

TRUPANION INC.

Form 10-Q

May 02, 2018

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2018

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

For the transition period from ____ to ____

Commission File Number: 001-36537

TRUPANION, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

83-0480694

(I.R.S. Employer Identification Number)

6100 4th Avenue S, Suite 200

Seattle, Washington 98108

(855) 727 - 9079

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the
Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was
required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if
any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T

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(§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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

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

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

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

TRUPANION, INC.
Quarterly Report on Form 10-Q
For the Period Ended March 31, 2018
TABLE OF CONTENTS

	Page
<u>PART I - FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements (unaudited)</u>	<u>1</u>
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>12</u>
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>25</u>
Item 4. <u>Controls and Procedures</u>	<u>26</u>
<u>PART II - OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	<u>27</u>
Item 1A. <u>Risk Factors</u>	<u>27</u>
Item 2. <u>Unregistered Sale of Equity Securities and Use of Proceeds</u>	<u>52</u>
Item 3. <u>Defaults Upon Senior Securities</u>	<u>52</u>
Item 4. <u>Mine Safety Disclosures</u>	<u>52</u>
Item 5. <u>Other Information</u>	<u>52</u>
Item 6. <u>Exhibits</u>	<u>52</u>
<u>Exhibit Index</u>	<u>53</u>
<u>Signatures</u>	<u>54</u>

Note About Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and section 27A of the Securities Act of 1933, as amended (Securities Act). All statements contained in this Quarterly Report on Form 10-Q other than statements of historical fact, including statements regarding our future results of operations and financial position, our business strategy and plans and our objectives for future operations, are forward-looking statements. The words “believe,” “may,” “will,” “potentially,” “estimate,” “target,” “continue,” “anticipate,” “intend,” “could,” “would,” “project,” “plan” and “expect,” and similar expressions convey uncertainty of future events or outcomes, are intended to identify forward-looking statements.

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

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

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

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

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

See accompanying notes to the consolidated financial statements.

TRUPANION, INC.

Consolidated Statements of Comprehensive Loss

(in thousands)

(unaudited)

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

See accompanying notes to the consolidated financial statements.

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

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

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

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