

TRUPANION INC.
Form 10-K
February 15, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2016

or

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)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Exchange on Which Registered
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Common Stock, \$0.00001 par value per share	NASDAQ Stock Market LLC
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Securities registered pursuant to Section 12(g) of the Act: None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 Accelerated filer

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

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

The aggregate market value of the registrant's common stock held by non-affiliates as of June 30, 2016, the last business day of the registrant's most recently completed second fiscal quarter, was approximately \$280,565,040 using the closing price on that day of \$13.25.

As of February 8, 2017, there were approximately 29,509,841 shares of the registrant's common stock outstanding. DOCUMENTS INCORPORATED BY REFERENCE Part III incorporates certain information by reference from the definitive proxy statement to be filed by the registrant in connection with the 2017 Annual Meeting of Stockholders (Proxy Statement). The Proxy Statement will be filed by the registrant with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the end of the registrant's fiscal year ended December 31, 2016.

TRUPANION, INC.
 Annual Report on Form 10-K
 For the Fiscal Year Ended December 31, 2016
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Note About Forward-Looking Statements

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and section 27A of the Securities Act of 1933, as amended (Securities Act). All statements contained in this Annual Report on Form 10-K other than statements of historical fact, including statements regarding our future results of operations and financial position, our business strategy and plans and our objectives for future operations, are forward-looking statements. The words “believe,” “may,” “will,” “potentially,” “estimate,” “target,” “continue,” “anticipate,” “intend,” “could,” “would,” “project,” “plan” and “expect,” and similar expressions that 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 I. Item 1A. “Risk Factors” and elsewhere in this Annual Report on Form 10-K. Moreover, we operate in a very competitive and rapidly changing environment, and new risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. In light of these risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this Annual Report on Form 10-K may not occur and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements.

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

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

PART I

Item 1. Business

Our Mission

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

Our Company and Approach

We 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 acquisition cost.

Our target market is large and underpenetrated. We have pioneered a unique solution that sits at the center of the pet medical ecosystem, meeting the needs of pets, pet owners and veterinarians, and we believe we are uniquely positioned to continue to drive market penetration. Our aggregate total pets enrolled grew from 31,207 pets on January 1, 2010 to 343,649 pets on December 31, 2016, which represents a compound annual growth rate of 41%.

Total Pets Enrolled

(in thousands)

Pet owners are often surprised by the cost of veterinary care and can be financially unprepared if their beloved pets become injured or ill. The costs of medical treatments for pets have become more onerous over time due to the availability and usage of increasingly advanced veterinary care. Consequently, pet owners without medical coverage may be forced to accept sub-standard care for their pets due to financial constraints.

To address these challenges, we offer a simple, fair and comprehensive medical plan that pays 90% of actual veterinary costs for injury and illness claims, has no payout limitations, has few exclusions and can be used to cover the costs incurred at any veterinary practice, emergency care center or specialty hospital in the United States, Canada and Puerto Rico. This approach aligns the interests of pet owners and veterinarians, which allows them to focus on providing the best care for pets rather than minimizing the cost of treatment. Some of our key differentiators include: **Superior Value Proposition.** Our vertically integrated infrastructure eliminates significant frictional costs that constrain most of our competitors, which allows us to provide superior value to our members.

Proprietary Database and Technology Platform. Our custom-built technology platform and proprietary database contain 17 years of pet health records and give us unique insights into how to both manage our business and accurately price our medical plan subscriptions.

Strong Relationship with Veterinary Community. We have invested significant time and energy communicating our value proposition to thousands of veterinarians. We partner with a nationwide sales force to communicate the benefits of our medical plan to veterinarians through in-person visits; we refer to these partners and their associates, collectively, as our Territory Partners.

Trupanion Express™. Our software solution Trupanion Express™ enables us to pay veterinarian invoices directly, often in less than five minutes, without any paperwork. Trupanion Express™ integrates with veterinarians' practice management software, giving us access to more data, reducing our claims handling expense and giving us the ability to deliver a significantly better experience to our members compared to the traditional reimbursement model. We believe that these differentiators serve as competitive advantages, making our business model difficult to replicate. We generate revenue primarily from subscription fees for our medical plan. Our medical plan automatically renews on a monthly basis, and members pay the subscription fee at the beginning of each subscription period. Since 2010, at least 88% of our subscription business revenue every quarter has come from existing members who had active subscriptions at the beginning of the quarter. Due to our focus on providing a superior value proposition and member experience, our members are very loyal, as evidenced by our 98.5% average monthly retention rate since 2010. For more information regarding average monthly retention, including an explanation of how we calculate this metric, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Financial and Operating Metrics."

We enrolled our first pet in Canada in 2000 and our first pet in the United States in 2008. Our revenue for the year ended December 31, 2016 was \$188.2 million, representing a compound annual growth rate of 46% from our revenue of \$19.1 million for the year ended December 31, 2010. We have made and expect to continue to make substantial investments in member acquisition and in expanding our operations to support our expected growth. For the year ended December 31, 2016, we had a net loss of \$6.9 million and our accumulated deficit was \$81.3 million at December 31, 2016.

Our Solution

Benefits to Pet Owners

Predictability of costs and peace of mind. Our members can be confident that their pets will be covered in the event of an injury or illness. We pay 90% of the veterinary costs actually charged by the member's chosen veterinarian for all covered claims, less a member's chosen deductible, if any. Our members may obtain treatment from any licensed veterinarian that they select within the United States, Canada or Puerto Rico. Our coverage has no payout limits, is not subject to a lifetime maximum payout, and is not limited by the amount that a veterinarian charges or the treatment that a veterinarian recommends. Our injury and illness coverage is designed to be comprehensive and provide members with the highest value. Generally, the only costs not covered by our plan are those relating to conditions existing prior to the pet's enrollment, routine or preventative care, including examination fees and taxes.

Exceptional member experience. We are highly focused on providing an exceptional member experience. We offer a simple and easy to understand medical plan. We have designed our claims process to be fair, efficient and transparent. We strive to pay vet invoices directly, often in under five minutes.

Benefits to Veterinarians

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

More loyal client base. Our members visit veterinarians more frequently, which can generate significantly more annual revenue for veterinarians. Furthermore, pet owners with medical coverage typically spend significantly more on their seriously injured or ill pet. The result is a client base that is more engaged, spends more money on care and has healthier cats and dogs.

Our Strategy

Our strategy is focused on attracting and retaining members by providing a best-in-class value and member experience. We are focused on building a successful long-term business by pursuing the following growth strategies: Increase the number of referring veterinary practices. We intend to increase the number of veterinary practices that are actively introducing our medical plan to their clients.

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

Increase the number of third-party referrals from members. We are focused on using innovative technologies to further enhance our member experience, which we believe will foster member referrals. For example, Trupanion ExpressTM is designed to facilitate the direct payment of invoices to veterinary practices. If widely adopted, Trupanion ExpressTM would transform the claims process and could increase referrals from pet owners and veterinarians acting as ambassadors for our brand.

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Improve online lead generation and conversion. We are investing in our online marketing capabilities, and intend to continue to do so in order to fully capture the online opportunity. Our online marketing initiatives have played an integral role in converting leads to enrolled pets and also generate new leads.

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

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

Pursue other revenue opportunities. We may opportunistically engage in other revenue opportunities. For example, American Pet Insurance Company, which we acquired in 2007, has written policies for unaffiliated general agents since the end of 2012. We believe we are well positioned to partner with other unaffiliated general agents offering pet insurance products over time.

Sales and Marketing

Marketing to Veterinarians

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

Sales and Marketing to Pet Owners

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

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

Referrals from existing members. For the year ended December 31, 2016, 24% of our new pet enrollments were generated from existing members adding a pet or referring their friends and family.

- Online. We believe most of our members spend some time researching pet medical coverage online as part of their decision-making process. A significant portion of the members we acquire from online leads come through our paid search marketing, email marketing, social media marketing and search engine optimization initiatives.

Our Platform and Technology

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

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

Analytics and pricing engine. Our dynamic analytics platform draws on our extensive library of proprietary data to effectively and accurately price subscriptions to our medical plan. We leverage a broad range of information, including species, breed, age, gender and pet location. As data collection is a key part of our research and development process, we are constantly looking for new and relevant data to collect and shape for this purpose.

Trupanion Express™. Our software solution for veterinarians facilitates our ability to pay their invoices directly to the veterinarian at the time of service, often in less than five minutes and without any paperwork. Trupanion Express™ integrates with veterinarians' practice management software, giving us access to more data, reducing our claims handling expense and giving us the ability to deliver a significantly better experience to our members compared to the traditional reimbursement model.

Trupanion.com. Our website provides a simple interface between Trupanion, consumer and business audiences, which removes the need for complex steps during the enrollment process. Built using digital asset management and customer relationship management system technologies, the site provides a custom-built user experience for each user based on who the user is and how the user arrived at the site.

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Competition

We compete with consumers that self-fund veterinary costs with cash or credit, as well as traditional "pet insurance" providers and new entrants to our market. The vast majority of pet owners in the United States and Canada do not currently have medical coverage for their pets. We are primarily focused on expanding the overall size of the market by improving the value proposition for consumers. We view our primary competitive challenge as educating pet owners on why our medical plan is a better alternative to self-funding.

Additionally, there are traditional insurance companies that provide pet insurance products, either as a stand-alone product or along with a broad range of other insurance products. The largest of these traditional providers is Nationwide (formerly Veterinary Pet Insurance Company), a division of Nationwide Insurance. In addition, new entrants backed by large insurance companies with substantial financial resources have attempted to enter the market in the past and may do so again in the future. Further, traditional providers may consolidate, resulting in the emergence of new providers that are vertically integrated or able to create other operational efficiencies, which could lead to increased competition. We believe that we have competitive strengths that position us favorably related to existing and potential competitors. These include: a superior value proposition for pet owners due in part to our vertically integrated structure that reduces frictional costs, a unique member acquisition strategy using territory partners that has taken 17 years to develop, a proprietary database containing 17 years of historical data that provides actionable data insights, powerful technology infrastructure and an experienced management team.

Intellectual Property

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

In addition to these contractual arrangements, we also rely on a combination of intellectual property rights, including trade secrets, patents, copyrights, trademarks and domain names, as well as contractual protections, to establish and protect our intellectual property. As of December 31, 2016, we had three pending patent applications in the United States, two pending patent applications in Canada, one pending patent application in Brazil, one pending patent application in Japan, one pending patent application in China, one pending patent application in Hong Kong, two pending Patent Cooperation Treaty patents, one pending patent application and one issued patent in Europe. We also had ten registered trademarks in the United States, including "Trupanion". We had one registered trademark in Canada, and four pending trademarks. Many of our unregistered trademarks, however, contain words or terms having a common usage and, as a result, may not be protectable under applicable law. We also currently hold the "Trupanion.com" Internet domain name and numerous other related domain names.

Employees

As of December 31, 2016, we had 450 employees. We have not experienced any work stoppages, and we consider our relations with our employees to be good.

Regulation

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

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

- licensing of APIC to transact its line of business and approval and issuance of its certificate of authority;
- establishing minimum levels of capital and reserves required by APIC to operate as an ongoing insurance company;
- assessing the officers and directors of APIC to ensure a minimum level of competency and trustworthiness;

- licensing of individual producers and agents and business entities marketing and selling insurance products and of claims adjusters settling claims;
- admittance of assets to statutory surplus and regulating the type of investments in which APIC can invest;
- regulating premium rate levels for the insurance products APIC offers;
- approving policy forms APIC issues;
- regulating unfair trade and claims practices; and
- establishing reserve requirements and solvency standards.

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

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

In Canada, our plan is written by an unaffiliated Canadian-licensed insurer, Omega General Insurance Company (Omega). Under the terms of our agreements with Omega, our subsidiary Trupanion Brokers Ontario acts as a general agent through a fronting and reinsurance agreement with Omega pursuant to which Trupanion retains any financial risk associated with our Canadian business. Effective January 1, 2015, this agreement was restructured to include our segregated cell business, Wyndham Segregated Account AX (WICL), located in Bermuda. These restructured agreements may be terminated by either party with one year's written notice until they terminate pursuant to their terms on December 31, 2018, at which time they will automatically renew for successive one-year periods and remain terminable by either party with one year's written notice. Omega's Canadian insurance operations are supervised and regulated by the Canadian federal, provincial and territorial governments. Omega is a fully licensed insurer in all of the Canadian provinces and territories in which we do business.

Though we are not directly regulated by the Bermuda Monetary Authority (BMA), WICL's regulation and compliance impacts us as it could have an adverse impact on the ability of WICL to pay dividends. WICL is regulated by the BMA under the Insurance Act of 1978 (Insurance Act) and the Segregated Accounts Company Act of 2000. The Insurance Act imposes on Bermuda insurance companies solvency and liquidity standards, certain restrictions on the declaration and payment of dividends and distributions, certain restrictions on the reduction of statutory capital, and auditing and reporting requirements, and grants BMA the powers to supervise and, in certain circumstances, to investigate and intervene in the affairs of insurance companies. Under the Insurance Act, WICL as a class 3 insurer is required to maintain available statutory capital and surplus at a level equal to or in excess of a prescribed minimum established by reference to net written premiums and loss reserves.

Under the Bermuda Companies Act of 1981, as amended, a Bermuda company may not declare or pay a dividend or make a distribution out of contributed surplus if there are reasonable grounds for believing that: (a) the company is, or would after the payment be, unable to pay its liabilities as they become due; or (b) the realizable value of the company's assets would thereby be less than its liabilities. The Segregated Accounts Company Act of 2000 further requires that dividends out of a segregated account can only be paid to the extent that the cell 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. Per our contractual agreements with WICL, the allowable dividend to be paid by WICL is equivalent to the positive undistributed profit attributable to the shares.

Insurance Holding Company Regulation

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

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

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

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New York law restricts the ability of any one person to acquire certain levels of our voting securities without prior regulatory approval. State insurance holding company regulations generally provide that no person, corporation or other entity may acquire control of an insurance company, or a controlling interest in any parent company of an insurance company, without the prior approval of such insurance company's domiciliary state insurance regulator. Any person acquiring, directly or indirectly, 10% or more of the voting securities of an insurance company is presumed to have acquired "control" of the company. To obtain approval of any change in control, the proposed acquirer must file with the applicable insurance regulator an application disclosing, among other information, its background, financial condition, the financial condition of its affiliates, the source and amount of funds by which it will effect the acquisition, the criteria used in determining the nature and amount of consideration to be paid for the acquisition, proposed changes in the management and operations of the insurance company and other related matters. In considering an application to acquire control of an insurer, the insurance commissioner generally will consider such factors as the experience, competence and financial strength of the applicant, the integrity of the applicant's board of directors and executive officers, the acquirer's plans for the management and operation of the insurer and any anti-competitive results that may arise from the acquisition.

New York law restricts the ability of APIC to pay dividends to its holding company parent. These restrictions are based in part on the prior year's statutory income and surplus. In general, dividends up to specified levels are considered ordinary and may be paid without prior approval, and dividends in larger amounts, or extraordinary dividends, are subject to approval by the NY DFS. An extraordinary dividend or distribution is defined as a dividend or distribution that, in the aggregate in any 12-month period, exceeds the lesser of (i) 10% of surplus as of the preceding December 31 or (ii) the insurer's adjusted net investment income for such 12-month period, not including realized capital gains.

Financial Regulation of Insurers

Risk-Based Capital Requirements

The NAIC has adopted risk-based capital requirements for life, health and property and casualty insurance companies. Refer to Item 1A. "Risk Factors" for details of these requirements.

NAIC Insurance Regulatory Information System Ratios

The NAIC has developed a set of financial relationships or tests known as the Insurance Regulatory Information System, or IRIS, to assist state regulators in monitoring the financial condition of U.S. insurance companies and identifying companies requiring special attention or action. IRIS consists of a statistical phase and an analytical phase whereby financial examiners review insurers' annual statements and financial ratios. The statistical phase consists of 12 key financial ratios based on year-end data that are generated from the NAIC database annually; each ratio has a "usual range" of results. For IRIS ratio purposes, APIC submits data annually to state insurance regulators who then analyze our data using prescribed financial data ratios. A ratio falling outside the prescribed "usual range" is not considered a failing result. Rather, unusual values are viewed as part of the regulatory early monitoring system. In many cases, it is not unusual for financially sound companies to have one or more ratios that fall outside the usual range. As of December 31, 2016, APIC had two such ratios outside the usual range, relating to net premiums written to surplus and investment yield.

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

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

Most jurisdictions in which we operate have laws or regulations that require insurance companies doing business in the state to participate in various types of guaranty associations or other similar arrangements designed to protect policyholders from losses under insurance policies issued by insurance companies that become impaired or insolvent.

Typically, these associations levy assessments, up to prescribed limits, on member insurers on the basis of the member insurer's proportionate share of the business in the relevant jurisdiction in the lines of business in which the impaired or insolvent insurer is engaged. Some jurisdictions permit member insurers to recover assessments that they paid through full or partial premium tax offsets, usually over a period of years.

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

Licensing of Producers and Other Entities

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

Federal Initiatives

The U.S. federal government generally does not directly regulate the insurance business. From time to time, various regulatory and legislative changes have been proposed in the insurance industry. Among the proposals that have in the past been, or are at present being, considered are the possible introduction of federal regulation in addition to, or in lieu of, the current system of state regulation of insurers. There have also been proposals in various state legislatures (some of which have been enacted) to conform portions of their insurance laws and regulations to various model acts adopted by the NAIC. The NAIC has undertaken a Solvency Modernization Initiative focused on updating the U.S. insurance solvency regulation framework, including capital requirements, governance and risk management, group supervision, accounting and financial reporting and reinsurance. The NAIC Amendments are a result of these efforts. Additional requirements are also expected.

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

Privacy and Data Collection Regulation

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

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

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

Companies in our industry and in other industries may own a large number of patents, copyrights and trademarks and may frequently request license agreements, threaten litigation or file suit against us based on allegations of infringement or other violations of intellectual property rights. From time to time, we face, and we expect to face in

the future, allegations that we have infringed the trademarks, copyrights, patents and other intellectual property rights of third parties, including our competitors. As we face increasing competition and as our business grows, we will likely face more claims of infringement.

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Information About Segments and Geographic Revenue

Information about segments and geographic revenue is set forth in Item 8. "Notes to Consolidated Financial Statements" under Note 13 of this Annual Report on Form 10-K. In addition, financial information regarding our operations, assets and liabilities, including our total revenue and net loss for the years ended December 31, 2016, 2015 and 2014 and our total assets as of December 31, 2016 and 2015, is included in Item 8. "Consolidated Financial Statements" of this Annual Report on Form 10-K.

Corporate Information

We were founded in Canada in 2000 as Vetinsurance Ltd. In 2006, we effected a business reorganization whereby Vetinsurance Ltd. became a consolidated subsidiary of Vetinsurance International, Inc., a Delaware corporation. In 2007, we began doing business as Trupanion. In 2013, we formally changed our name from Vetinsurance International, Inc. to Trupanion, Inc. Our principal executive offices are located at 6100 4th Avenue South, Seattle, Washington 98108, and our telephone number is (855) 727-9079. Our website address is www.trupanion.com. Information contained on, or that can be accessed through, our website is not incorporated by reference into this prospectus, and you should not consider information on our website to be part of this Annual Report on Form 10-K.

Available Information

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

Item 1A. Risk Factors

Investing in our common stock involves a high degree of risk. You should carefully consider the risks and uncertainties described below, together with all of the other information in this report, including our consolidated financial statements and related notes, as well as in our other filings with the SEC, in evaluating our business and before investing in our common stock. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties that are not expressly stated, that we are unaware of, or that we currently believe are not material, may also become important factors that affect us. If any of the following risks occur, our business, operating results, financial condition and prospects could be materially harmed. In that event, the price of our common stock could decline, and you could lose part or all of your investment.

Risks Related to Our Business and Industry

We have incurred significant net losses since our inception and may not be able to achieve or maintain profitability in the future.

We have incurred significant net losses since our inception. We had a net loss of \$6.9 million for the year ended December 31, 2016. Additionally, as of December 31, 2016, our accumulated deficit was \$81.3 million. We have funded our operations through equity financings, borrowings under a revolving line of credit and term loans and, more recently, positive cash flows from operations. We may not be able to achieve or maintain profitability in the near future or at all. Our recent growth, including our growth in revenue and membership, may not be sustainable or may decrease, and we may not generate sufficient revenue to achieve or maintain profitability. Additionally, our expense levels are based, in significant part, on our estimates of future revenue and many of these expenses are fixed in the short term. As a result, we may be unable to adjust our spending in a timely manner if our revenue falls short of our expectations. Accordingly, any significant shortfall of revenue in relation to our estimates could have an immediate negative effect on our financial results.

We have made and plan to continue to make significant investments to grow our member base. Our average pet acquisition cost and the number of new pets we enroll depends on a number of factors, including the effectiveness of our sales execution and marketing initiatives, changes in costs of media, the mix of our sales and marketing expenditures and the competitive environment. Our average pet acquisition cost has in the past significantly varied and in the future may significantly vary period to period based upon specific marketing initiatives. We also regularly test new member acquisition channels and marketing initiatives, which often are more expensive than our traditional marketing channels and generally increase our average acquisition costs. We plan to expand the number of Territory Partners we use to reach veterinarians and other referral sources and to engage in other marketing activities, including direct to consumer advertising, which are likely to increase our acquisition costs.

We expect to continue to make significant expenditures to maintain and expand our business including expenditures relating to the acquisition of new members, retention of our existing members and development and implementation of our technology platforms. These increased expenditures will make it more difficult for us to achieve and maintain future profitability. Our ability to achieve and maintain profitability depends on a number of factors, including our ability to attract and service members on a profitable basis. If we are unable to achieve or maintain profitability, we may not be able to execute our business plan, our prospects may be harmed and our stock price could be materially and adversely affected.

We base our decisions regarding our member acquisition expenditures primarily on the projected lifetime value of the pets that we expect to acquire. Our estimates and assumptions may not accurately reflect our future results, we may overspend on member acquisition and we may not be able to recover our member acquisition costs or generate profits from these investments.

We invest significantly in member acquisition. We spent \$15.2 million on sales and marketing to acquire new members for the year ended December 31, 2016. We expect to continue to spend significant amounts to acquire additional members. We utilize Territory Partners, who are paid fees based on activity in their regions, to communicate the benefits of our medical plan to veterinarians through in-person visits. Veterinarians then educate pet owners, who visit our website or call our contact center to learn more about, and potentially enroll in, our medical plan. We also invest in other third-party referrals and direct to consumer member acquisition channels, though we have limited experience with some of them.

We base our decisions regarding our member acquisition expenditures primarily on the lifetime value of the pets that we project to acquire. This analysis depends substantially on estimates and assumptions based on our historical experience with pets enrolled in earlier periods, including our key financial and operating metrics described in “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Key Financial and Operating Metrics.”

If our estimates and assumptions regarding the lifetime value of the pets that we project to acquire and our related decisions regarding investments in member acquisition prove incorrect, or if the expected lifetime value of