholes-Merton option-pricing model. The discount on debt was accreted to interest expense using the effective interest method over the term of the related loan until payoff in July 2014, at which point the remaining discount on debt was amortized. The warrant liability was revalued each period and recorded at fair value as of the period end date with any gain or loss in value recorded in other expense, net in our consolidated statement of operations until the warrants were redeemed or the modification terms were settled in July 2014.

Key assumptions. Our Black-Scholes-Merton option-pricing model requires the input of highly subjective assumptions, including the fair value of the underlying stock, the expected volatility of the price of our stock, the expected term of the option or warrant, risk-free interest rates and the expected dividend yield of our stock. These estimates involve inherent uncertainties and the application of management’s judgment. If factors change and different assumptions are used, our stock-based expense could be materially different in the future. These assumptions are estimated as follows:

- Fair value of our stock—Because our stock was not publicly traded prior to our IPO, we estimated the fair value of our stock, as discussed in “—Pre-IPO Stock valuations.” Upon the completion of our IPO, our common stock was valued by reference to the publicly traded price of our common stock.
- Expected volatility—As we do not have a significant trading history for our common stock, the expected stock price volatility for our common stock was estimated by taking the average historic price volatility for identified peers based on daily price observations over a period equivalent to the expected term of the stock option grants and warrant issuances. We did not rely on implied volatilities of traded options or warrants in our industry peers’ common stock because the volume of activity was relatively low. We intend to continue to consistently apply this process using the same or similar public companies until a sufficient amount of historical information regarding the volatility of our own share price becomes available.
- Expected term—The expected term represents the period that our stock-based awards are expected to be outstanding. As we do not have sufficient historical experience for determining the expected term of the stock-based awards granted, we have based our expected term for awards issued to employees on the simplified method, which represents the average period from vesting to the expiration of the stock option. The expected term for warrants is equal to the contract term.
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Risk-free interest rate—The risk-free interest rate is based on the yields of U.S. Treasury securities with maturities similar to the expected term of the options for each option group.

- Expected dividend yield—We have never declared or paid any cash dividends and do not presently plan to pay cash dividends in the foreseeable future. Consequently, we used an expected dividend yield of zero.

In addition to the assumptions used in the Black-Scholes-Merton option-pricing model, the amount of stock option expense we recognize in our consolidated statements of operations includes an estimate of stock option forfeitures. Estimated forfeitures did not have a material impact on our assumptions in 2014, 2013 or 2012.

Pre-IPO Stock valuations. Prior to our IPO, the fair value of the stock underlying our stock options and warrants was determined by our board of directors, which intended all instruments granted to be exercisable at a price per share not less than the per share fair value of our stock underlying those instruments on the date of award. The valuations of our stock were determined in accordance with the guidelines outlined in the American Institute of Certified Public Accountants Practice Aid, Valuation of Privately-Held-Company Equity Securities Issued as Compensation. The assumptions we used in the valuation model are based on future expectations combined with management's judgment. In the absence of a public trading market, our board of directors, with input from management, exercised significant judgment and considered numerous objective and subjective factors to determine the fair value of our stock, including the following factors:

- contemporaneous valuations performed by independent third-party specialists;
- the rights, preferences, and privileges of our convertible preferred stock relative to those of our common stock;
- lack of marketability on our common stock;
- actual operating and financial performance;
- current business conditions and projections;
- the prices of preferred stock sold to third-party investors in arms-length transactions;
- prices of common stock sold between third parties in arms-length transactions;
- ongoing enhancements to our service;
- trends and developments in our industry;
- the market performance of comparable publicly traded companies;
- likelihood of achieving a liquidity event, such as an IPO; and
- U.S. and global economic and capital market conditions.

Income Taxes

We use the liability method of accounting for income taxes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to the differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to be in effect when such assets and liabilities are recovered or settled. We determine deferred tax assets including net operating losses (NOLs) and liabilities, based on temporary differences between the book and tax bases of assets and liabilities. We believe that it is currently more likely than not that our deferred tax assets will not be realized, and as such, a full valuation allowance is required. In addition, utilization of NOLs and credits to offset future income subject to taxes may be subject to substantial annual limitations due to the "change in ownership" provisions of the Internal Revenue Code of 1986, and similar state provisions. We have not performed a significant analysis to determine whether a qualifying change in ownership that would limit the utilization of our NOLs has taken place.

Claims Reserve

Our claims reserve represents estimated claims and claim settlement costs with respect to covered claims that have occurred as of the balance sheet date. The liabilities for claims and claim adjustment expenses are recorded at the estimated ultimate payment amounts. Estimated ultimate payment amounts are based upon a number of factors, including claims information received from members and estimates of incurred but not reported claims. Historical claims data as well as expected developments in the industry, internal claims adjustment expense forecasts, and the economy as a whole are considered by our team of pet medical insurance actuaries when developing our claims reserve.

In establishing estimates for these factors, we must make various assumptions regarding frequency and severity of claims, length of time to achieve ultimate settlement of claims, estimated deductible applicable to incurred claims, and changes in the cost of veterinary care. Due to the inherent uncertainty associated with these estimates, and the cost of incurred but unreported claims, our actual liabilities may be different from our original estimates. On a monthly basis, we review our reserve for claims and claims settlement costs to determine whether further adjustments are required. Any resulting adjustments are included in the current period's results.

As of December 31, 2014 and 2013, our reserve for claims incurred but not yet reported was $5.1 million and $5.6 million, respectively. We believe the amount of our claims reserve as of December 31, 2014 is adequate and we do not believe that there are any reasonably likely changes in the facts or circumstances underlying key assumptions that would result in the reserve for claims being insufficient in an amount that would have a material impact on our reported results, financial position or liquidity. The ultimate liability, however, may be in excess of or less than the amount we have reserved. In 2012, we experienced actual claims in excess of our estimate for our prior year reserves of less than $0.1 million. During 2014 and 2013, we experienced actual claims that were below our estimate for prior year reserves by $0.5 million and $0.1 million, respectively. Historically, approximately 95% of claims have been settled within three months of the claim date.

Item 7A. Quantitative and Qualitative Disclosures About Market Risks

We are exposed to various market risks, including the risks inherent in our insurance business and changes in interest rates. Market risk is the potential loss arising from adverse changes in market rates and prices.

Interest Rate Risk

The principal market risk we face is interest rate risk. We had cash and cash equivalents of $53.1 million and $23.3 million in investments as of December 31, 2014, which consisted of both highly-liquid investments with an original maturity of twelve months or less and a long-term low-risk investment that is secured. We believe that we do not have significant exposure to changes in the fair value of these assets as a result of changes in interest rates due to the short-term nature of most of our investments coupled with the security behind our long-term investment. Historically, our investment income has not been a material part of our operations.

As of December 31, 2014, our aggregate outstanding indebtedness was $14.9 million, which was borrowed pursuant to our revolving line of credit with Square 1 Bank. This loan bears interest at the rate of the greater of 5.0% or 1.5% plus the prime rate and matures in July 2016. Interest on any revolver borrowings incurred pursuant to the credit facility described above would accrue at a rate based on a formula tied to certain market rates at the time of incurrence. However, we do not expect that any change in prevailing interest rates will have a material impact on our results of operations or cash flows. For more information regarding this credit agreement, see "—Liquidity and Capital Resources—Long-Term Debt."

Foreign Currency Exchange Risk

We generate a significant portion of our revenue in Canada. In 2014, our Canadian operations accounted for 25% of our revenue. Our revenue and expenses are generally denominated in the currencies in which our operations are located, which are the United States and Canada. As our operations in Canada or the United States grow on an absolute basis and/or relative to one another, our results of operations and cash flows will be subject to fluctuations due to changes in foreign currency exchange rates.

Upon consolidation, as exchange rates vary, revenues and other operating results may differ materially from expectations. For example, as a result of fluctuations in foreign exchange rates during 2014, Canadian revenues were impacted $2.1 million when compared to the prior year. Our analysis of operating results transacted in Canadian currency indicated that a hypothetical 10% change in the Canadian currency exchange rate could have increased or decreased our total revenues by approximately $2.9 million for the year ended December 31, 2014. To date, we have not entered into any material foreign currency hedging contracts although we may do so in the future.

Item 8. Financial Statements and Supplementary Data

Trupanion Inc.
Index to Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Trupanion, Inc.

We have audited the accompanying consolidated balance sheets of Trupanion, Inc. as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive loss, changes in redeemable convertible preferred stock and stockholders' equity (deficit), and cash flows for each of the three years in the period ended December 31, 2014. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Trupanion, Inc. at December 31, 2014 and 2013, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Ernst & Young LLP

Seattle, Washington
February 24, 2015

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

	YEARS ENDED DECEMBER 31,	
	2014	2013
Assets		
Current assets:		
Cash and cash equivalents	$53,098	$14,939
Short-term investments	22,371	16,088
Accounts and other receivables	7,887	7,771
Prepaid expenses and other assets	1,299	935
Total current assets	84,655	39,733
Restricted cash	—	3,000
Investments in fixed maturities, at fair value	942	832
Property and equipment, net	7,862	3,124
Deferred offering costs	—	54
Intangible assets, net	4,847	4,910
Total assets	$98,306	$51,653
Liabilities, redeemable convertible preferred stock, and stockholders' equity (deficit)		
Current liabilities:		
Accounts payable	$1,962	$1,263
Accrued liabilities	4,607	3,660
Claims reserve	5,107	5,612
Deferred revenue	9,345	8,468
Short-term debt	—	900
Warrant liabilities	—	4,900
Other payables	1,399	1,138
Deferred tax liabilities	124	82
Total current liabilities	22,544	26,023
Long-term debt	14,900	25,199
Deferred tax liabilities	1,495	1,540
Other liabilities	92	166
Total liabilities	39,031	52,928
Redeemable convertible preferred stock: $0.00001 par value per share, 0 and 15,648,723 authorized at December 31, 2014 and December 31, 2013, respectively, and 0 and 14,857,989 issued and outstanding at December 31, 2014 and December 31, 2013, respectively.	—	31,724
Stockholders' equity (deficit):		
Common stock, $0.00001 par value per share, 200,000,000 and 26,000,000 shares authorized at December 31, 2014 and December 31, 2013, respectively, 28,451,920 and 27,830,941 issued and outstanding at December 31, 2014; 2,857,620 and 2,236,641 shares issued and outstanding at December 31, 2013.	—	—
Preferred stock: $0.00001 par value per share, 10,000,000 and 0 authorized at December 31, 2014 and December 31, 2013, respectively, and 0 issued and outstanding at December 31, 2014 and December 31, 2013.	—	—
Special voting shares, $0.00001 par value per share, 0 and 2,500,030 shares authorized at December 31, 2014 and December 31, 2013, respectively, and 0 and 2,247,130 issued and outstanding at December 31, 2014 and December 31, 2013,	—	—

respectively.		
Additional paid-in capital	119,045	5,769
Accumulated other comprehensive income (loss)	11	(164)
Accumulated deficit	(57,180)	(36,003)
Treasury stock, at cost: 620,979 shares at December 31, 2014 and December 31, 2013.	(2,601)	(2,601)
Total stockholders’ equity (deficit)	59,275	(32,999)
Total liabilities, redeemable convertible preferred stock, and stockholders’ equity (deficit)	$98,306	$51,653

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

	YEARS ENDED DECEMBER 31,		
	2014	2013	2012
Revenue	$115,910	$83,829	$55,530
Cost of revenue:			
Claims expenses	79,913	56,637	37,856
Other cost of revenue	16,123	11,548	6,463
Gross profit	19,874	15,644	11,211
Operating expenses:			
Sales and marketing	11,608	9,091	7,149
Technology and development	9,899	4,888	3,406
General and administrative	14,312	8,652	6,195
Total operating expenses	35,819	22,631	16,750
Operating loss	(15,945)	(6,987)	(5,539)
Interest expense	6,726	609	535
Other (income) expense, net	(1,487)	671	252
Loss before income taxes	(21,184)	(8,267)	(6,326)
Income tax (benefit) expense	(7)	(92)	84
Net loss	$(21,177)	$(8,175)	$(6,410)
Premium on preferred stock redemption	—	—	1,737
Net loss attributable to common stockholders	(21,177)	(8,175)	(8,147)
Net loss per share attributable to common stockholders:			
Basic and diluted	$(1.64)	$(6.23)	$(9.76)
Weighted average shares used to compute net loss per share attributable to common stockholders:			
Basic and diluted	12,934,477	1,312,019	834,648

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

	YEARS ENDED DECEMBER 31,		
	2014	2013	2012
Net loss	$(21,177)	$(8,175)	$(6,410)
Other comprehensive income (loss):			
Foreign currency translation adjustments	65	85	(8)
Change in unrealized losses on available-for-sale securities	110	(107)	(61)
Other comprehensive income (loss), net of taxes	175	(22)	(69)
Comprehensive loss	$(21,002)	$(8,197)	$(6,479)

Trupanion, Inc.
Consolidated Statements of Changes in Redeemable Convertible Preferred Stock and Stockholders' Equity (Deficit)
(in thousands, except share amounts)

	Redeemable Convertible Preferred Stock		Common Stock		Special Voting Shares		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity (Deficit)
	Shares	Amount	Shares	Amount	Shares	Amount					
Balance at December 31, 2011	13,731,559	25,792	755,071	—	2,500,030	—	2,819	(21,418)	(73)	—	(18,672)
Issuance of preferred stock, net of issuance costs	1,783,767	6,922	—	—	—	—	—	—	—	—	—
Issuance of common stock for investment	—	—	60,240	—	—	—	250	—	—	—	250
Special voting shares exchanged for common stock	—	—	252,900	—	(252,900)	—	—	—	—	—	—
Redemption of preferred stock	(657,337)	(990)	—	—	—	—	(1,737)	—	—	—	(1,737)
Purchase of treasury stock	—	—	(560,739)	—	—	—	—	—	—	(2,327)	(2,327)
Exercise of stock options	—	—									