TRUPANION INC.
Form 10-Q
May 03, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2017
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)

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

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. x

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 April 28, 2017, there were approximately 29,760,893 shares of the registrant's common stock outstanding.

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Note About Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements contained in this Quarterly Report on Form 10-Q other than statements of historical fact, including statements regarding our future results of operations and financial position, our business strategy and plans and our objectives for future operations, are forward-looking statements. The words “believe,” “may,” “will,” “potentially,” “estimate,” “target,” “continue,” “anticipate,” “intend,” “could,” “would,” “project,” “plan” and “expect,” expressions that convey uncertainty of future events or outcomes, are intended to identify forward-looking statements. These forward-looking statements are subject to a number of risks, uncertainties and assumptions, including those described in Part II. Item 1A. “Risk Factors” and elsewhere in this Quarterly Report on Form 10-Q. Moreover, we operate in a very competitive and rapidly changing environment, and new risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. In light of these risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this Quarterly Report on Form 10-Q may not occur and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements.

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

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

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

PART I - FINANCIAL INFORMATION
Item 1. Financial Statements
Trupanion, Inc.
Consolidated Statements of Operations
(in thousands, except for share and per share data)
(unaudited)

	Three Months Ended March 31,	
	2017	2016
Revenue	$ 54,729	$ 42,699
Cost of revenue:		
Claims expenses	39,187	30,604
Other cost of revenue	6,387	4,791
Gross profit	9,155	7,304
Operating expenses:		
Sales and marketing	4,089	3,840
Technology and development	2,403	2,287
General and administrative	4,012	3,722
Total operating expenses	10,504	9,849
Operating loss	(1,349)	(2,545)
Interest expense	137	30
Other income, net	(28)	(17)
Loss before income taxes	(1,458)	(2,558)
Income tax expense	24	14
Net loss	$ (1,482)	$ (2,572)
Net loss per share attributable to common stockholders:		
Basic and diluted	$ (0.05)	$ (0.09)
Weighted-average shares used to compute net loss per share attributable to common stock holders:		
Basic and diluted	29,254,681	27,999,248

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

	Three Months Ended March 31,	
	2017	2016
Net loss	$(1,482)	$(2,572)
Other comprehensive income:		
Foreign currency translation adjustments	12	289
Change in unrealized (losses) gains on available-for-sale securities	(7)	2
Other comprehensive income, net of taxes	5	291
Comprehensive loss	$(1,477)	$(2,281)

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

Assets	March 31, 2017 (unaudited)		December 31, 2016	
Current assets:				
Cash and cash equivalents	$	21,937	$	23,637
Short-term investments	30,793		29,570	
Accounts and other receivables	13,513		10,118	
Prepaid expenses and other assets	2,243		2,062	
Total current assets	68,486		65,387	
Restricted cash	600		600	
Long-term investments, at fair value	2,656		2,579	
Equity method investment	265		271	
Property and equipment, net	7,990		8,464	
Intangible assets, net	4,946		4,910	
Other long-term assets	2,790		134	
Total assets	$	87,733	$	82,345
Liabilities and stockholders' equity				
Current liabilities:				
Accounts payable	$	2,020	$	2,006
Accrued liabilities	3,791		4,322	
Claims reserve	10,621		9,521	
Deferred revenue	17,690		13,463	
Other payables	1,278		1,094	
Total current liabilities	35,400		30,406	
Long-term debt	4,788		4,767	
Deferred tax liabilities	1,623		1,623	
Other liabilities	837		834	
Total liabilities	42,648		37,630	
Stockholders' equity:				
Common stock, $0.00001 par value per share, 100,000,000 shares authorized at March 31, 2017 and December 31, 2016, 30,414,926 and 29,757,626 shares issued and outstanding at March 31, 2017; 30,156,247 and 29,498,947 shares	—		—	

issued and outstanding at December 31, 2016			
Preferred stock: $0.00001 par value per share, 10,000,000 shares authorized at March 31, 2017 and December 31, 2016, and 0 shares issued and outstanding at March 31, 2017 and December 31, 2016	—		—
Additional paid-in capital	131,421		129,574
Accumulated other comprehensive loss	(372	)	(377	)
Accumulated deficit	(82,763	)	(81,281	)
Treasury stock, at cost: 657,300 shares at March 31, 2017 and December 31, 2016	(3,201	)	(3,201	)
Total stockholders’ equity	45,085		44,715
Total liabilities and stockholders’ equity	$ 87,733		$ 82,345

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

	Three Months Ended March 31,	
	2017	2016
Operating activities		
Net loss	$(1,482)	$(2,572)
Adjustments to reconcile net loss to cash provided by (used in) operating activities:		
Depreciation and amortization	1,036	785
Stock-based compensation expense	781	696
Other, net	97	9
Changes in operating assets and liabilities:		
Accounts and other receivables	(3,372)	(234)
Prepaid expenses and other assets	(219)	153
Accounts payable	64	(200)
Accrued liabilities	(598)	(1,267)
Claims reserve	1,093	521
Deferred revenue	4,218	676
Other payables	239	135
Net cash provided by (used in) operating activities	1,857	(1,298)
Investing activities		
Purchases of investment securities	(5,172)	(3,959)
Maturities of investment securities	3,871	3,700
Purchases of property and equipment	(462)	(653)
Other investments	(2,710)	(34)
Net cash used in investing activities	(4,473)	(946)
Financing activities		
Proceeds from stock option exercises	1,037	486
(Repayment of) proceeds from debt financing and debt financing fees	(40)	987
Payments on capital lease obligations	(102)	—
Net cash provided by financing activities	895	1,473
Effect of foreign exchange rates on cash, net	21	341
Net change in cash, cash equivalents, and restricted cash	(1,700)	(430)
Cash, cash equivalents, and restricted cash at beginning of period	24,237	17,956
Cash, cash equivalents, and restricted cash at end of period	$22,537	$17,526
Supplemental disclosures		
Noncash investing and financing activities:		
Increase in payables for property and equipment	93	58
Property and equipment acquired under capital leases	45	—

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

1. Nature of Operations and Summary of Significant Accounting Policies
Description of Business
Trupanion, Inc. (collectively with its wholly-owned subsidiaries, the Company) provides medical insurance plans for cats and dogs throughout the United States, Canada and Puerto Rico.
Basis of Presentation
The consolidated balance sheet data as of December 31, 2016 was derived from audited consolidated financial statements. The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) for unaudited consolidated financial information. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation. These unaudited consolidated financial statements and notes should be read in conjunction with the Company’s audited consolidated financial statements and accompanying notes for the year ended December 31, 2016 included in the Company’s Annual Report on Form 10-K, filed with the U.S Securities and Exchange Commission on February 15, 2017. The accompanying unaudited consolidated financial statements reflect all adjustments consisting of normal recurring adjustments which, in the opinion of management, are necessary for a fair presentation of the Company’s financial position and results of its operations, as of and for the periods presented. Operating results for the three months ended March 31, 2017 are not necessarily indicative of the results that may be expected for the year ending December 31, 2017, or for any other period.
Reclassifications
Certain prior year amounts have been reclassified within the Company’s consolidated financial statements from their original presentation to conform to the current period presentation.
Use of Estimates
The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies and the reported amounts of revenue and expenses. Significant items subject to such estimates and assumptions include the valuation of deferred tax assets, stock-based compensation expense, claims reserve, useful lives of software developed for internal use, the valuation of assets evaluated for impairment and income tax uncertainties. Actual results could differ from the estimates used in preparing the consolidated financial statements.
Accumulated Other Comprehensive Loss
There were no reclassifications out of accumulated other comprehensive loss during the three months ended March 31, 2017 and 2016.
Accounting Pronouncements Adopted During Period
In November 2015, the Financial Accounting Standards Board (FASB) issued an Accounting Standards Update (ASU) amending the accounting for income taxes and requiring all deferred tax assets and liabilities be classified as non-current in the consolidated balance sheets. The Company adopted this ASU as of January 1, 2017 and has retrospectively applied all provisions.
In March 2016, the FASB issued an ASU amending the accounting for employee share-based payments, including income tax recognition and classification. The Company adopted this ASU as of January 1, 2017. As a result, the Company has elected to use actual forfeitures in the estimate of stock-based compensation expense. Additionally, the guidance related to the accounting for excess tax benefits and deficiencies resulted in an initial adjustment as of January 1, 2017 to the Company's net operating loss deferred tax asset to eliminate the Company's existing windfall pool amounting to $4.3 million, which was offset by an adjustment to the Company's valuation allowance. Finally, tax withholding of shares will be allowed up to the employee's maximum individual tax rate in the relevant jurisdiction without resulting in liability classification of the award, subject to the Company's internal policies for making this election.

Recent Accounting Pronouncements

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

In August 2016, the FASB issued an ASU which addresses eight specific cash flow issues intended to reduce diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. This ASU is effective for fiscal periods beginning after December 15, 2017 including interim periods within that reporting period, with early adoption permitted. The Company plans to adopt this guidance as of January 1, 2018. The Company is in the process of assessing the impact of this guidance.

2. Net Loss per Share

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

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

	As of March 31,	
	2017	2016
Stock options	3,983,098	4,760,535
Restricted stock awards and units	351,702	472,384
Warrants	810,000	869,999

3. Investment Securities

The amortized cost, gross unrealized holding losses, and fair value of available-for-sale and short-term investments by major security type and class of security were as follows as of March 31, 2017 and December 31, 2016 (in thousands):

	Amortized Cost	Gross Unrealized Holding Losses	Fair Value
As of March 31, 2017			
Available-for-sale:			
Foreign deposits	$ 1,671	$ —	$1,671
Municipal bond	1,000	(15)	985
	$ 2,671	$ (15)	$2,656
Short-term investments:			
U.S. treasury securities	$ 6,186	$ (1)	$6,185
Certificates of deposit	687	—	687
U.S. government funds	23,920	—	23,920
	$ 30,793	$ (1)	$30,792

	Amortized Cost	Gross Unrealized Holding Losses	Fair Value
As of December 31, 2016			
Available-for-sale:			
Foreign deposits	$ 1,587	$ —	$1,587
Municipal bond	1,000	(8)	992
	$ 2,587	$ (8)	$2,579
Short-term investments:			
U.S. treasury securities	$ 5,791	$ —	$5,791
Certificates of deposit	707	—	707
U.S. government funds	23,072	—	23,072
	$ 29,570	$ —	$29,570

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

	March 31, 2017	
	Amortized Cost	Fair Value
Available-for-sale:		
Due under one year	$—	$—
Due after one year through five years	1,671	1,671
Due after five years through ten years	1,000	985
Due after ten years	—	—
	$2,671	$2,656

The Company had one investment with an unrealized loss of less than $0.1 million and a fair value of $1.0 million at March 31, 2017 and December 31, 2016. This investment has been in an unrealized loss position for more than 12 months. The Company assessed the bond for credit impairment and determined that there is no intent to sell this bond, and it is likely that it will hold the investment for a period of time sufficient to allow for recovery. Furthermore, future payments on this bond are insured by a financial guarantee insurer. Therefore, the Company believes that the unrealized loss on this bond constitutes a temporary impairment.

4. Fair Value

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

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

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

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

	As of March 31, 2017			
	Fair Value	Level 1	Level 2	Level 3
Assets				
Restricted cash	$600	$600	$—	$ —
Foreign deposits	1,671	1,671	—	—
Municipal bond	985	—	985	—
Money market funds	4,497	4,497	—	—
Total	$7,753	$6,768	$985	$ —

	As of December 31, 2016			
	Fair Value	Level 1	Level 2	Level 3
Assets				
Restricted cash	$600	$600	$—	$ —
Foreign deposits	1,587	1,587	—	—
Municipal bond	992	—	992	—
Money market funds	7,033	7,033	—	—
Total	$10,212	$9,220	$992	$ —

Long-term investments classified as available-for-sale are measured using quoted market prices when quoted market prices are available. If quoted market prices in active markets for identical assets are not available to determine fair value, then the Company uses quoted prices of similar instruments and other significant inputs derived from observable market data obtained from third-party data providers. Short-term investments are carried at amortized cost and the fair value is disclosed in Note 3. Fair value is determined in the same manner as available-for-sale securities and is considered a Level 1 measurement.

Notes receivable are comprised of secured funds loaned to third parties and are carried at their estimated collectible amounts, plus accrued interest and recorded in other long-term assets on the consolidated balance sheets until 12 months prior to the date they are due. The Company estimates fair value for its notes receivable using a variety of observable and unobservable inputs including, but not limited to, market interest rates and assessed creditworthiness of the third parties. This is a Level 3 measurement. Notes receivable, recorded in other long term assets on the consolidated balance sheets, totaled $2.7 million, for the three months ended March 31, 2017. Based upon this assessment, the carrying amount of notes receivable approximated fair value at March 31, 2017.

The Company estimates fair value for its long-term debt based upon rates currently available to the Company for debt with similar terms and remaining maturities. This is a Level 3 measurement. Based upon the terms of the debt, the carrying amount of long-term debt approximated fair value at March 31, 2017 and December 31, 2016.

The Company’s accounting policy is to recognize transfers between levels of the fair value hierarchy on the date of the event or change in circumstances that caused the transfer. There were no transfers between levels for the three months ended March 31, 2017 and 2016.

5. Debt

The Company has a revolving line of credit with a bank, which is secured by any and all interest the Company has in assets that are not otherwise restricted. This agreement was most recently amended in March 2017. The revolving line of credit bore a variable interest rate as of March 31, 2017 equal to the greater of 4.5%, or 1.25% plus the prime rate. Interest expense is due monthly on the outstanding principal amount with all amounts outstanding under the revolving line of credit due upon maturity in December 2019. The credit agreement requires the Company to comply with various financial and non-financial covenants. As of March 31, 2017 and December 31, 2016, the Company was in compliance with all covenants. This facility has a requirement that $0.6 million be held as restricted cash with the bank as of March 31, 2017. This facility also has a compensating balance requirement of $0.4 million and an irrevocable standby letter of credit totaling $1.1 million, which reduces the amount available on the line of credit.

As of March 31, 2017 and December 31, 2016, borrowings on the revolving line of credit are limited to the lesser of $30.0 million and the total amount of cash and securities held by the Company's insurance subsidiaries (American Pet Insurance Company and Wyndham Insurance Company (SAC) Limited), less up to $4.5 million and $3.0 million, respectively, for obligations the Company may have outstanding for other ancillary services in the future. As of March 31, 2017 and December 31, 2016, the Company's outstanding borrowings under this facility were $5.0 million. The Company had $20.5 million available under its revolving line of credit as of March 31, 2017.

6. Commitments and Contingencies

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

7. Stock-Based Compensation

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

	Number Of Options	Weighted-Average Exercise Price	Aggregate Intrinsic Value (in thousands)
December 31, 2016	4,123,023	$ 5.06	$ 43,185
Granted	152,199	15.82	
Exercised	(257,679)	4.02	3,068
Forfeited	(34,445)	8.85	
March 31, 2017	3,983,098	5.50	35,439
Vested and exercisable at March 31, 2017	2,986,493	$ 3.29	$ 32,695

As of March 31, 2017, the stock options outstanding had a weighted-average remaining contractual life of 5.6 years. Stock-based compensation expense includes stock options and restricted stock awards and units granted to employees and non-employees and has been reported in the Company’s consolidated statements of operations in claims expenses, other cost of revenue, sales and marketing, technology and development, and general and administrative expenses depending on the function performed by the employee or non-employee. The Company measures stock-based compensation expense on a straight-line basis except for restricted stock with a performance condition which is measured on a graded vesting schedule. The remaining 350,631 shares of unvested restricted stock measured on a graded vesting schedule are expected to vest over the remaining service term of approximately 2.5 years.

As of March 31, 2017, the Company had unrecognized stock-based compensation expense of $5.1 million, which is expected to vest over a weighted-average period of approximately 2.4 years. As of March 31, 2017, the Company had 996,605 unvested stock options and 351,702 restricted stock awards and units that are expected to vest. No net tax benefits related to the stock-based compensation costs have been recognized since the Company's inception. The expense recognized in each category of the Company's consolidated statements of operations is provided in the table below:

	Three Months Ended March 31,	
	2017	2016
	(in thousands)	
Claims expenses	$70	$58
Other cost of revenue	43	8
Sales and marketing	187	82
Technology and development	50	55
General and administrative	431	493
Total stock-based compensation expense	$781	$696

8. Claims Reserve

The Company provides a reserve for unpaid claims and claims incurred but not reported (IBNR). This liability is primarily based on, but not limited to, patterns of claims being paid, patterns of claims received, seasonality patterns and historical experience. This, combined with the estimated cost of administering claims incurred but not reported makes up the Company's claims reserve. As the Company grows, the claims reserve is expected to increase. Additionally, if expected claims payout completion patterns extend, the claims reserve may further increase. The Company reviews estimates for the claims reserve quarterly. Any necessary adjustments are reflected in earnings.

The Company has two segments: subscription business and other business. The subscription business segment includes monthly subscriptions related to the Company's medical plan which are marketed directly to consumers, while the other business segment includes all other business that is not directly marketed to consumers.

Claims Reserve

Activity in the subscription business claims reserve is summarized as follows:

	Three Months Ended March 31,	
	2017	2016
	(in thousands)	
Claims reserve at beginning of year	$8,538	$5,384
Claims incurred during the period related to:		
Current year	36,518	28,123
Prior years	(195)	387
Total claims incurred	36,323	28,510
Claims paid during period related to:		
Current year	28,868	22,940
Prior years	6,400	4,913
Total claims paid	35,268	27,853
Non-cash claims expense	93	94
Claims reserve at end of period	$9,500	$5,947

The decrease in subscription business claims incurred for prior years for the three months ended March 31, 2017 is primarily due to less claims incurred than was expected relating to prior year claims. The increase in subscription business claims for prior years for the three months ended March 31, 2016 is primarily due to more claims incurred than was expected relating to prior year claims.

Activity in the other business claims reserve is summarized as follows:

	Three Months Ended March 31,	
	2017	2016
	(in thousands)	
Claims reserve at beginning of year	$983	$890
Claims incurred during the period related to:		
Current year	3,048	2,104
Prior years	(184)	(10)
Total claims incurred	2,864	2,094
Claims paid during period related to:		
Current year	2,092	1,357
Prior years	634	720
Total claims paid	2,726	2,077
Non-cash claims expense	—	—
Claims reserve at end of period	$1,121	$907

Incurred but not reported claims

The following table summarizes the activity for incurred but not reported claims plus expected development for the Company's subscription business segment (in thousands):

Year Incurred	As of March 31, 2017 Total of IBNR plus expected development on reported claims
2015	$ 174
2016	1,725
2017	7,557

The following table summarizes the activity for incurred but not reported claims plus expected development for the Company's other business segment (in thousands):

Year Incurred	As of March 31, 2017 Total of IBNR plus expected development on reported claims
2015	$ 2
2016	162
2017	957

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9. Segments

The Company has two segments: subscription business and other business. The subscription business segment includes monthly subscriptions related to the Company's medical plan which are marketed directly to consumers, while the other business segment includes all other business that is not directly marketed to consumers.

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

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

	Three Months Ended March 31,	
	2017	2016
Revenue:		
Subscription business	$50,229	$39,143
Other business	4,500	3,556
	54,729	42,699
Claims expenses:		
Subscription business	36,323	28,510
Other business	2,864	2,094
	39,187	30,604
Other cost of revenue:		
Subscription business	4,923	3,693
Other business	1,464	1,098
	6,387	4,791
Gross profit:		
Subscription business	8,983	6,940
Other business	172	364
	9,155	7,304
Sales and marketing:		
Subscription business	4,041	3,802
Other business	48	38
	4,089	3,840
Technology and development	2,403	2,287
General and administrative	4,012	3,722
Operating loss	$(1,349)	$(2,545)

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

	Three Months Ended March 31,	
	2017	2016
United States	$44,134	$34,477
Canada	10,595	8,222
Total revenue	$54,729	$42,699

Substantially all of the Company's long-lived assets were located in the United States as of March 31, 2017 and December 31, 2016.

Item 2. - Management’s Discussion and Analysis of Financial Condition and Results of Operations

Overview

We provide 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 similar to other subscription-based businesses, with a focus on maximizing the lifetime value of each pet while sustaining a favorable ratio of lifetime value relative to pet acquisition cost.

We operate in two business segments: subscription business and other business. We generate revenue in our subscription business segment primarily from subscription fees for our medical plan, which we market to consumers. Our medical plan automatically renews on a monthly basis and members pay the subscription fee at the beginning of each subscription period, in most cases by authorizing us to directly charge their credit card, debit card or bank account through automatic funds transfer. Subscription revenue is recognized on a pro rata basis over the monthly enrollment term. We generate revenue in our other business segment primarily from writing policies on behalf of third parties where we do not undertake the direct consumer marketing. This segment includes the writing of policies that provide different coverage and may have materially different terms and conditions than our subscription medical plan.

We generate leads for our subscription business through both third-party referrals and direct-to-consumer acquisition channels, which we then convert into members through our website and contact center. Veterinary practices represent our largest referral source. We engage a national referral network of partners, which we refer to as our Territory Partners, who are paid fees based on activity in their regions. 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. We also receive a significant number of new leads from existing members adding pets and referring their friends and family members. Our direct-to-consumer acquisition channels serve as important resources for pet owner education and drive new member leads and conversion. We continuously evaluate the effectiveness of our member acquisition channels and marketing initiatives based upon their return on investment, which we measure by comparing the ratio of the lifetime value of a pet generated through each specific channel or initiative to the related acquisition cost.

Our revenue increased from $42.7 million for the three months ended March 31, 2016 to $54.7 million for the three months ended March 31, 2017, representing 28% 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 three months ended March 31, 2017 and 2016, we had a net loss of $1.5 million and $2.6 million, respectively. As of March 31, 2017, our accumulated deficit was $82.8 million.

Key Financial and Operating Metrics

The following table sets forth our key financial and operating metrics for each of the last eight fiscal quarters.

	Three Months Ended							
	Mar. 31, 2017	Dec. 31, 2016	Sept. 30, 2016	Jun. 30, 2016	Mar. 31, 2016	Dec. 31, 2015	Sept. 30, 2015	Jun. 30, 2015
Total pets enrolled (at period end)	364,259	343,649	334,070	320,896	307,298	291,818	276,988	259,948
Total subscription pets enrolled (at period end)	334,909	323,233	312,282	299,856	287,123	272,636	258,546	241,808
Monthly average revenue per pet	$50.50	$49.17	$48.37	$47.39	$46.12	$45.48	$45.15	$45.10
Lifetime value of a pet (LVP)	$637	$631	$624	$622	$603	$591	$591	$570
Average pet acquisition cost (PAC)	$128	$133	$120	$118	$123	$132	$129	$133
Average monthly retention	98.58 %	98.60 %	98.61 %	98.64 %	98.65 %	98.64 %	98.66 %	98.67 %
Adjusted EBITDA (in thousands)	$452	$302	$304	$522	$(1,066)	$(1,588)	$(3,211)	$(3,165)

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

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

Monthly average revenue per pet. Monthly average revenue per pet is calculated as amounts billed in a given month for subscriptions divided by the total number of subscription pet months in the period. Total subscription pet months in a period represents the sum of all pets enrolled for each month during the period. We monitor monthly average revenue per pet because it is an indicator of the per pet unit economics of our business.

Lifetime value of a pet. Lifetime value of a pet (LVP) is calculated in part based on 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, multiplied by the implied average subscriber life in months. 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 value we might expect from new pets over their implied average subscriber life in months and to evaluate the amount of sales and marketing expenses we may want to incur to attract new pet enrollments.

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

Average monthly retention. Average monthly retention is measured as the monthly retention rate of enrolled subscription pets for each applicable period averaged over the 12 months prior to the period end date. As such, our average monthly retention rate as of March 31, 2017 is an average of each month’s retention from April 1, 2016 through March 31, 2017. 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 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.

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, income tax expense (benefit) and loss (income) from equity method investment. For more information about adjusted EBITDA and a reconciliation of net loss to adjusted EBITDA, see "Non-GAAP Financial Measures" below.

Non-GAAP Financial Measures

We believe that using acquisition cost, net acquisition cost and adjusted EBITDA 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 acquisition cost as sales and marketing expenses, excluding stock-based compensation expense. We define net acquisition cost as acquisition cost net of sign-up fee revenue and other business segment sales and marketing expenses. We define adjusted EBITDA as net loss excluding stock-based compensation expense, depreciation and amortization expense, interest income, interest expense, income tax expense (benefit) and loss (income) from equity method investment.

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 acquisition cost, net acquisition cost and adjusted EBITDA that exclude stock-based compensation expense and loss (income) from equity method investments, allows for more meaningful comparisons between our operating results from period to period. We net sign-up fees with sales and marketing expenses in our calculation of net acquisition cost 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. We believe this allows us to calculate and present acquisition cost, net 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 acquisition cost and net acquisition cost to sales and marketing expense:

	Three Months Ended							
	Mar. 31, 2017	Dec. 31, 2016	Sept. 30, 2016	Jun. 30, 2016	Mar. 31, 2016	Dec. 31, 2015	Sept. 30, 2015	Jun. 30, 2015
	(in thousands)							
Sales and marketing expense	$4,089	$3,951	$3,892	$3,564	$3,840	$3,919	$4,128	$3,533
Excluding:								
Stock-based compensation expense	(187)	(113)	(172)	(165)	(82)	(104)	(102)	(110)
Acquisition cost	3,902	3,838	3,720	3,399	3,758	3,815	4,026	3,423
Net of:								
Sign-up fee revenue	(544)	(526)	(525)	(495)	(527)	(506)	(542)	(451)
Other business segment sales and marketing expense	(48)	(62)	(63)	(55)	(38)	(8)	(16)	(30)
Net acquisition cost	$3,310	$3,250	$3,132	$2,849	$3,193	$3,301	$3,468	$2,942

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

	Three Months Ended							
	Mar. 31, 2017	Dec. 31, 2016	Sept. 30, 2016	Jun. 30, 2016	Mar. 31, 2016	Dec. 31, 2015	Sept. 30, 2015	Jun. 30, 2015
	(in thousands)							
Net loss	$(1,482)	$(1,723)	$(1,637)	$(964)	$(2,572)	$(3,001)	$(4,643)	$(4,625)
Excluding:								
Stock-based compensation expense	781	731	776	743	696	653	749	897
Depreciation and amortization expense	1,036	1,229	1,093	739	785	741	672	563
Interest income	(51)	(41)	(29)	(26)	(23)	(19)	(19)	(18)
Interest expense	137	81	66	41	30	26	14	40
Income tax expense (benefit)	24	7	13	4	14	12	16	(22)
Loss (income) from equity method investment	7	18	22	(15)	4	—	—	—
Adjusted EBITDA	$452	$302	$304	$522	$(1,066)	$(1,588)	$(3,211)	$(3,165)

Factors Affecting Our Performance

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

Investment in pet acquisition. We have made and plan to continue to make significant investments to grow our member base. Our net 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, the timing of our Territory Partner conference may increase our average pet acquisition cost in a given period (historically, during the fourth quarter of each year). We also regularly test new member acquisition channels and marketing initiatives, which may be more expensive than our traditional marketing channels and may increase our average acquisition costs. We plan to expand the number of Territory Partners and continue testing new member acquisition channels and marketing initiatives, which is likely to increase our average pet acquisition cost. We continually assess our sales and marketing activities by monitoring the ratio of LVP to PAC.

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

Geographic mix of sales. The relative mix of our business between the United States and Canada impacts the monthly average revenue per pet we receive. Prices for our plan in Canada are generally higher than in the United States (in local currencies), 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 average 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.

Other business segment. Our other business segment primarily includes revenue and expenses related to policies written on behalf of third parties where we do not undertake the direct consumer marketing. This segment includes the writing of policies that provide different coverage and may have materially different terms and conditions than our subscription medical plan. Our relationships in our other business segment are generally subject to termination provisions and are non-exclusive. Accordingly, we cannot control how much business is written with us, even if a contract is not terminated. Loss of an entire program via contract termination could result in the associated policies and revenues being lost over a period of 12 to 18 months, which could have a material impact on our results of operations. We may enter into additional relationships in the future 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, which we market to consumers. Our other business segment includes revenue and expenses related to our other operations that are not directly marketed to consumers. 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 on behalf of third parties where we do not undertake the direct consumer marketing. This segment includes the writing of policies that provide different coverage and may have materially different terms and conditions than our subscription medical plan.

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 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 the subscription business segment includes direct and indirect member service expenses, renewal fees, credit card transaction fees and premium tax expenses. Other cost of revenue for the other business segment includes the commissions the Company pays to unaffiliated general agents, costs to administer the programs in the other business segment and premium taxes on the policies in this segment.

For both our subscription business and our other business segments, we generally expect our cost of revenue to remain relatively constant as a percentage of revenue, although there may be some periodic variability due to a number of factors including the rate of claims occurrences during such periods. Claims expenses as a percentage of our subscription business revenue may increase over the long-term 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 would be offset by economies of scale in our other cost of revenue.

Gross Profit

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

Operating Expenses

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

Sales and Marketing

Sales and marketing expenses primarily consist of lead generation costs; converting leads to enrolled pets; print, online and promotional advertising costs; strategic partnership fees and personnel costs and related expenses. Sales and marketing expenses are driven primarily by investments to acquire new members. We plan to continue to invest in existing and new member acquisition channels and marketing initiatives to grow our business. Investments in new member acquisition channels and marketing initiatives are generally more expensive than our traditional marketing channels and increase our average pet acquisition cost. We manage our sales and marketing expense on a per pet basis. As such, we expect sales and marketing expenses to fluctuate in absolute values and as a percentage of revenue based on how many new pets are enrolled in a period as well as the average pet acquisition cost. We base our sales and marketing spend on what we determine to be the appropriate ratio of lifetime value of a pet to average pet acquisition cost which is based on our desired return on our investments to grow our business.

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 capitalized software and amortization of intangible assets. We expect technology and development expenses to decrease as a percentage of revenue in the near term as we continue to experience scale in our technology expenses.

General and Administrative

General and administrative expenses consist primarily of personnel costs and related expenses for our finance, actuarial, human resources, regulatory, legal, general management functions, as well as facilities and professional services. We expect general and administrative expenses to decrease as a percentage of revenue as we continue to experience scale in our general and administrative expenses.

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.

	Three Months Ended March 31,	
	2017	2016
	(in thousands)	
Consolidated Statement of Operations Data:		
Revenue:		
Subscription business	$50,229	$39,143
Other business	4,500	3,556
Total revenue	54,729	42,699
Cost of revenue:		
Subscription business(1)	41,246	32,203
Other business	4,328	3,192
Total cost of revenue	45,574	35,395
Gross profit:		
Subscription business	8,983	6,940
Other business	172	364
Total gross profit	9,155	7,304
Operating expenses:		
Sales and marketing(1)	4,089	3,840
Technology and development(1)	2,403	2,287
General and administrative(1)	4,012	3,722
Total operating expenses	10,504	9,849
Operating loss	(1,349)	(2,545)
Interest expense	137	30
Other income, net	(28)	(17)
Loss before income taxes	(1,458)	(2,558)
Income tax expense	24	14
Net loss	$(1,482)	$(2,572)

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

	Three Months Ended March 31,	
	2017	2016
	(in thousands)	
Cost of revenue	$113	$66
Sales and marketing	187	82
Technology and development	50	55
General and administrative	431	493
Total stock-based compensation expense	$781	$696

	Three Months Ended March 31,	
	2017	2016
	(as a % of revenue)	
Revenue	100 %	100 %
Cost of revenue	83	83
Gross profit	17	17
Operating expenses:		
Sales and marketing	8	9
Technology and development	4	5
General and administrative	7	9
Total operating expenses	19	23
Operating loss	(3)	(6)
Interest expense	—	—
Other income, net	—	—
Loss before income taxes	(3)	(6)
Income tax expense	—	—
Net loss	(3)%	(6)%

	Three Months Ended March 31,	
	2017	2016
	(as a % of subscription revenue)	
Subscription business revenue	100 %	100 %
Subscription business cost of revenue	82	82
Subscription business gross profit	18 %	18 %

Comparison of Three Months Ended March 31, 2017 and 2016

Revenue

	Three Months Ended March 31,		%
	2017	2016	Change
	(in thousands, except percentages, pet and per pet data)		
Revenue:			
Subscription business	$ 50,229	$ 39,143	28 %
Other business	4,500	3,556	27
Total revenue	$ 54,729	$ 42,699	28
Percentage of Revenue by Segment:			
Subscription business	92 %	92 %	
Other business	8	8	
Total revenue	100 %	100 %	
Total pets enrolled (at period end)	364,259	307,298	19
Total subscription pets enrolled (at period end)	334,909	287,123	17
Monthly average revenue per pet	$ 50.50	$ 46.12	9
Average monthly retention	98.58 %	98.65 %	

Three months ended March 31, 2017 compared to three months ended March 31, 2016. Total revenue increased by $12.0 million to $54.7 million for the three months ended March 31, 2017, or 28%. Revenue from our subscription business segment increased by $11.1 million to $50.2 million for the three months ended March 31, 2017, or 28%. This increase in subscription business revenue was primarily due to a 17% increase in total subscription pets enrolled as of March 31, 2017 compared to March 31, 2016, and increased average revenue per pet of 9% for the same period due to increases in pricing to cover the increased cost of veterinary care. Additionally, there was approximately $0.4 million positive impact on our Canadian revenue due to changes in foreign exchange rates when compared to the three months ended March 31, 2016. Revenue from our other business segment increased $0.9 million to $4.5 million for the three months ended March 31, 2017, or 27%, due to an increase in enrolled pets in this segment.

Cost of Revenue

	Three Months Ended March 31,		% Change
	2017	2016	
	(in thousands, except percentages and pet data)		
Cost of Revenue:			
Subscription business:			
Claims expenses	$36,323	$28,510	27 %
Other cost of revenue	4,923	3,693	33
Total cost of revenue	41,246	32,203	28
Gross profit	8,983	6,940	29
Other business:			
Claims expenses	2,864	2,094	37
Other cost of revenue	1,464	1,098	33
Total cost of revenue	4,328	3,192	36
Gross profit	172	364	(53)
Total pets enrolled (at period end)	364,259	307,298	19
Total subscription pets enrolled (at period end)	334,909	287,123	17
Percentage of Revenue by Segment:			
Subscription business:			
Claims expenses	72 %	73 %	
Other cost of revenue	10	9	
Total cost of revenue	82	82	
Gross profit	18	18	
Other business:			
Claims expenses	64	59	
Other cost of revenue	33	31	