TRUPANION INC.
Form 10-Q
May 07, 2015

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, 2015
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)
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, 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 May 1, 2015, there were approximately 28,157,176 shares of the registrant's common stock outstanding.

TRUPANION, INC.
TABLE OF CONTENTS

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.

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, 2015	2014
Revenue	$33,310	$25,640
Cost of revenue:		
Claims expenses	23,351	17,034
Other cost of revenue	4,377	3,850
Gross profit	5,582	4,756
Operating expenses:		
Sales and marketing	3,651	2,646
Technology and development	2,798	2,200
General and administrative	3,697	2,786
Total operating expenses	10,146	7,632
Operating loss	(4,564)	(2,876)
Interest expense	245	736
Other expense, net	19	1,286
Loss before income taxes	(4,828)	(4,898)
Income tax expense	108	15
Net loss	$(4,936)	$(4,913)
Net loss per share:		
Basic and diluted	$(0.18)	$(3.22)
Weighted-average shares used to compute net loss per share:		
Basic and diluted	27,337,302	1,524,028

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

	Three Months Ended March 31,	
	2015	2014
Net loss	$(4,936)	$(4,913)
Other comprehensive (loss) income:		
Foreign currency translation adjustments	(129)	51
Change in unrealized losses on available-for-sale securities	(8)	35
Other comprehensive (loss) income, net of taxes	(137)	86
Comprehensive loss	$(5,073)	$(4,827)

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

	March 31, 2015	December 31, 2014
Assets	(unaudited)	
Current assets:		
Cash and cash equivalents	$32,494	$53,098
Short-term investments	21,330	22,371
Accounts and other receivables	7,786	7,887
Prepaid expenses and other assets	1,448	1,299
Total current assets	63,058	84,655
Investments in fixed maturities, at fair value	934	942
Property and equipment, net	8,618	7,862
Intangible assets, net	4,831	4,847
Other long term assets	16	—
Total assets	$77,457	$98,306
Liabilities and stockholders’ equity		
Current liabilities:		
Accounts payable	$1,438	$1,962
Accrued liabilities	3,560	4,607
Claims reserve	5,185	5,107
Deferred revenue	9,677	9,345
Other payables	1,083	1,523
Total current liabilities	20,943	22,544
Long-term debt	—	14,900
Deferred tax liabilities	1,495	1,495
Other liabilities	102	92
Total liabilities	22,540	39,031
Stockholders’ equity:		
Common stock, $0.00001 par value per share, 200,000,000 shares authorized at March 31, 2015 and December 31, 2014, 28,710,100 and 28,089,121 issued and outstanding at March 31, 2015; 28,451,920 and 27,830,941 shares issued and outstanding at December 31, 2014.	—	—
Preferred stock: $0.00001 par value per share, 10,000,000 authorized at March 31, 2015 and December 31, 2014, and 0 issued and outstanding at March 31, 2015 and December 31, 2014.	—	—
Additional paid-in capital	119,760	119,045
Accumulated other comprehensive (loss) income	(126)	11
Accumulated deficit	(62,116)	(57,180)
Treasury stock, at cost: 620,979 shares at March 31, 2015 and December 31, 2014.	(2,601)	(2,601)
Total stockholders’ equity	54,917	59,275
Total liabilities and stockholders’ equity	$77,457	$98,306

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

	Three Months Ended March 31,	
	2015	2014
Operating activities		
Net loss	$(4,936)	$(4,913)
Adjustments to reconcile net loss to cash used in operating activities:		
Depreciation and amortization	566	309
Amortization of debt discount and prepaid loan fees	—	227
Warrant expense	—	1,219
Stock-based compensation expense	703	567
Other, net	(116)	45
Changes in operating assets and liabilities:		
Accounts receivable	75	(142)
Prepaid expenses and other current assets	(152)	(178)
Accounts payable	(387)	520
Accrued liabilities	(736)	(1,554)
Claims reserve	76	(657)
Deferred revenue	329	208
Other payables	(330)	396
Net cash used in operating activities	(4,908)	(3,953)
Investing activities		
Purchases of investment securities	(3,206)	(2,677)
Maturities of investment securities	4,245	3,809
Purchases of property and equipment	(1,590)	(1,016)
Net cash (used in) provided by investing activities	(551)	116
Financing activities		
Deferred financing costs	—	(619)
Proceeds from exercise of stock options	367	20
Payment on line of credit	(14,900)	—
Tax withholding on restricted stock	(384)	—
Net cash used in financing activities	(14,917)	(599)
Effect of foreign exchange rates on cash, net	(228)	90
Net change in cash and cash equivalents	(20,604)	(4,346)
Cash and cash equivalents at beginning of period	53,098	14,939
Cash and cash equivalents at end of period	$32,494	$10,593
Supplemental disclosures		
Income taxes paid	(98)	(7)
Interest paid	(249)	(227)
Noncash investing and financing activities:		
Increase in payables for property and equipment	(367)	(422)
Increase in payables for deferred financing costs	—	(812)

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

1. Nature of Operations and Summary of Significant Accounting Policies

Description of Business

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

Basis of Presentation

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

Reclassifications

Certain prior year amounts have been reclassified within the Company’s consolidated financial statements from their original presentation to conform to the current period presentation. In addition, amounts in note 8 related to segments have been recast to reflect a change in the composition of the Company’s segments as described in note 8.

Use of Estimates

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

Income Taxes

The Company is subject to income taxes in the United States and in Canada. The provision for income taxes reflects the Company's estimated effective tax rate for the year. The difference between this rate and the U.S. federal income tax rate of 35% was primarily due to a full valuation allowance on its U.S. deferred tax assets.

Accumulated Other Comprehensive Loss

There were no reclassifications out of accumulated other comprehensive loss during the three months ended March 31, 2015 and 2014.

Insurance Operations

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

5

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued an Accounting Standard Update (ASU) amending revenue recognition guidance and requiring more detailed disclosures to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Insurance contracts are excluded from the scope of this new guidance. The guidance is effective for annual and interim reporting periods beginning after December 15, 2016, with early adoption prohibited, and must be applied retrospectively or modified retrospectively. We do not believe this ASU will have a material impact on our consolidated financial statements.

2. Net Loss per Share

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

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

	As of March 31,	
	2015	2014
Stock options	4,677,592	4,833,400
Restricted stock awards and units	592,625	714,365
Warrants	869,999	884,111
Series A convertible preferred stock	—	7,466,283
Series B convertible preferred stock	—	3,546,384
Series C convertible preferred stock	—	3,845,322
Exchangeable shares	—	2,247,130

Convertible preferred stock is presented on an as converted basis to reflect the applicable conversion ratio.

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, 2015 and December 31, 2014 (in thousands):

	Amortized Cost	Gross Unrealized Holding Losses	Fair Value
As of March 31, 2015			
Available-for-sale:			
Municipal bond	$1,000	$(66)	$934
	$1,000	$(66)	$934
Short-term investments:			
U.S. Treasury securities	$5,782	$(1)	$5,781
Certificates of deposit	800	—	800
U.S. government funds	14,748	—	14,748
	$21,330	$(1)	$21,329

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

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

	March 31, 2015 Amortized Cost	Fair Value
Available-for-sale:		
Due under one year	$—	$—
Due after one year through five years	—	—
Due after five years through ten years	1,000	934
Due after ten years	—	—
	$1,000	$934

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

4. Fair Value

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

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

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

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

	As of March 31, 2015			
	Fair Value	Level 1	Level 2	Level 3
Assets				
Municipal bond	$934	$—	$934	$—
Money market funds	20,574	20,574	—	—
Total	$21,508	$20,574	$934	$—

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

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

The Company's accounting policy is to recognize transfers between levels of the fair value hierarchy on the date of the event or change in circumstances that caused the transfer. There were no transfers between levels for the three months ended March 31, 2015 and 2014.

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

- Investment securities: Debt securities classified as available-for-sale are measured using quoted market prices when quoted market prices are available. If quoted market prices in active markets for identical assets are not available to determine fair value, then the Company uses quoted prices of similar instruments and other significant inputs derived from observable market data obtained from third-party data providers. Held-to-maturity securities are carried at amortized cost and the fair value is disclosed in Note 3. Fair value is determined in the same manner as available-for-sale securities and is considered a Level 2 measurement.
- Warrant liabilities: These liabilities are valued using the Black-Scholes-Merton option-pricing model using certain unobservable inputs that are estimated by the Company. These inputs include a measure of volatility using an average of peer companies' publicly traded stock volatility, expected dividend payments based on management's assertion that no dividends will be paid in the near term, the remaining contractual term and a discount rate using an average equivalent bond yield calculation.

An increase or decrease in any of these unobservable inputs would result in a change in the fair value measurement, which may be significant. The liabilities were revalued each period-end until exercised, expired or modified to exclude recurring fair value measurement.

A rollforward of activity in liabilities valued using Level 3 inputs is as follows (in thousands):

	Warrant Liabilities	
	2015	2014
Balance at January 1,	$—	$4,900
Change in fair value upon remeasurement	—	1,219
Balance at March 31,	$—	$6,119

Changes in fair value upon remeasurement are recorded in other expense, net on the consolidated statement of operations.

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. The revolving line of credit bears a variable interest rate equal to the greater of 5.0% or 1.5% plus the prime rate. Interest expense is due monthly on the outstanding principal amount with all amounts outstanding under the revolving line of credit due upon maturity in July 2016. The credit agreement requires the Company to comply with various financial and non-financial covenants. This facility also has a compensating balance requirement of $0.5 million.

Borrowings on the revolving line of credit are limited to the lesser of $20.0 million in 2015 and 2014, and the total amount of cash and securities held by American Pet Insurance Company (APIC), less up to $0.5 million for obligations the Company may have outstanding for other ancillary services. The Company has no outstanding borrowings on this line of credit as of March 31, 2015.

6. Commitments and Contingencies

The Company has entered into strategic marketing and consulting agreements with various parties. Agreements entered into during the three months ended March 31, 2015 will result in an increase in commitments of $0.6 million in 2015, $1.1 million in 2016 and $0.3 million in 2017.

The Company completed a voluntary self-disclosure with the Canada Revenue Agency related to goods and services tax (GST) and harmonized sales tax (HST) owed for 2007 through 2013. During the three months ended March 31, 2015, the Company received the final assessment of GST and HST owed amounting to $0.8 million and paid $0.4 million of this fee to the Canada Revenue Agency. The remainder of the amount owed is expected to be paid in the three months ended June 30, 2015. Interest will be due on the amounts owed until they are paid.

The Company's subsidiary, APIC, a New York insurance company, 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. The Company disputed this assertion. 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 was approved by the CDOI. APIC also agreed to pay a fine and reimburse CDOI expenses in an aggregate amount of $0.4 million which was accrued as of December 31, 2014. Pursuant to the stipulation, APIC did not admit any wrongdoing and continues to believe that its program was permissible under California law; however, the Company determined that it was in its best interest to resolve the dispute amicably.

The Company received an inquiry from the Washington State Office of the Insurance Commissioner (OIC) in December 2012 concerning whether subsidiaries of the Company were properly licensed, and whether certain of its employees were properly licensed, under Washington law. A regulatory examination took place during the third and fourth quarters of 2014. As of March 31, 2015 and December 31, 2014, the Company had accrued liabilities of $0.3 million and $0.2 million, respectively, for this matter. Adverse outcomes beyond recorded amounts are reasonably possible. At this stage in the matter, however, the Company is unable to estimate a possible loss or range of possible loss beyond amounts accrued.

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

9

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, 2014	5,112,556	$ 3.19	$21,116
Granted	57,374	7.36	
Exercised	(330,875)	1.58	2,068
Forfeited	(161,463)	8.79	
March 31, 2015	4,677,592	3.16	23,564
Vested and exercisable at March 31, 2015	3,415,825	$ 1.93	$20,833

As of March 31, 2015, the stock options outstanding had a remaining contractual life of 6.40 years.

Stock-based compensation expense includes stock options and restricted stock granted to employees and non-employees and has been reported in the Company's statements of operations in claims expenses, other cost of revenue, sales and marketing, technology and development, and general and administrative expenses depending on the function performed by the employee or non-employee. The Company measures compensation expense on a straight-line basis except for restricted stock with a performance condition which is measured on a graded vesting schedule. The remaining 584,385 shares of unvested restricted stock measured on a graded vesting schedule are expected to vest over the remaining service term of approximately 4.50 years.

As of March 31, 2015, the Company had unrecognized stock-based compensation of $6.2 million related to stock options and restricted stock held by employees and non-employees, which is expected to vest over a weighted-average period of approximately 2.35 years. As of March 31, 2015, the Company had 1,261,767 unvested stock options and 592,625 restricted stock awards that are expected to vest. No net tax benefits related to the stock-based compensation costs have been recognized since the Company's inception. The expense recognized in each category is provided in the table below:

	Three Months Ended March 31,	
	2015	2014
	(in thousands)	
Claims expenses	$53	$57
Other cost of revenue	16	24
Sales and marketing	130	149
Technology and development	121	98
General and administrative	383	239
Total stock-based compensation	$703	$567

8. Segments

The Company operates in two segments: subscription business and other business. The subscription business segment includes monthly subscriptions related to the Company's medical plan which are marketed directly to consumers, while the other business segment includes all other business which is not directly marketed to consumers. Prior to January 1, 2015, certain enrollments not marketed directly to consumers were included in the subscription business segment as they were not segregated in reporting used by the chief operating decision maker. During the three months ended March 31, 2015, the Company began reporting these pets in its other business segment due to the characteristics of this business being similar to other arrangements within the other business segment. In addition, the chief operating decision maker began using information related to the subscription business segment excluding these pets in order to evaluate the Company's business and operations and make decisions. As such, these pets have been considered a part of the other business segment after January 1, 2015. Prior period segment information presented below has been recast to reflect this change.

The chief operating decision maker uses two measures to evaluate segment performance: revenue and gross profit. Corporate operating expenses, 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,	
	2015	2014
Revenue:		
Subscription business	$30,056	$22,861
Other business	3,254	2,779
	33,310	25,640
Claims expenses:		
Subscription business	21,502	15,896
Other business	1,849	1,138
	23,351	17,034
Other cost of revenue:		
Subscription business	3,264	2,492
Other business	1,113	1,358
	4,377	3,850
Gross profit:		
Subscription business	5,290	4,473
Other business	292	283
	5,582	4,756
Sales and marketing	3,651	2,646
Technology and development	2,798	2,200
General and administrative	3,697	2,786
Operating loss	$(4,564)	$(2,876)

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

	Three Months Ended March 31,	
	2015	2014
United States	$25,831	$18,882
Canada	7,479	6,758
Total revenue	$33,310	$25,640

Substantially all of the Company's long-lived assets were located in the United States as of March 31, 2015.

11

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

Overview

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

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

We generate leads for our subscription business through both third-party referrals and online member acquisition channels, which we then convert into members through our website and contact center. Veterinary practices represent our largest referral source. While these referrals accounted for a majority of our enrollments during 2014 and the first quarter of 2015, 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 $25.6 million for the three months ended March 31, 2014 to $33.3 million for the three months ended March 31, 2015, representing 30% 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, 2015 and 2014, we had a net loss of $4.9 million. As of March 31, 2015, our accumulated deficit was $62.1 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 each of the last eight fiscal quarters. The prior period metrics have been recast to reflect the movement of pets from the subscription business segment to the other business segment during the first quarter of 2015. For more information on this change see "-Basis of Presentation."

	Period Ended							
	Mar. 31, 2015	Dec. 31, 2014	Sept. 30, 2014	Jun. 30, 2014	Mar. 31, 2014	Dec. 31, 2013	Sept. 30, 2013	Jun. 30, 2013
Total pets enrolled (at period end)	246,106	232,450	221,479	207,969	194,902	182,497	172,184	156,749
Total subscription pets enrolled (at period end)	228,409	215,491	205,194	192,338	179,819	168,405	159,080	147,115
Monthly adjusted revenue per pet	$44.34	$44.79	$44.88	$43.60	$43.07	$43.06	$42.55	$42.20
Lifetime value of a pet (LVP)	$567	$591	$580	$602	$612	$613	$619	$642
Average pet acquisition cost (PAC)	$134	$145	$115	$114	$113	$106	$81	$101
Average monthly retention	98.66 %	98.69 %	98.67 %	98.65 %	98.65 %	98.65 %	98.64 %	98.62 %
Adjusted EBITDA (in thousands)	$(3,333)	$(2,903)	$(2,908)	$(2,459)	$(2,079)	$(1,780)	$(378)	$(985)

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

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

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

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

Average pet acquisition cost. Pet acquisition cost (PAC) is calculated as acquisition cost divided by the total number of new subscription pets enrolled in that period. Acquisition cost, a non-GAAP financial measure, is calculated in a reporting period as sales and marketing expenses, excluding stock-based compensation, offset by sign-up fee revenue.

We offset sales and marketing expenses with sign-up fee revenue since it is a one-time charge to new members used to partially offset initial setup costs, which are included in sales and marketing expenses. We monitor average pet acquisition cost to evaluate the efficiency of our sales and marketing programs in acquiring new members and measure effectiveness using the ratio of our lifetime value of a pet to average pet acquisition cost.

Average monthly retention. Average monthly retention is measured as the monthly retention rate of enrolled subscription pets for each applicable period averaged over the 12 months prior to the period end date. As such, our average monthly retention rate as of March 31, 2015 is an average of each month's retention from April 1, 2014 through March 31, 2015. We calculate monthly retention as the number of subscription pets that remain after subtracting all subscription pets that cancel during a month, including subscription pets that enroll and cancel within that month, divided by the total subscription pets enrolled at the beginning of that month. We monitor average monthly retention because it provides a measure of member satisfaction and allows us to calculate the implied average subscriber life in months and manage our business.

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

Non-GAAP Financial Measures

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

14

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

	Three Months Ended							
	Mar. 31, 2015	Dec. 31, 2014	Sept. 30, 2014	Jun. 30, 2014	Mar. 31, 2014	Dec. 31, 2013	Sept. 30, 2013	Jun. 30, 2013
	(in thousands)							
Revenue	$33,310	$31,868	$30,312	$28,090	$25,640	$24,011	$22,134	$19,842
Excluding:								
Other business revenue	(3,254)	(3,251)	(3,200)	(3,178)	(2,779)	(2,736)	(2,256)	(1,558)
Change in deferred revenue	328	247	385	84	262	452	314	218
Sign-up fee revenue	(484)	(363)	(425)	(407)	(377)	(345)	(386)	(356)
Adjusted revenue	$29,900	$28,501	$27,072	$24,589	$22,746	$21,382	$19,806	$18,146

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

	Twelve Months Ended							
	Mar. 31, 2015	Dec. 31, 2014	Sept. 30, 2014	Jun. 30, 2014	Mar. 31, 2014	Dec. 31, 2013	Sept. 30, 2013	Jun. 30, 2013
	(in thousands)							
Gross profit	$20,701	$19,874	$18,439	$18,113	$16,792	$15,644	$14,788	$14,263
Excluding:								
Stock-based compensation expense	302	315	309	287	270	230	171	143
Other business segment gross profit	(1,549)	(1,539)	(1,468)	(1,314)	(967)	(768)	(572)	(342)
Change in deferred revenue	1,044	977	1,183	1,111	1,246	1,107	874	761
Sign-up fee revenue	(1,679)	(1,572)	(1,554)	(1,514)	(1,464)	(1,418)	(1,356)	(1,285)
Contribution margin	$18,819	$18,055	$16,909	$16,683	$15,877	$14,795	$13,905	$13,540

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

	Three Months Ended							
	Mar. 31, 2015	Dec. 31, 2014	Sept. 30, 2014	Jun. 30, 2014	Mar. 31, 2014	Dec. 31, 2013	Sept. 30, 2013	Jun. 30, 2013
	(in thousands)							
Sales and marketing expenses	$3,651	$3,218	$2,934	$2,810	$2,646	$2,238	$2,013	$2,268
Excluding:								
Stock-based compensation expense	(130)	(147)	(115)	(144)	(149)	(185)	(147)	(202)
Other business segment sales and marketing expenses	(26)	(30)	(22)	(28)	(44)	(6)	(3)	(8)
Net of:								
Sign-up fee revenue	(484)	(363)	(425)	(407)	(377)	(345)	(386)	(356)
Acquisition cost	$3,011	$2,678	$2,372	$2,231	$2,076	$1,702	$1,477	$1,702

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

	Three Months Ended							
	Mar. 31, 2015	Dec. 31, 2014	Sept. 30, 2014	Jun. 30, 2014	Mar. 31, 2014	Dec. 31, 2013	Sept. 30, 2013	Jun. 30, 2013
	(in thousands)							
Net loss	$(4,936)	$(4,276)	$(8,509)	$(3,479)	$(4,913)	$(3,203)	$(1,222)	$(1,824)
Excluding:								
Stock-based compensation expense	703	890	2,001	626	567	574	478	485
Depreciation and amortization expense	566	441	505	419	309	229	243	214
Interest income	(19)	(18)	(20)	(18)	(18)	(13)	(32)	(27)
Interest expense	245	103	5,155	726	742	225	154	144
Change in fair value of warrant liabilities	—	—	(2,054)	(740)	1,219	414	3	28
Income tax expense (benefit)	108	(43)	14	7	15	(6)	(2)	(5)
Adjusted EBITDA	$(3,333)	$(2,903)	$(2,908)	$(2,459)	$(2,079)	$(1,780)	$(378)	$(985)

Factors Affecting Our Performance

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

Investment in pet acquisition. We have made and plan to continue to make significant investments to grow our member base. Our acquisition cost and the number of new members we enroll depends on a number of factors, including the amount we elect to invest in sales and marketing activities in any particular period in the aggregate and by channel, effectiveness of our sales execution and marketing initiatives, changes in costs of media, the mix of our sales and marketing expenditures and the competitive environment. Our average pet acquisition cost has in the past significantly varied and in the future may significantly vary from period to period based upon specific marketing initiatives and the actual or expected relationship to LVP. For example, veterinary trade show costs have traditionally increased our average pet acquisition costs in the first quarter of each year and the timing of our Territory Partner conference can also increase our average pet acquisition cost in a given period. We also 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 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 other programs which include policies not directly marketed to consumers and could result in numerous pets enrolling or canceling at one time. 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, which we market to consumers. Our other business segment includes revenue and expenses related to our other operations that are not directly marketed to consumers. During the first quarter of 2015, we began reporting certain pets previously included in our subscription business segment in our other business segment due to the characteristics of this business being marketed to enterprises rather than consumers, similar to other arrangements within the other business segment. These pets were previously included in our subscription business segment. Segment information for prior periods has been recast to reflect this change. We report our financial information in accordance with U.S. GAAP.

Revenue

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

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

Cost of Revenue

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

Claims expenses

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

Other cost of revenue

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

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

Gross Profit

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

Operating Expenses

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

Sales and Marketing

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

Technology and Development

Technology and development expenses primarily consist of personnel costs and related expenses for our operations staff, which includes information technology development and infrastructure support, third-party services and depreciation of hardware and amortization of capitalized software and intangible assets. We expect technology and development expenses to increase in absolute dollars and 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, regulatory, legal, general management functions, as well as facilities and professional services. We have recently incurred additional expenses as a result of expanding our management team and becoming a public company, and expect to continue to incur additional expenses associated with being a public company, 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. Prior period results have been recast to incorporate the movement of pets from the subscription business segment to the other business segment during the first quarter of 2015. The period-to-period comparison of financial results is not necessarily indicative of future results.

	Three Months Ended March 31,	
	2015	2014
	(in thousands)	
Consolidated Statement of Operations Data:		
Revenue:		
Subscription business	$30,056	$22,861
Other business	3,254	2,779
Total revenue	33,310	25,640
Cost of revenue:		
Subscription business[(1)]	24,766	18,388
Other business	2,962	2,496
Total cost of revenue	27,728	20,884
Gross profit:		
Subscription business	5,290	4,473
Other business	292	283
Total gross profit	5,582	4,756
Operating expenses:		
Sales and marketing[(1)]	3,651	2,646
Technology and development[(1)]	2,798	2,200
General and administrative[(1)]	3,697	2,786
Total operating expenses	10,146	7,632
Operating loss	(4,564)	(2,876)
Interest expense	245	736
Other expense, net	19	1,286
Loss before income taxes	(4,828)	(4,898)
Income tax expense	108	15
Net loss	$(4,936)	$(4,913)

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

	Three Months Ended March 31,	
	2015	2014
	(in thousands)	
Cost of revenue	$69	$81
Sales and marketing	130	149
Technology and development	121	98
General and administrative	383	239
Total stock-based compensation expense	$703	$567

	Three Months Ended March 31,	
	2015	2014
	(as a % of revenue)	
Revenue	100 %	100 %
Cost of revenue	83	81
Gross profit	17	19
Operating expenses:		
Sales and marketing	11	10
Technology and development	8	9
General and administrative	11	11
Total operating expenses	30	30
Operating loss	(14)	(11)
Interest expense	1	3
Other (income) expense, net	—	5
Loss before income taxes	(14)	(19)
Income tax expense (benefit)	—	—
Net loss	(15)%	(19)%

	Three Months Ended March 31,	
	2015	2014
	(as a % of subscription revenue)	
Subscription business revenue	100 %	100 %
Subscription business cost of revenue	82	80
Subscription business gross profit	18 %	20 %

Comparison of Three Months Ended March 31, 2015 and 2014

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

Revenue

	Three Months Ended March 31,		% Change
	2015	2014	
	(in thousands, except percentages, pet and per pet data)		
Revenue:			
Subscription business	$30,056	$22,861	31 %
Other business	3,254	2,779	17
Total revenue	$33,310	$25,640	30
Percentage of Revenue by Segment:			
Subscription business	90 %	89 %	
Other business	10	11	
Total revenue	100 %	100 %	
Subscription Business:			
Total pets enrolled (at period end)	246,106	194,902	26
Subscription pets enrolled	228,409	179,819	27
Monthly adjusted revenue per pet	$44.34	$43.07	3
Average monthly retention	98.66 %	98.65 %	

Three months ended March 31, 2015 compared to three months ended March 31, 2014. Total revenue increased by $7.7 million to $33.3 million for the three months ended March 31, 2015, or 30%. Revenue from our subscription business segment increased by $7.2 million to $30.1 million for the three months ended March 31, 2015, or 31%. This increase in subscription business revenue primarily was due to a 27% increase in subscription pets enrolled as of March 31, 2015 compared to March 31, 2014 and a 7% increase in monthly adjusted revenue per pet (before conversion of Canadian premiums into U.S. Dollars) during the three months ended March 31, 2015 as compared to the three months ended March 31, 2014 as a result of increases in our pricing due to increases in the cost of veterinary care and expansions of our coverage that began in May 2014. The impact of these price increases was partially offset by a $0.9 million impact of foreign exchange rates on our Canadian revenue when compared to the three months ended March 31, 2014, reducing the increase in monthly adjusted revenue per pet from 7% to 3%. Revenue from our other business segment increased $0.5 million to $3.3 million for the three months ended March 31, 2015, due to an increase in enrolled pets in this segment.

Cost of Revenue

	Three Months Ended March 31, 2015	2014	% Change	
	(in thousands, except percentages)			
Cost of Revenue:				
Subscription business:				
Claims expenses	$21,502	$15,896	35	%
Other cost of revenue	3,264	2,492	31	
Total cost of revenue	24,766	18,388	35	
Gross profit	5,290	4,473	18	
Other business:				
Claims expenses	1,849			