

Quotient Ltd
Form 10-Q
February 07, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended 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 001-36415

QUOTIENT LIMITED

(Exact name of registrant as specified in its charter)

Jersey, Channel Islands
(State or other jurisdiction of
incorporation or organization)

Not Applicable
(I.R.S. Employer
Identification No.)

Pentlands Science Park

Not Applicable

Bush Loan, Penicuik, Midlothian

Edgar Filing: Quotient Ltd - Form 10-Q

EH26 0PZ, United Kingdom
(Address of principal executive offices) (Zip Code)

001-44-131-445-6159

(Registrant's telephone number, including area code)

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 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 (check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of February 3, 2017 there were 29,511,775 Ordinary Shares, nil par value, of Quotient Limited outstanding.

TABLE OF CONTENTS

	Page
<u>PART I – FINANCIAL INFORMATION</u>	3
<u>Item 1. Financial Statements</u>	3
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	18
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	32
<u>Item 4. Controls and Procedures</u>	33
<u>PART II – OTHER INFORMATION</u>	33
<u>Item 1. Legal Proceedings</u>	33
<u>Item 1A. Risk Factors</u>	33
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	34
<u>Item 3. Defaults Upon Senior Securities</u>	34
<u>Item 4. Mine Safety Disclosures</u>	34
<u>Item 5. Other Information</u>	34
<u>Item 6. Exhibits</u>	34
<u>Signatures</u>	35

Cautionary note regarding forward-looking statements

This Quarterly Report on Form 10-Q, and exhibits thereto, contains estimates, predictions, opinions, projections and other statements that may be interpreted as “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, that involve substantial risks and uncertainties. The forward-looking statements are contained principally in Part I, Item 2: “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and are also contained elsewhere in this Quarterly Report. Forward-looking statements can be identified by words such as “strategy,” “objective,” “anticipate,” “believe,” “estimate,” “expect,” “intend,” “may,” “plan,” “predict,” “project,” “potential,” “will,” “would,” “could,” “should,” “continue,” “contemplate,” “might,” “design” and other similar expressions, although not all forward-looking statements contain these identifying words. Although we believe that we have a reasonable basis for each forward-looking statement contained in this Quarterly Report, we caution you that these statements are based on a combination of facts and factors currently known by us and our expectations of the future, about which we cannot be certain, and are subject to numerous known and unknown risks and uncertainties.

Forward-looking statements include statements about:

- the development, regulatory approval and commercialization of MosaiQ™;
- the design of blood grouping and disease screening capabilities of MosaiQ™ and the benefits of MosaiQ™ for both customers and patients;
- future demand for and customer adoption of MosaiQ™, the factors that we believe will drive such demand and our ability to address such demand;
- our expected profit margins for MosaiQ™;
- the size of the market for MosaiQ™ ;
- the regulation of MosaiQ™ by the U.S. Food and Drug Administration, or the FDA, or other regulatory bodies, or any unanticipated regulatory changes or scrutiny by such regulators;
- future plans for our conventional reagent products;
- the status of our future relationships with customers, suppliers, and regulators relating to our conventional reagent products;
- future demand for our conventional reagent products and our ability to meet such demand;
- our ability to manage the risks associated with international operations;
- anticipated changes, trends and challenges in our business and the transfusion diagnostics market;
- the effects of competition;
- the expected outcome or impact of litigation;
- our ability to protect our intellectual property and operate our business without infringing upon the intellectual property rights of others;
- our anticipated cash needs and our expected sources of funding, including the achievement of product development milestones, and our estimates regarding our capital requirements and capital expenditures; and
- our plans for executive and director compensation for the future.

You should also refer to the various factors identified in this and other reports filed by us with the Securities and Exchange Commission, including but not limited to those discussed in the sections entitled “Risk Factors” in our Annual Report on Form 10-K for the year ended March 31, 2016 and our Quarterly Report on Form 10-Q for the quarter ended September 30, 2016, for a discussion of other important factors that may cause our actual results to differ materially from those expressed or implied by our forward-looking statements. As a result of these factors, we cannot assure you that the forward-looking statements in this Quarterly Report will prove to be accurate. Further, if our forward-looking statements prove to be inaccurate, the inaccuracy may be material. In light of the significant uncertainties in these forward-looking statements, you should not regard these statements as a representation or warranty by us that we will achieve our objectives and plans in any specified time frame, or at all. The forward-looking statements in this Quarterly Report represent our views only as of the date of this Quarterly Report.

Subsequent events and developments may cause our views to change. While we may elect to update these forward-looking statements at some point in the future, we undertake no obligation to publicly update any forward-looking statements, except as required by law. You should, therefore, not rely on these forward-looking statements as representing our views as of any date subsequent to the date of this Quarterly Report.

- 1 -

Where you can find more information

We file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission. You can inspect, read and copy these reports, proxy statements and other information at the Securities and Exchange Commission's Public Reference Room, which is located at 100 F Street, N.E., Washington, D.C. 20549. You can obtain information regarding the operation of the Securities and Exchange Commission's Public Reference Room by calling the Securities and Exchange Commission at 1-800-SEC-0330. The Securities and Exchange Commission also maintains a website at www.sec.gov that makes available reports, proxy statements and other information regarding issuers that file electronically.

We make available free of charge at www.quotientbd.com (in the "Investors" section) copies of materials we file with, or furnish to, the Securities and Exchange Commission. By referring to our corporate website, www.quotientbd.com, we do not incorporate any such website or its contents into this Quarterly Report on Form 10-Q.

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)

(Expressed in thousands of U.S. Dollars — except for share data and per share data)

	December 31, 2016	March 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 14,328	\$ 44,100
Short-term investments	30,009	—
Trade accounts receivable, net	1,639	2,269
Inventories	13,168	12,584
Prepaid expenses and other current assets	3,056	2,780
Total current assets	62,200	61,733
Property and equipment, net	60,905	57,115
Intangible assets, net	776	902
Total assets	\$ 123,881	\$ 119,750
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable	\$ 9,463	\$ 7,286
Accrued compensation and benefits	2,799	3,294
Accrued expenses and other current liabilities	12,129	9,180
Current portion of long-term debt	—	1,000
Current portion of lease incentive	415	439
Current portion of capital lease obligation	1,363	152
Total current liabilities	26,169	21,351
Long-term debt, less current portion	80,063	27,910
Lease incentive, less current portion	933	1,316
Capital lease obligation, less current portion	188	1,723
Defined benefit pension plan obligation	4,597	4,502
7% Cumulative redeemable preference shares	17,013	16,225
Total liabilities	128,963	73,027
Commitments and contingencies	—	—
Shareholders' equity (deficit)		
Ordinary shares (nil par value) 29,511,775 and 25,408,950 issued and outstanding at		
December 31, 2016 and March 31, 2016 respectively	172,288	155,914
Additional paid in capital	14,753	11,664
Accumulated other comprehensive loss	(19,130)	(12,623)
Accumulated deficit	(172,993)	(108,232)
Total shareholders' equity (deficit)	(5,082)	46,723

Total liabilities and shareholders' equity (deficit)	\$ 123,881	\$ 119,750
--	------------	------------

The accompanying notes form an integral part of these consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS (unaudited)

(Expressed in thousands of U.S. Dollars — except for share data and per share data)

	Quarter ended December 31,		Nine months ended December 31,	
	2016	2015	2016	2015
Revenue:				
Product sales	\$4,841	\$4,354	\$15,401	\$13,477
Other revenues	—	—	1,300	—
Total revenue	4,841	4,354	16,701	13,477
Cost of revenue	(2,602)	(2,225)	(8,454)	(7,100)
Gross profit	2,239	2,129	8,247	6,377
Operating expenses:				
Sales and marketing	(1,836)	(918)	(4,367)	(2,350)
Research and development, net of government grants	(17,183)	(6,931)	(43,479)	(22,122)
General and administrative expense:				—
Compensation expense in respect of share options and management equity incentives	(1,108)	(566)	(3,089)	(1,380)
Other general and administrative expenses	(4,542)	(6,493)	(13,633)	(16,768)
Total general and administrative expense	(5,650)	(7,059)	(16,722)	(18,148)
Total operating expense	(24,669)	(14,908)	(64,568)	(42,620)
Operating loss	(22,430)	(12,779)	(56,321)	(36,243)
Other income (expense):				
Interest expense, net	(4,168)	(1,134)	(6,552)	(2,992)
Change in financial liability for share warrants	—	3,830	—	15,857
Other, net	(4,568)	305	(1,888)	(987)
Other income (expense), net	(8,736)	3,001	(8,440)	11,878
Loss before income taxes	(31,166)	(9,778)	(64,761)	(24,365)
Provision for income taxes	—	—	—	—
Net loss	\$(31,166)	\$(9,778)	\$(64,761)	\$(24,365)
Other comprehensive income (loss):				
Change in fair value of effective portion of foreign currency cash flow				
hedges	\$29	\$(89)	\$(310)	\$120
Foreign currency gain (loss)	(594)	(1,491)	(6,326)	(297)
Provision for pension benefit obligation	46	—	129	(1,747)
Other comprehensive loss, net	(519)	(1,580)	(6,507)	(1,924)
Comprehensive loss	\$(31,685)	\$(11,358)	\$(71,268)	\$(26,289)
Net loss available to ordinary shareholders - basic and diluted				
	\$(31,166)	\$(9,778)	\$(64,761)	\$(24,365)
Loss per share - basic and diluted	\$(1.06)	\$(0.48)	\$(2.34)	\$(1.33)
Weighted-average shares outstanding - basic and diluted	29,508,330	20,398,132	27,689,009	18,284,708

The accompanying notes form an integral part of these consolidated financial statements.

- 4 -

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIT)
(unaudited)

(Expressed in thousands of U.S. Dollars — except for share data)

	Ordinary shares		Accumulated		Total Shareholders' Equity (Deficit)
	Shares	Amount	Additional paid in capital	Other Comprehensive Accumulated Deficit	
March 31, 2016	25,408,950	\$155,914	\$ 11,664	\$ (12,623)	\$ (108,232) \$ 46,723
Issue of Shares , net of Issue Costs of					
\$1,348	3,220,000	16,362	—	—	16,362
Exercise of pre-funded warrants	850,000	9	—	—	9
Issue of shares upon exercise of incentive					
share options and vesting of RSUs	32,825	3	—	—	3
Net loss	—	—	—	—	(64,761) (64,761)
Change in the fair value of the effective					
portion of foreign currency cash					
flow hedges	—	—	—	(310)	(310)
Foreign currency gain (loss) on:					
Long-term investment nature					
intra-					
entity balances	—	—	—	6,281	6,281
Retranslation of foreign entities	—	—	—	(12,607)	(12,607)
Provision for pension benefit obligation	—	—	—	129	129
Other comprehensive loss	—	—	—	(6,507)	(6,507)
Stock-based compensation	—	—	3,089	—	3,089
December 31, 2016	29,511,775	172,288	14,753	(19,130)	(172,993) (5,082)

The accompanying notes form an integral part of these consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

(Expressed in thousands of U.S. Dollars)

	Nine months ended	
	December 31,	
	2016	2015
OPERATING ACTIVITIES:		
Net loss	\$(64,761)	\$(24,365)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	7,029	1,573
Share-based compensation	3,089	1,380
Amortization of lease incentive	(323)	(327)
Swiss pension obligation	489	—
Amortization of deferred debt issue costs	6,096	1,250
Accrued preference share dividends	788	788
Change in financial liability for share warrants	—	(15,857)
Net change in assets and liabilities:		
Trade accounts receivable, net	246	307
Inventories	(1,310)	(3,249)
Accounts payable and accrued liabilities	6,660	(2,675)
Accrued compensation and benefits	(85)	(803)
Other assets	(700)	(725)
Net cash used in operating activities	(42,782)	(42,703)
INVESTING ACTIVITIES:		
Increase in short-term investments	(30,009)	—
Purchase of property and equipment	(15,206)	(19,832)
Purchase of intangible assets	(65)	(64)
Net cash used in investing activities	(45,280)	(19,896)
FINANCING ACTIVITIES:		
Proceeds from (repayment of) finance leases	(108)	55
Proceeds from drawdown of new debt	84,000	15,500
Issue costs of new debt	(5,493)	(703)
Repayment of debt	(33,450)	(500)
Proceeds from issuance of ordinary shares	16,374	34,553
Net cash generated from financing activities	61,323	48,905
Effect of exchange rate fluctuations on cash and cash equivalents	(3,033)	230
Change in cash and cash equivalents	(29,772)	(13,464)
Beginning cash and cash equivalents	44,100	37,525
Ending cash and cash equivalents	\$ 14,328	\$ 24,061
Supplemental cash flow disclosures:		
Income taxes paid	\$—	\$—
Interest paid	\$1,687	\$1,463

The accompanying notes form an integral part of these consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of U.S. Dollars — except for share data and per share data, unless otherwise stated)

Note 1. Description of Business and Basis of Presentation

Description of Business

The principal activity of Quotient Limited (the “Company”) and its subsidiaries (the “Group”) is the development, manufacture and sale of products for the global transfusion diagnostics market. Products manufactured by the Group are sold to hospitals, blood banking operations and other diagnostics companies worldwide.

Basis of Presentation

The condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”) and are unaudited. In accordance with those rules and regulations, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States (“GAAP”) for complete financial statements.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting only of normal recurring adjustments) considered necessary to present fairly the financial position, results of operations and cash flows for the interim periods presented. The March 31, 2016 balance sheet was derived from audited financial statements, but does not include all disclosures required by GAAP. However, the Company believes that the disclosures are adequate to make the information presented not misleading. The financial statements should be read in conjunction with the audited consolidated financial statements at and for the year ended March 31, 2016 included in the Company’s Annual Report on Form 10-K for the year then ended. The results of operations for the nine month period ended December 31, 2016 are not necessarily indicative of the results of operations that may be expected for the year ending March 31, 2017 and any future period.

The Company has incurred net losses and negative cash flows from operations in each year since it commenced operations in 2007 and had an accumulated deficit of \$173.0 million as of December 31, 2016. At December 31, 2016, the Company had cash holdings and short-term investments of \$44.3 million. The Company has expenditure plans over the next twelve months that exceed its current cash and short-term investment balances, raising substantial doubt about its ability to continue as a going concern. The Company expects to fund its operations in the near term, including the continued development of MosaiQ™ to commercialization, from a combination of funding sources, including through the use of existing cash and short-term investment balances and the issuance of new equity, debt or other securities. The Company’s Directors are confident in the availability of these funding sources and accordingly have prepared the financial statements on the going concern basis. However, there can be no assurance the Company will be able to obtain adequate financing when necessary and the terms of any financings may not be advantageous to the Company and may result in dilution to its shareholders.

Note 2. Summary of Significant Accounting Policies

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from these estimates.

Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. As of December 31, 2016 and March 31, 2016, all cash and cash equivalents comprised readily accessible cash balances except for \$5.0 million at December 31, 2016 held in a cash reserve account pursuant to the indenture governing the 12% Senior Secured Notes due 2023 (the "Notes") and \$299 and \$317 at December 31, 2016 and March 31, 2016 held in a restricted account as security for the property rental obligations of the Company's Swiss subsidiary.

Short-term Investments

Short-term investments represent investments in a money-market fund which is valued daily and which has no minimum notice period for withdrawals. The fund is invested in 89 holdings and the creditworthiness requirement for individual investment holdings is a minimum of an A rating from a leading credit-rating agency. The Company records the value of its investment in the fund based on the quoted value of the fund at the balance sheet date. Unrealized gains or losses are recorded in accumulated other comprehensive loss and are transferred to the statement of comprehensive loss when they are realized.

Trade Accounts Receivable

Trade accounts receivable are recorded at the invoiced amount and are not interest bearing. The Company maintains an allowance for doubtful accounts to reserve for potentially uncollectible trade receivables. Movements in the allowance for doubtful accounts are recorded in General and administrative expenses. The Company reviews its trade receivables to identify specific customers with known disputes or collectability issues. In addition, the Company maintains an allowance for all other receivables not included in the specific reserve by applying specific rates of projected uncollectible receivables to the various aging categories. In determining these percentages, the Company analyzes its historical collection experience, customer credit-worthiness, current economic trends and changes in customer payment terms.

Concentration of Credit Risks and Other Uncertainties

The carrying amounts for financial instruments consisting of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate fair value due to their short maturities. Derivative instruments, consisting of foreign exchange contracts, and short-term investments are stated at their estimated fair values, based on quoted market prices for the same or similar instruments. The counterparties to the foreign exchange contracts consist of large financial institutions of high credit standing. The short-term investments are invested in a fund which is invested in 89 holdings and the creditworthiness requirement for individual investment holdings is a minimum of an A rating from a leading credit-rating agency.

The Company's main financial institutions for banking operations hold all of the Company's cash and cash equivalents as of December 31, 2016 and at March 31, 2016. The Company's accounts receivable are derived from net revenue to customers and distributors located in the United States and other countries. The Company performs credit evaluations of its customers' financial condition. The Company provides reserves for potential credit losses but has not experienced significant losses to date. There was one customer whose accounts receivable balance represented 10% or more of total accounts receivable, net, as of December 31, 2016 and March 31, 2016. This customer represented 33% and 58% of the accounts receivable balances as of December 31, 2016 and March 31, 2016, respectively.

The Company currently sells products through its direct sales force and through third-party distributors. There was one direct customer that accounted for 10% or more of total product sales for the nine month periods ended December 31, 2016 and December 31, 2015. This customer represented 59% of total product sales for the nine month period December 31, 2016 and 56% for the nine month period ended December 31, 2015.

Fair Value of Financial Instruments

The Company defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The Company's valuation techniques used to measure fair value maximized the use of observable inputs and minimized the use of unobservable inputs. The fair value hierarchy is based on the following three levels of inputs:

- ¶ Level 1—Quoted prices in active markets for identical assets or liabilities.
- ¶ Level 2—Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- ¶ Level 3—Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

See Note 6, "Commitment and Contingencies," for information and related disclosures regarding the Company's fair value measurements.

Inventory

Inventory is stated at the lower of standard cost (which approximates actual cost) or market, with cost determined on the first-in-first-out method. Accordingly, allocation of fixed production overheads to conversion costs is based on normal capacity of production. Abnormal amounts of idle facility expense, freight, handling costs and spoilage are expensed as incurred and not included in overhead. No stock-based compensation cost was included in inventory as of December 31, 2016 and March 31, 2016.

- 8 -

Property and Equipment

Property, equipment and leasehold improvements are stated at cost, net of accumulated depreciation and amortization. Depreciation and amortization are computed on a straight-line basis over the estimated useful lives of the related assets as follows:

Land—not depreciated.

Plant, machinery and equipment—4 to 25 years;

Leasehold improvements—the shorter of the lease term or the estimated useful life of the asset.

Repairs and maintenance expenditures, which are not considered improvements and do not extend the useful life of property and equipment, are expensed as incurred.

Intangible Assets and Goodwill

Intangible assets related to product licenses are recorded at cost, less accumulated amortization. Intangible assets related to technology and other intangible assets acquired in acquisitions are recorded at fair value at the date of acquisition, less accumulated amortization. Intangible assets are amortized over their estimated useful lives, on a straight-line basis as follows:

Customer relationships—5 years

Brands associated with acquired cell lines—40 years

Product licenses—10 years

Other intangibles assets—7 years

The Company reviews its intangible assets for impairment and conducts an impairment review when events or circumstances indicate the carrying value of a long-lived asset may be impaired by estimating the future undiscounted cash flows to be derived from an asset to assess whether or not a potential impairment exists. No impairment losses have been recorded in either of the nine month periods ended December 31, 2016 or December 31, 2015.

Revenue Recognition

The Company recognizes revenue from product sales when there is persuasive evidence that an arrangement exists, delivery has occurred, the price is fixed or determinable and collectability is reasonably assured. Customers have no right of return except in the case of damaged goods. The Company has not experienced any significant returns of its products. Shipping and handling costs are expensed as incurred and included in cost of product sales. In those cases where the Company bills shipping and handling costs to customers, the amounts billed are classified as revenue.

The Company enters into revenue arrangements that may consist of multiple deliverables of its products and services. The terms of these arrangements may include non-refundable upfront payments, milestone payments, other contingent payments and royalties on any product sales derived on collaboration. Up-front fees received in connection with collaborative agreements are deferred upon receipts, are not considered a separate unit of accounting and are recognized as revenues over the relevant performance periods. Revenues related to research and development services included in a collaboration agreement are recognized as research and services are performed over the related performance periods for each contract. A payment that is contingent upon the achievement of a substantive milestone is recognized in its entirety in the period in which the milestone is achieved.

In June 2013, the Company entered into an agreement with Ortho-Clinical Diagnostics Inc. (“OCD”) to develop a range of rare antisera products. This agreement was amended in August 2016. Under the terms of the amended agreement, the Company is entitled to receive a milestone payment of \$1,300 related to the completion of the CE marking of the products for use on OCD’s automation platforms, milestone payments totaling \$1,400 upon the receipt of FDA approval of the rare antisera products and a milestone payment of \$1,500 upon the updating of the FDA approval to cover use of the products on OCD’s automation platforms. In the quarter ended September 30, 2016, the Company recognized milestone revenue of \$1,300 related to the completion of the CE marking of the products for use on OCD’s automation platforms.

In January 2015, the Company entered into a supply and distribution agreement with OCD related to the commercialization and distribution of certain MosaiQ™ products. Under the terms of this agreement, the Company is entitled to receive milestone payments upon CE-mark and FDA approval, as well as upon the first commercial sale of the relevant MosaiQ™ products by OCD within the European Union, United States and within any country outside of these two regions. The Company has concluded that as each of these milestones require significant levels of development work to be undertaken and there was no certainty at the start of the projects that

- 9 -

the development work would be successful, these milestones are substantive and should be accounted for under the milestone method of revenue recognition.

Research and Development

Research and development expenses consist of costs incurred for company-sponsored and collaborative research and development activities. These costs include direct and research-related overhead expenses. The Company expenses research and development costs, including the expenses for research under collaborative agreements, as such costs are incurred. Where government grants or tax credits are available, the income concerned is included as a credit against the related expense.

Stock-Based Compensation

Stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as an expense on a straight-line basis over the requisite service period, which is generally the vesting period. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods in the Company's Consolidated Statements of Comprehensive Loss.

In determining fair value of the stock-based compensation payments, the Company uses the Black–Scholes model and a single option award approach for share options and a barrier option pricing model for multi-year performance based restricted share units ("MRSUs"), both of which require the input of subjective assumptions. These assumptions include: the fair value of the underlying share, estimating the length of time employees will retain their awards before exercising them (expected term), the estimated volatility of the Company's ordinary shares price over the expected term (expected volatility), risk-free interest rate (interest rate), expected dividends and the number of shares subject to awards that will ultimately not complete their vesting requirements (forfeitures).

Pension Obligation

The Company maintains a pension plan covering employees in Switzerland pursuant to the requirements of Swiss pension law. Certain aspects of the plan require that it be accounted for as a defined benefit plan pursuant to Accounting Standards Codification Topic, 715 Compensation – Retirement Benefits ("ASC 715"). The Company recognizes an asset for the plan's overfunded status or a liability for the plan's underfunded status in its Consolidated Balance Sheets. Additionally, the Company measures the plan's assets and obligations that determine its funded status as of the end of the year and recognizes the change in the funded status within "Accumulated other comprehensive loss".

The Company uses an actuarial valuation to determine its pension benefit costs and credits. The amounts calculated depend on a variety of key assumptions, including discount rates and expected return on plan assets. Details of the assumptions used to determine the net funded status are set out in the notes to the Company's March 31, 2016 financial statements. The Company's pension plan assets are assigned to their respective levels in the fair value hierarchy in accordance with the valuation principles described in the "Fair Value of Financial Instruments" section above.

The Swiss pension arrangements were in place at March 31, 2015, but given the limited number of plan members, the accounting provisions of ASC 715 were not applied in the year ended March 31, 2015 or in the amounts originally reported for the nine month period ended December 31, 2015. During the quarter ended March 31, 2016, the Company began to apply the accounting provisions of ASC 715 for its Swiss pension arrangements to account for the arrangements as a defined benefit plan. The Company's Condensed Consolidated Statements of Comprehensive Loss have been adjusted for the nine month period ended December 31, 2015 to reflect the adoption of the provisions of ASC 715 with effect from April 1, 2015. The impact of this adjustment is the inclusion of a pension benefit obligation provision amounting to \$1,747 in Other comprehensive income (loss) for the nine month period ended December 31,

2015 where an amount for this provision was not previously reported. Therefore, there are consequent changes of \$1,747 to Other comprehensive income (loss), net and Comprehensive loss for the previously reported nine month period. This adjustment had no impact on the results of operations or liquidity for the nine month period ended December 31, 2015.

Debt Issuance Costs

On September 30, 2015, the Company elected to adopt early the requirements of Accounting Standards Update 2015-03, Interest — Imputation of Interest (Subtopic 835-30) — Simplifying the Presentation of Debt Issuance Costs, which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the debt liability rather than as an asset.

Note 3. Intangible Assets

	December 31, 2016			Weighted
	Gross			Average
	Carrying Amount	Accumulated Amortization	Net Carrying Amount	Remaining Useful Life
Customer relationships	\$2,429	\$ (2,429)	\$ —	—
Brands associated with acquired cell lines	501	(117)	384	30.7 years
Product licenses	704	(312)	392	5.6 years
Other intangibles	158	(158)	—	—
Total	\$3,792	\$ (3,016)	\$ 776	18.0 years

	March 31, 2016			Weighted
	Gross			Average
	Carrying Amount	Accumulated Amortization	Net Carrying Amount	Remaining Useful Life
Customer relationships	\$2,829	\$ (2,829)	\$ —	—
Brands associated with acquired cell lines	583	(125)	458	31.4 years
Product licenses	748	(304)	444	5.9 years
Other intangibles	184	(184)	—	—
Total	\$4,344	\$ (3,442)	\$ 902	18.9 years

Note 4. Debt

Long-term debt comprises:

	December 31, 2016	March 31, 2016
Total debt	\$ 84,000	\$ 30,000
Less current portion	—	(1,000)

Edgar Filing: Quotient Ltd - Form 10-Q

Long-term debt	\$ 84,000	\$29,000
Fee due on final repayment of facility	—	1,350
Deferred debt costs, net of amortization	(3,937)	(1,534)
Fair value of associated share warrant, net of amortization	—	(906)
	\$ 80,063	\$27,910

The Company's debt at December 31 2016 comprises the 12% Senior Secured Notes due 2023 issued on October 14, 2016. On that date, the Company completed the private placement of up to \$120 million aggregate principal amount of the Notes and entered into an indenture governing the Notes with the guarantors party thereto and U.S. Bank National Association, a national banking association, as trustee and collateral agent. The obligations of the Company under the indenture and the Notes are unconditionally guaranteed on a secured basis by the guarantors, which include all the Company's subsidiaries, and the indenture governing the Notes contains customary events of default. The Company and its subsidiaries must also comply with certain customary affirmative and negative covenants, including a requirement to maintain six-months of interest in a cash reserve account maintained with the collateral agent.

The Company issued \$84 million aggregate principal amount of the Notes on October 14, 2016 and, so long as no event of default has occurred, the Company will issue an additional \$36 million aggregate principal amount of the Notes upon public announcement of field trial results for the MosaiQ™ IH Microarray that demonstrates greater than 99% concordance for the detection of blood group antigens and greater than 95% concordance for the detection of blood group antibodies when compared to predicate technologies for a pre-defined set of blood group antigens and antibodies. The Company paid \$5 million of the net proceeds into the cash reserve account maintained with the collateral agent under the terms of the indenture.

Interest on the Notes accrues at a rate of 12% per annum and is payable semi-annually on April 15 and October 15 of each year commencing on April 15, 2017. Commencing on April 15, 2019, the Company will also pay an installment of principal of the Notes on each April 15 and October 15 until October 15, 2023 pursuant to a fixed amortization schedule.

In connection with the offering on October 14, 2016, the Company entered into royalty rights agreements, pursuant to which the Company sold to the note purchasers in the offering, the right to receive an aggregate payment equal to 2.0% of the aggregate net sales

of MosaiQ™ instruments and consumables made in the donor testing market in the United States and the European Union. The royalty will be payable beginning on the date that the Company or its affiliates enters into a contract for the sale of MosaiQ™ instruments or consumables in the donor testing market in the European Union or the United States and will end on the last day of the calendar quarter in which the eighth anniversary of the first contract date occurs. The royalty rights agreements are treated as sales of future revenues that meet the requirements of Accounting Standards Codification Topic 470 “Debt” to be treated as debt. The estimated future cash outflows under the royalty rights agreements have been combined with the Notes issuance costs and interest payable to calculate the effective interest rate of the Notes and will be expensed through interest expenses using the effective interest rate method over the term of the Notes and royalty rights agreements. Estimating the future cash outflows under the royalty rights agreements requires the Company to make certain estimates and assumptions about future sales of MosaiQ™ products. These estimates of the magnitude and timing of MosaiQ™ sales are subject to significant variability due to the current status of development of MosaiQ™ products, and thus are subject to significant uncertainty. Therefore, the estimates are likely to change as the Company gains experience of marketing MosaiQ™, which may result in future adjustments to the accretion of the interest expense and amortized cost based carrying value of the Notes.

The Company’s debt on March 31, 2016 comprised \$30,000 drawn down under a secured credit facility agreement with MidCap Financial Trust. The facility bore interest at LIBOR plus 6.7%. The LIBOR rate applicable was the higher of the actual market rate from time to time or 2.0%. Using the proceeds of the Notes issued on October 14, 2016, the Company repaid in full on that day its borrowings under the secured credit facility with MidCap Financial Trust, which amounted to \$33.5 million including fees and expenses.

At December 31, 2016, the outstanding debt was repayable as follows:

Within 1 year	\$—
Between 1 and 2 years	—
Between 2 and 3 years	13,440
Between 3 and 4 years	14,280
Between 4 and 5 years	16,800
After 5 years	39,480
Total debt	\$84,000

Note 5. Consolidated Balance Sheet Detail

Inventory

The following table summarizes inventory by category for the dates presented:

	December	March
	31,	31,

Edgar Filing: Quotient Ltd - Form 10-Q

	2016	2016
Raw materials	\$ 8,243	\$8,693
Work in progress	3,729	2,266
Finished goods	1,196	1,625
Total inventories	\$ 13,168	\$ 12,584

Inventory at December 31, 2016, included \$6,915 of raw materials and \$1,847 of work in progress related to the MosaiQ™ project. Inventory at March 31, 2016, included \$7,099 of raw materials related to the MosaiQ™ project.

Property and equipment

The following table summarizes property and equipment by categories for the dates presented:

	December 31, 2016	March 31, 2016
Land	\$ 1,271	\$ 1,480
Plant and machinery	43,690	42,375
Leasehold improvements	28,215	19,440
Total property and equipment	73,176	63,295
Less: accumulated depreciation	(12,271)	(6,180)
Total property and equipment, net	\$ 60,905	\$ 57,115

- 12 -

Depreciation expenses were \$2,370 and \$643 in the quarters ended December 31, 2016 and December 31, 2015, respectively, and \$6,967 and \$1,510 in the nine month periods ended December 31, 2016 and December 31, 2015 respectively.

Accrued compensation and benefits

Accrued compensation and benefits consist of the following:

	December 31,	March 31,
	2016	2016
Salary and related benefits	\$ 184	\$113
Accrued vacation	384	351
Accrued payroll taxes	431	830
Accrued incentive payments	1,800	2,000
Total accrued compensation and benefits	\$ 2,799	\$3,294

Accrued expenses and other current liabilities

Accrued expenses and other current liabilities consist of the following:

	December 31,	March 31,
	2016	2016
Accrued legal and professional fees	\$ 675	\$102
Accrued interest	2,154	225
Goods received not invoiced	1,030	911
Accrued capital expenditure	3,113	2,253
Accrued development expenditure	2,825	3,533
Other accrued expenses	2,332	2,156
Total accrued expenses and other current liabilities	\$ 12,129	\$9,180

Note 6. Commitments and Contingencies

Government Grant

In 2008, the Company was awarded research and development grant funding from Scottish Enterprise amounting to £1,791, for the development of MosaiQ™. The total grant claimed to December 31, 2016 is £1,790. The Company updates Scottish Enterprise periodically with the status of the project and, while the terms of the grant award provide for full repayment of the grant in certain circumstances, the Company does not consider that any repayment is likely.

Hedging arrangements

The Company's subsidiary in the United Kingdom ("UK") has entered into six forward exchange contracts to sell \$500 and purchase pounds sterling at £1:\$1.40 in each calendar month through June 2017, three contracts to sell \$500 and purchase pounds sterling at £1:\$1.2918 in each calendar month from July 2017 through September 2017 and six contracts to sell \$500 in each calendar month from October 2017 through March 2018 at £1:\$1.2655 as hedges of its U.S. dollar denominated revenues.

The following table summarizes the Company's assets and liabilities that are measured at fair value on a recurring basis, by level, within the fair value hierarchy:

	December 31, 2016			Total
		Level	Level	
	Level 1	2	3	
Assets:				
Pension plan assets (1)	\$—	\$7,117	\$ —	\$7,117
Short-term investments (2)	30,009	—	—	30,009
Total assets measured at fair value	\$30,009	\$7,117	\$ —	\$37,126

	December 31, 2016			
	Level	Level	Level	Total
	1	2	3	
Liabilities:				
Foreign currency forward contracts (3)	\$—	\$499	\$ —	\$499
Total liabilities measured at fair value	\$—	\$499	\$ —	\$499

	March 31, 2016			
	Level	Level	Level	Total
	1	2	3	
Assets:				
Pension plan assets (1)	\$—	\$4,455	\$ —	\$4,455
Total assets measured at fair value	\$—	\$4,455	\$ —	\$4,455

	March 31, 2016			
	Level	Level	Level	Total
	1	2	3	
Liabilities:				
Foreign currency forward contracts (3)	\$—	\$190	\$ —	\$190
Total liabilities measured at fair value	\$—	\$190	\$ —	\$190

- (1) The fair value of pension plan assets has been determined as the surrender value of the portfolio of active insured employees held within the Swiss Life collective investment fund. See Note 9, “Defined Benefit Pension Plans”.
- (2) The fair value of short-term investments has been determined based on the quoted value of the units held in the money market fund at the balance sheet date. See Note 2, “Summary of Significant Accounting Policies – Short-term Investments”.
- (3) The fair value of foreign currency forward contracts has been determined by calculating the present value of future cash flows, estimated using market-based observable inputs including forward and spot exchange rates and interest rate curves obtained from third party market price quotations.

Note 7. Ordinary and Preference Shares

Ordinary Shares

The Company’s issued and outstanding ordinary shares were as follows:

Shares Issued			Par value
December 31,	March 31,		

Edgar Filing: Quotient Ltd - Form 10-Q

	2016	2016		
Ordinary shares	29,511,775	25,408,950	\$	—
Total	29,511,775	25,408,950	\$	—

Preference shares

The Company's issued and outstanding preference shares consist of the following:

	Shares Issued		Liquidation	
	December 31,	March 31,	amount per share December 31,	March 31,
	2016	2016	2016	2016
7% Cumulative Redeemable				
Preference shares	666,665	666,665	\$25.52	\$24.34
Total	666,665	666,665		

Note 8. Share-Based Compensation

The Company records share-based compensation expense in respect of options, multi-year performance based restricted share units ("MRSUs") and restricted share units ("RSUs") issued under its share incentive plans. Share-based compensation expense amounted to \$3,089 and \$1,380 in the nine month periods ended December 31, 2016 and December 31, 2015, respectively.

Share option activity

The following table summarizes share option activity:

	Number of Share Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Months)
Outstanding — March 31, 2016	1,589,938	\$ 7.86	96
Granted	290,632	10.32	120
Exercised	(2,560)	1.44	—
Forfeited	(51,420)	12.57	—
Outstanding — December 31, 2016	1,826,590	\$ 8.13	91
Exercisable —December 31, 2016	1,082,045	\$ 6.03	83

The closing price of the Company's ordinary shares on The NASDAQ Global Market at December 31, 2016 was \$4.84.

The following table summarizes the options granted in the current financial year with their exercise prices, the fair value of ordinary shares as of the applicable grant date, and the intrinsic value:

Grant Date	Number of Options Granted	Exercise Price	Ordinary Shares Fair Value Per Share at Grant	Per Share Intrinsic Value of Options
June 1, 2016	214,700	\$ 11.92	\$ 11.92	\$ 4.86
August 10, 2016	11,250	\$ 6.38	\$ 6.38	\$ 2.88
October 31, 2016	61,082	\$ 5.73	\$ 5.73	\$ 2.63
November 2, 2016	3,600	\$ 4.815	\$ 4.815	\$ 2.21

Determining the fair value of share incentive awards

The fair value of each share incentive grant was determined by the Company using the Black-Scholes options pricing model.

Assumptions used in the option pricing models are discussed below. Each of these inputs is subjective and generally requires significant judgment to determine.

Expected volatility. The expected volatility was based on the historical share volatilities of a number of the Company's publicly listed peers over a period equal to the expected terms of the options as the Company did not have a sufficient trading history to use the volatility of its own ordinary shares.

Fair value of ordinary shares. The fair value of the ordinary shares is based upon the closing price of the Company's shares on The NASDAQ Global Market on the last trading day prior to the date of grant.

Risk-Free Interest Rate. The risk-free interest rate is based on the US Treasury 10-year bond yield in effect at the time of grant.

Expected term. The expected term is determined after giving consideration to the contractual terms of the share-based awards, graded vesting schedules ranging from one to three years and expectations of future employee behavior as influenced by changes to the terms of its share-based awards.

Expected dividend. According to the terms of the awards, the exercise price of the options is adjusted to take into account any dividends paid. As a result dividends are not required as an input to the model, as these reductions in the share price are offset by a corresponding reduction in exercise price.

A summary of the assumptions applicable to the share options issued in the current financial year is as follows:

	June 1, 2016		August 10, 2016		October 31, 2016		November 2, 2016	
Risk-free interest rate	1.83	%	1.55	%	1.85	%	1.83	%
Expected lives (years)	3		3		3		3	
Volatility	59.10	%	66.90	%	67.79	%	67.79	%
Dividend yield	—		—		—		—	
Grant date fair value (per share)	\$11.92		\$ 6.38		\$ 5.73		\$ 4.815	
Number granted	214,700		11,250		61,082		3,600	

The Company awarded 142,000 MRSUs on June 1, 2016. These MRSUs will vest if the volume weighted average price of the Company's ordinary shares exceeds \$40 for a continuous twenty day period between April 1, 2018 and December 31, 2018. The Company determined the grant date fair value of the MRSUs using a barrier option pricing model with the same grant date fair value per share, risk free interest rate, volatility and dividend yield assumptions as the options awarded on the same date. This resulted in a grant date fair value of \$4.34 per MRSU on June 1, 2016. On June 1, 2016, the Company issued 165,000 RSUs, on August 10, 2016, the Company issued an additional 50,000 RSUs and, on November 2, 2016, the Company issued a further 50,000 RSUs which, in each case, will vest if specific performance targets are met prior to December 31, 2022. The Company expects these performance targets to be met and share based compensation expense is being recognized on these awards over the period to the date when the performance targets are expected to be achieved. In addition, on June 1, 2016, the Company issued 39,800 RSUs which vest over a three year period from the date of grant and, on September 4, 2016 the Company issued 15,226 RSUs and, on October 31, 2016, the Company issued 36,652 RSUs which, in each case, vest over a two year period from the date of grant.

Note 9. Defined Benefit Pension Plans

The Company's Swiss subsidiary has a fully insured pension plan managed by Swiss Life. The costs of this plan were:

	Quarter ended December 31,		Nine months ended December 31,	
	2016	2015	2016	2015
Employer service cost	\$337	\$120	\$1,022	\$360
Interest cost	10	6	30	18
Expected return on plan assets	(15)	(6)	(46)	(18)
Amortization of actuarial (gains) losses	42	—	129	—
Net pension cost for the year	\$374	\$120	\$1,135	\$360

The employer contributions for the nine month periods ended December 31, 2016 and 2015 were \$646 and \$360, respectively. The estimated employer contributions for the fiscal year ending March 31, 2017 are \$658.

Note 10. Net Loss Per Share

In accordance with Accounting Standards Codification Topic 260 "Earnings Per Share", basic earnings available to ordinary shareholders per share is computed based on the weighted average number of ordinary shares outstanding during each period. Diluted earnings available to ordinary shareholders per share is computed based on the weighted average number of ordinary shares outstanding during each period, plus potential ordinary shares considered outstanding during the period, as long as the inclusion of such shares is not anti-dilutive. Potential ordinary shares consist of the incremental ordinary shares issuable upon the exercise of share options (using the treasury shares method), the warrants to acquire ordinary shares and the ordinary shares issuable upon vesting of the MRSUs and RSUs.

- 16 -

The following table sets forth the computation of basic and diluted earnings per ordinary share.

	Quarter ended December 31,		Nine months ended December 31,	
	2016	2015	2016	2015
Numerator:				
Net loss	\$(31,166)	\$(9,778)	\$(64,761)	\$(24,365)
Net loss available to ordinary				
shareholders - basic and diluted	\$(31,166)	\$(9,778)	\$(64,761)	\$(24,365)
Denominator:				
Weighted-average shares				
outstanding - basic and diluted	29,508,330	20,398,132	27,689,009	18,284,708
Loss per share - basic and diluted	\$(1.06)	\$(0.48)	\$(2.34)	\$(1.33)

The following table sets out the numbers of ordinary shares excluded from the above computation of earnings per share at December 31, 2016 and December 31, 2015 as their inclusion would have been anti-dilutive.

	December 31,	December 31,
	2016	2015
Ordinary shares issuable on exercise of options to purchase		
ordinary shares	1,826,590	1,589,238
Restricted share units awarded, including the multi-year		
performance related restricted share units	668,608	237,695
Ordinary shares issuable on exercise of warrants at \$16.14 per		
share	111,525	111,525
Ordinary shares issuable on exercise of warrants at \$9.37 per		
share	64,000	64,000
Ordinary shares issuable on exercise of pre-funded warrants at		
\$0.01 per share	—	850,000
	2,670,723	2,852,458

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

The following discussion should be read in conjunction with the corresponding section of our Annual Report on Form 10-K for the year ended March 31, 2016 filed with the Securities and Exchange Commission on May 31, 2016.

The information set forth and discussed below for the quarters or nine month periods ended December 31, 2016 and December 31, 2015 is derived from the Condensed Consolidated Financial Statements included under Item 1 above. The financial information set forth and discussed below is unaudited but includes all adjustments (consisting of normal recurring adjustments) that our management considers necessary for a fair presentation of the financial position and the operating results and cash flows for those periods. Our results of operations for a particular quarter may not be indicative of the results that may be expected for other quarters or the entire year.

Overview

We were incorporated in Jersey, Channel Islands on January 28, 2012. On February 16, 2012, we acquired the entire issued share capital of Alba Bioscience Limited (or Alba), Quotient Biodiagnostics, Inc. (or QBDI) and QBD (QSIP) Limited (or QSIP) from Quotient Biodiagnostics Group Limited (or QBDG), our predecessor.

The acquisition of Alba, QBDI and QSIP by us is treated for accounting purposes as a combination of entities under common control as these entities were all controlled by QBDG prior to their acquisition by us. We recognized the assets and liabilities of Alba, QBDI and QSIP at their carrying amounts in the financial statements of those companies. We are a continuation of QBDG and its subsidiaries and, accordingly, our consolidated financial statements include the assets, liabilities and results of operations of the subsidiaries transferred since their inception.

Our Business

We are a commercial-stage diagnostics company committed to reducing healthcare costs and improving patient care through the provision of innovative tests within established markets. Our initial focus is on blood grouping and donor disease screening, which is commonly referred to as transfusion diagnostics. Blood grouping involves specific procedures performed at donor or patient testing laboratories to characterize blood, which includes antigen typing and antibody identification. Disease screening involves the screening of donor blood for unwanted pathogens using two different methods, a serological approach (testing for specific antigens or antibodies) and a molecular approach (testing for DNA or RNA).

We have over 30 years of experience developing, manufacturing and commercializing conventional reagent products used for blood grouping within the global transfusion diagnostics market. We are developing MosaiQ™, our proprietary technology platform, to better address the comprehensive needs of this large and established market. MosaiQ™ will initially comprise two separate microarrays, one for immunohematology and one for serological disease screening, and a high-throughput instrument. We are also developing a third microarray for molecular disease screening. We believe MosaiQ™ has the potential to transform transfusion diagnostics, significantly reducing the cost of blood grouping in the donor and patient testing environments, while improving patient outcomes.

We operate as one business segment with 373 employees in the United States, the United Kingdom and Switzerland as of December 31, 2016. Our principal markets are the United States, Europe and Japan. Based on the location of the customer, revenues outside the United States accounted for 53% and 53% of total revenue during the nine month periods ended December 31, 2016 and December 31, 2015, respectively.

We have incurred net losses and negative cash flows from operations in each year since we commenced operations in 2007. As of December 31, 2016, we had an accumulated deficit of \$173.0 million. We expect our operating losses to

continue for at least the remainder of the current fiscal year as we continue our investment in the development and commercialization of MosaiQ™. For the nine month period ended December 31, 2016, our total revenue was \$16.7 million and our net loss was \$64.8 million.

On April 30, 2014, we completed our initial public offering and issued 5,000,000 units at \$8.00 per unit. Each unit comprised one ordinary share and one warrant to acquire 0.8 of an ordinary share at an exercise price of \$8.80 per whole share. We raised \$40.0 million of equity share capital before issuance costs of approximately \$6.4 million. On May 27, 2014, our ordinary shares and warrants began trading separately on The NASDAQ Global Market and the units were delisted. During the period from our initial public offering to October 26, 2015 when the warrants expired, 4,981,052 of these warrants were exercised resulting in the issuance of 3,984,832 ordinary shares for \$35.1 million.

On November 25, 2014, we entered into subscription agreements with certain institutional and individual accredited investors for the private placement of 2,000,000 newly issued ordinary shares at a price of \$9.50 per share and 850,000 newly issued pre-funded

- 18 -

warrants at a price of \$9.49 per warrant, amounting to an aggregate subscription price of approximately \$27.1 million. Each pre-funded warrant permitted the holder to subscribe for one new ordinary share at an exercise price of \$0.01 per pre-funded warrant. On July 19, 2016, we issued 850,000 ordinary shares as a result of the exercise of the 850,000 pre-funded warrants.

On January 29, 2015, we entered into a subscription agreement with Ortho-Clinical Diagnostics Finco S.Á.R.L., an affiliate of Ortho, for the private placement of 444,445 newly issued ordinary shares at a price of \$22.50 per share and 666,665 newly issued 7% cumulative redeemable preference shares, of no par value, at a price of \$22.50 per share, for an aggregate subscription price of approximately \$25 million.

On August 3, 2015, we entered into an amended agreement with MidCap Financial Trust ("MidCap") to expand our existing secured term loan facility from \$15.0 million to \$30.0 million. MidCap also agreed to make available, subject to certain conditions, additional credit facilities totaling \$20.0 million. We repaid all outstanding amounts under this facility on October 14, 2016.

On February 10, 2016, we completed a public offering of 4,444,445 newly issued ordinary shares at a price of \$9.00 per share. The net proceeds from this offering were \$36.8 million, net of underwriting discounts and other offering expenses.

On August 3, 2016, we completed a public offering of 3,220,000 newly issued ordinary shares at a price of \$5.50 per share. The net proceeds from this offering were \$16.3 million, net of underwriting discounts and other offering expenses.

On October 14, 2016, we completed the private placement of up to \$120 million aggregate principal amount of 12% senior secured notes due 2023 and entered into an indenture governing the notes with the guarantors party thereto and U.S. Bank National Association, a national banking association, as trustee and collateral agent. We issued \$84 million aggregate principal amount of the notes on October 14, 2016 and, so long as no event of default has occurred, we will issue an additional \$36 million aggregate principal amount of the notes upon public announcement of field trial results for the MosaiQ™ IH Microarray that demonstrates greater than 99% concordance for the detection of blood group antigens and greater than 95% concordance for the detection of blood group antibodies when compared to predicate technologies for a pre-defined set of blood group antigens and antibodies. The net proceeds from the offering completed on October 14, 2016 were \$78.5 million, after deducting offering expenses. We paid \$5 million of these net proceeds into a cash reserve account maintained with the collateral agent under the terms of the indenture. We also used a portion of these net proceeds to repay all outstanding obligations under our secured term loan facility with MidCap Financial Trust which amounted to \$33.5 million including fees and expenses.

Revenue

We generate revenue from the sale of conventional reagent products directly to hospitals, donor collection agencies and independent testing laboratories in the United States, the United Kingdom and to distributors in Europe and the rest of the world, and indirectly through sales to our original equipment manufacturer (or OEM) customers. We recognize revenues in the form of product sales when the goods are shipped. Products sold by standing purchase orders as a percentage of product sales revenue were 75% and 72% for nine month periods ended December 31, 2016 and December 31, 2015, respectively. We also provide product development services to our OEM customers. We recognize revenue from these contractual relationships in the form of product development fees, which are included in other revenues. For a description of our revenue recognition policies, see “—Critical Accounting Policies and Significant Judgments and Estimates—Revenue Recognition and Accounts Receivable.”

Our revenue is denominated in multiple currencies. Sales in the United States and to certain of our OEM customers are denominated in U.S. Dollars. Sales in Europe and the rest of the world are denominated primarily in U.S. Dollars, Pounds Sterling or Euros. Our expenses are generally denominated in the currencies in which our operations are located, which are primarily in the United Kingdom, Switzerland and the United States. We operate globally and therefore changes in foreign currency exchange rates may become material to us in the future due to factors beyond our control. See “—Quantitative and Qualitative Disclosure About Market Risk—Foreign Currency Exchange Risk.”

Cost of revenue and operating expenses

Cost of revenue consists of direct labor expenses, including employee benefits, overhead expenses, material costs and freight costs, along with the depreciation of manufacturing equipment and leasehold improvements. Cost of revenue is also affected by manufacturing efficiencies and allowances for scrapped or expired material. Our gross profit represents total revenue less the cost of revenue and gross margin represents gross profit expressed as a percentage of total revenue. Our gross margin was 49% and 47% for the nine month periods ended December 31, 2016 and December 31, 2015, respectively. Excluding other revenues, which consist of product development fees, our gross margin on product sales was 45% and 47% for the nine month periods ended December 31, 2016 and December 31, 2015, respectively. We expect our overall cost of revenue to increase in absolute U.S. Dollars as we continue to

increase our product sales volumes. However, we also believe that we can achieve efficiencies in our manufacturing operations, primarily through increasing production volumes.

Our sales and marketing expenses include costs associated with our sales organization for conventional reagent products, including our direct sales force, as well as our marketing and customer service personnel. These expenses consist principally of salaries, commissions, bonuses and employee benefits, as well as travel and other costs related to our sales and product marketing activities. Starting April 1, 2016, these expenses also include the costs of the newly established MosaiQ™ commercial team. We expense all sales and marketing costs as incurred. We expect sales and marketing expense to increase in absolute U.S. Dollars, primarily as a result of commissions on increased product sales in the United States and as we grow the MosaiQ™ commercial team.

Our research and development expenses include costs associated with performing research, development, field trials and our regulatory activities, as well as production costs incurred in advance of the commercial launch of MosaiQ™. Research and development expenses include research personnel-related expenses, fees for contractual and consulting services, travel costs, laboratory supplies and depreciation of laboratory equipment.

We expense all research and development costs as incurred, net of government grants received and tax credits. Our UK subsidiary is able to claim certain tax credits on its research and development expenditures. Our research and development efforts are focused on developing new products and technologies for the global transfusion diagnostics market. We segregate research and development expenses for the MosaiQ™ project from expenses for other research and development projects. We do not maintain detailed records of these other costs by activity. For the fiscal year ending March 31, 2017, we expect overall research and development expense to increase in absolute U.S. Dollars as we focus on completing the development of MosaiQ™.

Our general and administrative expenses include costs for our executive, accounting and finance, legal, corporate development, information technology and human resources functions. We expense all general and administrative expenses as incurred. These expenses consist principally of salaries, bonuses and employee benefits for the personnel performing these functions, including travel costs. These expenses also include share-based compensation, professional service fees (such as audit, tax and legal fees), costs related to our Board of Directors, and general corporate overhead costs, which include depreciation and amortization. We expect our general and administrative expenses to increase as our business develops and also due to the costs of operating as a public company, such as additional legal, accounting and corporate governance expenses, including expenses related to compliance with the Sarbanes-Oxley Act, directors' and officers' insurance premiums and investor relations expenses.

Net interest expense consists primarily of interest charges on our note and loan balances and the amortization of debt issuance costs, as well as accrued dividends on the 7% cumulative redeemable preference shares issued in January 2015. We amortize debt issuance costs over the life of the note or loan and report them as interest expense in our statements of operations. Net interest also includes the expected costs of the royalty rights agreements we entered into in October 2016 with the purchasers of our 12% senior secured notes due 2023.

Other income (expense), net consists primarily of exchange fluctuations. These include realized exchange fluctuations resulting from the settlement of transactions in currencies other than the functional currencies of our businesses. Monetary assets and liabilities that are denominated in foreign currencies are measured at the period-end closing rate with resulting unrealized exchange fluctuations. The functional currencies of our businesses are Pounds Sterling, Swiss Francs and U.S. Dollars depending on the entity. In the nine month period ended December 31, 2015, other income (expense), net also includes the change in the fair value of the warrants issued in our initial public offering as mentioned below under “—Results of Operations— Comparison of the Quarters ended December 31, 2016 and 2015— Other income (expense).”

Results of Operations

Comparison of the Quarters ended December 31, 2016 and 2015

The following table sets forth, for the periods indicated, the amounts of certain components of our statements of operations and the percentage of total revenue represented by these items, showing period-to-period changes.

	Quarter ended December 31, 2016		2015		Change	
	Amount	% of revenue	Amount	% of revenue	Amount	%
(in thousands, except percentages)						
Revenue:						
Product sales	\$4,841	100	% \$4,354	100	% \$487	11 %
Other revenues	—	—	—	—	—	—
Total revenue	4,841	100	% 4,354	100	% 487	11 %
Cost of revenue	2,602	54	% 2,225	51	% 377	17 %
Gross profit	2,239	46	% 2,129	49	% 110	5 %
Operating expenses:						
Sales and marketing	1,836	38	% 918	21	% 918	100%
Research and development	17,183	355	% 6,931	159	% 10,252	148%
General and administrative	5,650	117	% 7,059	162	% (1,409)	-20 %
Total operating expenses	24,669	510	% 14,908	342	% 9,761	65 %
Operating loss	(22,430)	-463	% (12,779)	-293	% (9,651)	76 %
Other income (expense):						
Interest expense, net	(4,168)	-86	% (1,134)	-26	% (3,034)	268%
Other, net	(4,568)	-94	% 4,135	95	% (8,703)	—
Total other income (expense), net	(8,736)	-180	% 3,001	69	% (11,737)	—
Loss before income taxes	(31,166)	-644	% (9,778)	-225	% (21,388)	219%
Provision for income taxes	—	—	—	—	—	—
Net loss	\$(31,166)	-644	% \$(9,778)	-225	% \$(21,388)	219%

Revenue

Total revenue for the quarter ended December 31, 2016 increased by 11% to \$4.8 million, compared with \$4.4 million for the quarter ended December 31, 2015. Product sales revenue increased 11% to \$4.8 million for the quarter ended December 31, 2016, compared with \$4.4 million for the quarter ended December 31, 2015. The increase in product sales was primarily attributable to growth in product sales to OEM customers and incremental direct sales of conventional reagent products to customers in the United States. Products sold by standing purchase order were 75% of product sales for the quarter ended December 31, 2016, compared with 71% for the quarter ended December 31, 2015.

The below table sets forth revenue by product group:

Quarter ended December 31,

Edgar Filing: Quotient Ltd - Form 10-Q

	2016		2015		Change	
	Amount	% of revenue	Amount	% of revenue	Amount	%
	(in thousands, except percentages)					
Revenue:						
Product sales - OEM customers	\$3,502	72	% \$2,879	66	% \$623	22%
Product sales - direct customers and						
distributors	1,339	28	% 1,475	34	% (136)	-9%
Other revenues	—	0	% —	0	% —	—
Total revenue	\$4,841	100	% \$4,354	100	% \$487	11%

OEM Sales. Product sales to OEM customers increased 22% to \$3.5 million for the quarter ended December 31, 2016, compared with \$2.9 million for the quarter ended December 31, 2015. The increase was due to better pricing, increased sales to existing customers and the impact of recently launched new products.

Direct Sales to Customers and Distributors. Direct product sales of \$1.3 million for the quarter ended December 31, 2016 decreased by 9% compared with \$1.5 million for the quarter ended December 31, 2015. Direct sales in the United States increased by 21% due

mainly to the impact of recent new product launches and expansion of our customer base. Direct sales outside of the United States decreased by 40%, reflecting our decision to rationalize our product offerings in Europe and the rest of the world.

Other Revenues. There were no such revenues in the quarters ended December 31, 2016 and December 31, 2015.

Cost of revenue and gross margin

Cost of revenue increased by 17% to \$2.6 million for the quarter ended December 31, 2016, compared with \$2.2 million for the quarter ended December 31, 2015. This increase reflected incremental costs associated with greater sales volumes and higher levels of waste in our manufacturing operations.

Gross profit on total revenue for the quarter ended December 31, 2016 was \$2.2 million, an increase of 5% when compared with \$2.1 million in the quarter ended December 31, 2015.

Gross margin, which represents gross profit expressed as a percentage of total revenue, was 46% for the quarter ended December 31, 2016, compared with 49% for the quarter ended December 31, 2015. Gross margin on product sales, which excludes other revenues, was 46% for the quarter ended December 31, 2016 compared with 49% for the quarter ended December 31, 2015, as the positive impact of better pricing and greater sales volumes was offset by the impact of product sales mix and higher levels of waste at our manufacturing facility in Edinburgh, Scotland.

Sales and marketing expenses

Sales and marketing expense was \$1.8 million for the quarter ended December 31, 2016, compared with \$0.9 million for the quarter ended December 31, 2015. As a percentage of total revenue, sales and marketing expenses were 38% for the quarter ended December 31, 2016, compared with 21% for the quarter ended December 31, 2015. The growth in sales and marketing expense in the quarter ended December 31, 2016 was mainly attributable to the MosaiQ™ commercial team, which was established in April 2016, and costs of attending trade conferences. In addition, as described below under "General and administrative expenses," a number of roles have evolved from general administration, management and planning to the performance of more focused commercial activities. As such, the associated personnel costs and related expenses are now categorized as sales and marketing expenses.

Research and development expenses

	Quarter ended December 31,		2015		Change	
	2016		2015		Amount	%
	Amount	% of revenue	Amount	% of revenue	Amount	%
(in thousands, except percentages)						
Research and development expenses:						
MosaiQ™ research and development	\$16,902	349	% \$6,221	143	% \$10,681	172%
Other research and development	441	9	% 786	18	% (345)	-44%
Tax credits and grants	(160)	-3	% (76)	-2	% (84)	111%
Total research and development expenses	\$17,183	355	% \$6,931	159	% \$10,252	148%

Research and development expenses increased by 148% to \$17.2 million for the quarter ended December 31, 2016, compared with \$6.9 million for the quarter ended December 31, 2015. As a percentage of total revenue, research and

development expenses increased to 355% for the quarter ended December 31, 2016, compared with 159% for the quarter ended December 31, 2015. This increase reflected incremental costs associated with the commercial scale-up of MosaiQ™, including initial production costs currently expensed as research and development. We started to depreciate the main MosaiQ™ manufacturing equipment and facility in April 2016 and depreciation expense included in research and development amounted to \$2.3 million for the quarter ended December 31, 2016 compared with \$0.6 million for the quarter ended December 31, 2015. Research and development expenses for the quarter ended December 31, 2016 also included a \$2.0 million expense related to the costs of our intellectual property license with The Technology Partnership plc (“TTP”) for MosaiQ™. There was no equivalent TTP license expense in the quarter ended December 31, 2015. In addition, as described below under "General and administrative expenses," a number of roles have evolved from general administration, management and planning to the performance of more focused pre-production activities. As such, the associated personnel costs and related expenses are now categorized as research and development expenses.

- 22 -

General and administrative expenses

General and administrative expenses decreased by 20% to \$5.7 million for the quarter ended December 31, 2016, compared with \$7.1 million for the quarter ended December 31, 2015. The decrease was mainly attributable to changes in the primary activities of certain MosaiQ™ managerial and support personnel over the last nine months. Specifically, a number of roles have evolved from general administration, management and planning to the performance of more focused pre-production or commercial activities. As such, the associated personnel costs and related expenses are now categorized as research and development or sales and marketing. We recognized \$1.1 million of stock compensation expense in the quarter ended December 31, 2016 compared with \$0.6 million in the quarter ended December 31, 2015. As a percentage of total revenue, general and administrative expenses decreased to 117% for the quarter ended December 31, 2016, compared with 162% for the quarter ended December 31, 2015.

Other income (expense)

Net interest expense was \$4.2 million for the quarter ended December 31, 2016, compared with \$1.1 million for the quarter ended December 31, 2015. Interest expense in the quarter ended December 31, 2016 included \$2.1 million of interest charges on our 12% senior secured notes due 2023 for the period from October 14, 2016 to December 31, 2016. Interest expense in the quarters ended December 31, 2016 and December 31, 2015 also included interest charges of \$0.1 million and \$0.7 million, respectively, on our borrowings from MidCap, which bore interest at LIBOR plus 6.7% (with a LIBOR floor of 2.00%). Borrowings from MidCap amounted to \$30.0 million from October 1, 2016 to October 14, 2016 and were then repaid from the proceeds of issue of the notes. Borrowings from MidCap amounted to \$30.0 million during the quarter ended December 31, 2015. Interest expense in the quarters ended December 31, 2016 and December 31, 2015 included amortization of deferred debt issue costs of \$1.6 million and \$0.2 million, respectively. In the quarter ended December 31, 2016, this included amortization of the expected costs of the royalty rights agreements entered into in October 2016 in connection with the issuance of the notes. Net interest expense also included \$0.3 million of dividends accrued on the 7% cumulative redeemable preference shares in each of the quarters ended December 31, 2016 and December 31, 2015.

Other expense for the quarter ended December 31, 2016 included \$4.0 million of deferred debt costs related to our borrowings from MidCap, which were expensed on repayment of the MidCap borrowings, and \$0.6 million of foreign exchange losses arising on monetary assets and liabilities denominated in foreign currencies.

Other income for the quarter ended December 31, 2015 included income of \$3.8 million related to the change in the fair value in the quarter of the warrants issued at the time of our initial public offering and \$0.3 million of foreign exchange gains arising on monetary assets and liabilities denominated in foreign currencies.

Comparison of the nine month periods ended December 31, 2016 and 2015

The following table sets forth, for the periods indicated, the amounts of certain components of our statements of operations and the percentage of total revenue represented by these items, showing period-to-period changes.

	Nine months ended December 31, 2016		2015		Change	
	Amount	% of revenue	Amount	% of revenue	Amount	%
(in thousands, except percentages)						
Revenue:						
Product sales	\$ 15,401	92	% \$ 13,477	100	% \$ 1,924	14
Other revenues	1,300	8	% —	—	1,300	—
Total revenue	16,701	100	% 13,477	100	% 3,224	24
Cost of revenue	8,454	51	% 7,100	53	% 1,354	19
Gross profit	8,247	49	% 6,377	47	% 1,870	29
Operating expenses:						
Sales and marketing	4,367	26	% 2,350	17	% 2,017	86
Research and development	43,479	260	% 22,122	164	% 21,357	97
General and administrative	16,722	100	% 18,148	135	% (1,426)	-8
Total operating expenses	64,568	387	% 42,620	316	% 21,948	51
Operating (loss)	(56,321)	-337	% (36,243)	-269	% (20,078)	55
Other income (expense):						
Interest expense, net	(6,552)	-39	% (2,992)	-22	% (3,560)	119
Other, net	(1,888)	-11	% 14,870	110	% (16,758)	—
Total other income (expense), net	(8,440)	-51	% 11,878	88	% (20,318)	-171
Loss before income taxes	(64,761)	-388	% (24,365)	-181	% (40,396)	166
Provision for income taxes	—	—	—	—	—	—
Net loss	\$(64,761)	-388	% \$(24,365)	-181	% \$(40,396)	166

Revenue

Total revenue for the nine month period ended December 31, 2016 increased by 24% to \$16.7 million, compared with \$13.5 million for the nine month period ended December 31, 2015. Product sales revenue increased 14% to \$15.4 million for the nine month period ended December 31, 2016, compared with \$13.5 million for the nine month period ended December 31, 2015. The increase in product sales was primarily attributable to growth in product sales to OEM customers and incremental direct sales of conventional reagent products to customers in the United States. Products sold by standing purchase order were 75% of product sales for the nine month period ended December 31, 2016, compared with 72% for the nine month period ended December 31, 2015.

The below table sets forth revenue by product group:

	Nine months ended December 31, 2016		2015		Change	
	Amount	% of revenue	Amount	% of revenue	Amount	%

Edgar Filing: Quotient Ltd - Form 10-Q

(in thousands, except percentages)

Revenue:							
Product sales - OEM customers	\$10,860	65	%	\$9,093	67	%	\$1,767 19%
Product sales - direct customers							
and distributors	4,541	27	%	4,384	33	%	157 4 %
Other revenues	1,300	8	%	—	0	%	1,300 —
Total revenue	\$16,701	100	%	\$13,477	100	%	\$3,224 24%

OEM Sales. Product sales to OEM customers increased 19% to \$10.9 million for the nine month period ended December 31, 2016, compared with \$9.1 million for the nine month period ended December 31, 2015. The increase was due to better pricing, increased sales to existing customers and the impact of recently launched new products.

Direct Sales to Customers and Distributors. Direct product sales of \$4.5 million for the nine month period ended December 31, 2016 increased by 4% compared with \$4.4 million for the nine month period ended December 31, 2015. Direct sales in the United States increased by 27%, which was mainly attributable to the impact of recent product launches and expansion of our customer base. Direct

- 24 -

sales outside of the United States decreased by 32%, reflecting our decision to rationalize our product offerings in Europe and the rest of the world.

Other Revenues. Other revenues represent product development fees and were \$1.3 million for the nine month period ended December 31, 2016 as the result of the achievement of a product development milestone under the terms of our June 2013 agreement with Ortho-Clinical Diagnostics Inc. (“OCD”). See Note 2 "Summary of Significant Accounting Policies – Revenue Recognition" to our condensed consolidated financial statements included in this Quarterly Report for additional information. There were no such revenues in the nine month period ended December 31, 2015.

Cost of revenue and gross margin

Cost of revenue increased by 19% to \$8.5 million for the nine month period ended December 31, 2016, compared with \$7.1 million for the nine month ended December 31, 2015. This increase reflected incremental costs associated with greater sales volumes and higher levels of waste in our manufacturing operations.

Gross profit on total revenue for the nine month period ended December 31, 2016 was \$8.2 million, an increase of 29% when compared with \$6.4 million in the nine month period ended December 31, 2015. The increase was attributable to the positive impact of greater sales volumes and other revenue of \$1.3 million for which there were no associated costs. Gross profit on product sales, which excludes other revenues, for the nine month period ended December 31, 2016 was \$6.9 million, an increase of 9% when compared with \$6.4 million in the nine month period ended December 31, 2015.

Gross margin, which represents gross profit expressed as a percentage of total revenue, was 49% for the nine month period ended December 31, 2016, compared with 47% for the nine month period ended December 31, 2015. The increase was due to the positive effect on gross margin of other revenue. Gross margin on product sales, which excludes other revenues, was 45% for the nine month period ended December 31, 2016 compared with 47% for the nine month period ended December 31, 2015, as the positive impact of better pricing and greater sales volumes was offset by the impact of product sales mix and abnormally high levels of waste at our manufacturing facility in Edinburgh, Scotland.

Sales and marketing expenses

Sales and marketing expense was \$4.4 million for the nine month period ended December 31, 2016, compared with \$2.4 million for the nine month period ended December 31, 2015. As a percentage of total revenue, sales and marketing expenses were 26% for the nine month period ended December 31, 2016, compared with 17% for the nine month period ended December 31, 2015. The growth in sales and marketing expense in the nine month period ended December 31, 2016 was mainly attributable to the MosaiQ™ commercial team, which was established in April 2016. In addition, as described below under "General and administrative expenses," a number of roles have evolved from general administration, management and planning to the performance of more focused commercial activities. As such, the associated personnel costs and related expenses are now categorized as sales and marketing expenses.

Research and development expenses

Nine months ended December 31,				Change	
2016	2015	2016	2015	Amount	%
Amount	% of revenue	Amount	% of revenue	Amount	%
(in thousands, except percentages)					

Edgar Filing: Quotient Ltd - Form 10-Q

Research and development expenses:							
MosaiQ™ research and development	\$42,353	254	%	\$20,387	151	%	\$21,966 108 %
Other research and development	1,445	9	%	1,979	15	%	(534) -27 %
Tax credits and grants	(319)	-2	%	(244)	-2	%	(75) 31 %
Total research and development							
expenses	\$43,479	260	%	\$22,122	164	%	\$21,357 97 %

Research and development expenses increased by 97% to \$43.5 million for the nine month period ended December 31, 2016, compared with \$22.1 million for the nine month period ended December 31, 2015. As a percentage of total revenue, research and development expenses increased to 260% for the nine month period ended December 31, 2016, compared with 164% for the nine month period ended December 31, 2015. This increase reflected incremental costs associated with the commercial scale-up of MosaiQ™, including initial production costs currently expensed as research and development. We started to depreciate the main MosaiQ™ manufacturing equipment and facility in April 2016 and depreciation expense included in research and development

- 25 -

amounted to \$6.7 million for the nine month period ended December 31, 2016 compared with \$1.2 million in the nine month period ended December 31, 2015. Research and development expenses for the nine month period ended December 31, 2016 also included a \$2.0 million expense related to the costs of our intellectual property license with TTP for MosaiQ™. There was no equivalent TTP license expense in the nine month period ended December 31, 2015. In addition, as described below under "General and administrative expenses," a number of roles have evolved from general administration, management and planning to the performance of more focused pre-production activities. As such, the associated personnel costs and related expenses are now categorized as research and development expenses.

General and administrative expenses

General and administrative expenses were \$16.7 million for the nine month period ended December 31, 2016, compared with \$18.1 million for the nine month period ended December 31, 2015. Greater personnel-related costs, increased facility rental charges and increased corporate costs were offset by the effect of changes in the primary activities of certain MosaiQ™ managerial and support personnel over the last nine months. Specifically, a number of roles have evolved from general administration, management and planning to the performance of more focused pre-production or commercial activities. As such, the associated personnel costs and related expenses are now categorized as research and development or sales and marketing. We recognized \$3.1 million of stock compensation expense in the nine month period ended December 31, 2016 compared with \$1.4 million in the nine month period ended December 31, 2015. As a percentage of total revenue, general and administrative expenses decreased to 100% for the nine month period ended December 31, 2016, compared with 135% for the nine month period ended December 31, 2015.

Other income (expense)

Net interest expense was \$6.6 million for the nine month period ended December 31, 2016, compared with \$3.0 million for the nine month period ended December 31, 2015. Interest expense in the nine month period ended December 31, 2016 included \$2.1 million of interest charges on our 12% senior secured notes due 2023 for the period from October 14, 2016 to December 31, 2016. Interest expense in the nine month periods ended December 31, 2016 and December 31, 2015 also included interest charges \$ 1.4 million and \$1.5 million, respectively, on our borrowings from MidCap, which bore interest at LIBOR plus 6.7% (with a LIBOR floor of 2.00%). Borrowings from MidCap amounted to \$30.0 million from April 1, 2016 to October 14, 2016 and were then repaid from the proceeds of issue of the notes. Borrowings from MidCap amounted to \$15.0 million from April 1, 2015 to June 30, 2015, \$14.5 million from July 1, 2015 to August 3, 2015 and then increased to \$30.0 million as a result of the expansion of our secured credit facility on August 3, 2015. Interest expense in the nine month periods ended December 31, 2016 and December 31, 2015 included amortization of deferred debt issue costs of \$2.1 million and \$0.5 million, respectively. In the quarter ended December 31, 2016, this included amortization of the expected costs of the royalty rights agreements entered into in October 2016 in connection with the issuance of the notes. Net interest expense also included \$0.8 million of dividends accrued on the 7% cumulative redeemable preference shares in each of the nine month periods ended December 31, 2016 and December 31, 2015.

Other expense for the nine month period ended December 31, 2016 included \$4.0 million of deferred debt costs related to our borrowings from MidCap which were expensed on repayment of the MidCap borrowings, offset by \$2.1 million of foreign exchange gains arising on monetary assets and liabilities denominated in foreign currencies. Other income for the nine month period ended December 31, 2015 included income of \$15.9 million related to the change in the fair value in the nine month period of the warrants issued at the time of our initial public offering offset by \$0.4 million of foreign exchange losses arising on monetary assets and liabilities denominated in foreign currencies and \$0.6 million of previously deferred fees that were expenses as a result of the expansion of our secured credit facility.

Quarterly Results of Operations

Our quarterly product sales can fluctuate depending upon the shipment cycles for our red blood cell-based products, which account for approximately two-thirds of our current product sales. For these products, we typically experience 13 shipping cycles per year. This equates to three shipments of each product per quarter, except for one quarter per year when four shipments occur. In fiscal 2016, the greatest impact of extra product shipments occurred in our first quarter and the greatest impact thus far in fiscal 2017 has also occurred in the first quarter. The timing of shipment of bulk antisera products to our OEM customers may also move revenues from quarter to quarter. We also experience some seasonality in demand around holiday periods in both Europe and the United States. As a result of these factors, we expect to continue to see seasonality and quarter-to-quarter variations in our product sales. The timing of product development fees included in other revenues is mostly dependent upon the achievement of pre-negotiated project or revenue milestones.

Liquidity and Capital Resources

Since our commencement of operations in 2007, we have incurred net losses and negative cash flows from operations. As of December 31, 2016, we had an accumulated deficit of \$173.0 million. During the nine month period ended December 31, 2016, we

- 26 -

incurred a net loss of \$64.8 million and used \$44.3 million of cash in operating activities. As described under results of operations, our use of cash during the nine month period ended December 31, 2016 was primarily attributable to our investment in the development of MosaiQ™ and increased corporate costs, including costs related to being a public company.

Prior to our initial public offering, our principal source of funding had been investment in new share capital by our shareholders, which in the year ended March 31, 2014 amounted to \$3.1 million. In the year ended March 31, 2014, we also incurred net new borrowings of \$11.6 million. On April 30, 2014, we completed our initial public offering and issued 5,000,000 units at \$8.00 per unit. We raised net proceeds of \$37.2 million after deducting underwriting discounts and commissions, while other costs of the offering amounted to \$3.6 million. Each unit comprised one ordinary share and one warrant and each warrant permitted the holder, prior to October 26, 2015, to subscribe for 0.8 of one new ordinary share at an exercise price equivalent to \$8.80 per underlying ordinary share. On October 26, 2015, the warrants expired and were delisted. Of the 5,000,000 warrants issued, 4,981,052 were exercised prior to the expiration date and 18,948 were cancelled on October 26, 2015. The exercise of the warrants resulted in the issuance of 3,984,823 ordinary shares and we received proceeds of \$35.1 million.

On November 25, 2014, we entered into subscription agreements with certain institutional and individual accredited investors for the private placement of 2,000,000 newly issued ordinary shares at a price of \$9.50 per share and 850,000 newly issued pre-funded warrants at a price of \$9.49 per warrant, amounting to an aggregate subscription price of approximately \$27.1 million. Each pre-funded warrant permitted the holder to subscribe for one new ordinary share at an exercise price of \$0.01 per pre-funded warrant. The proceeds of this placement were \$27.1 million before costs and \$24.7 million net of costs. On July 19, 2016, we issued 850,000 ordinary shares as a result of the exercise of the 850,000 pre-funded warrants.

On January 29, 2015, we entered into a subscription agreement with Ortho-Clinical Diagnostics Finco S.Á.R.L., an affiliate of Ortho, for the private placement of 444,445 newly issued ordinary shares at a price of \$22.50 per share and 666,665 newly issued 7% cumulative redeemable preference shares, of no par value, at a price of \$22.50 per share, for an aggregate subscription price of approximately \$25 million.

On August 3, 2015, we entered into an amended agreement with MidCap to expand our existing secured term loan facility from \$15.0 million to \$30.0 million. MidCap also agreed to make available, subject to certain conditions, additional credit facilities totaling \$20.0 million. We repaid all outstanding amounts under this facility on October 14, 2016.

On February 10, 2016, we completed a public offering of 4,444,445 of our ordinary shares at a price of \$9.00 per share. The net proceeds from this offering were \$36.8 million net of underwriting discounts and other offering expenses.

On August 3, 2016, we completed a public offering of 3,220,000 of our ordinary shares at a price of \$5.50 per share. The net proceeds from this offering were \$16.3 million, net of underwriting discounts and other offering expenses.

On October 14, 2016, we completed the private placement of up to \$120 million aggregate principal amount of 12% senior secured notes due 2023 and entered into an indenture governing the notes with U.S. Bank National Association, a national banking association, as trustee and collateral agent. We issued \$84 million aggregate principal amount of the notes on October 14, 2016 and, so long as no event of default has occurred, we will issue an additional \$36 million aggregate principal amount of the notes upon public announcement of field trial results for the MosaiQ™ IH Microarray that demonstrates greater than 99% concordance for the detection of blood group antigens and greater than 95% concordance for the detection of blood group antibodies when compared to predicate technologies for a pre-defined

set of blood group antigens and antibodies. The net proceeds from the offering completed on October 14, 2016 were \$78.5 million, after deducting offering expenses. We paid \$5 million of these net proceeds into a cash reserve account maintained with the collateral agent under the terms of the indenture. We also used a portion of these net proceeds to repay all outstanding obligations under our secured term loan facility with MidCap.

From our incorporation in 2012 to December 31, 2016, we have raised \$70.6 million of gross proceeds through the private placement of our ordinary and preference shares and we have raised \$132.8 million of gross proceeds from public offerings of our shares and warrants. As of December 31, 2016, we had cash and cash equivalents and short-term investments of \$44.3 million, including \$5.3 million of cash held in restricted accounts as part of the arrangements relating to our senior secured notes and the lease of our property in Eysins, Switzerland.

Cash Flows for the Nine month Periods Ended December 31, 2016 and 2015

Operating activities

Net cash used in operating activities was \$42.8 million during the nine month period ended December 31, 2016, which included net losses of \$64.8 million offset by non-cash items of \$17.2 million. Non-cash items were depreciation and amortization expense of \$7.0 million, share-based compensation expense of \$3.1 million, Swiss pension costs of \$0.5 million, amortization of deferred debt issue

costs of \$6.1 million and accrued preference share dividends of \$0.8 million, offset by amortization of lease incentives of \$0.3 million. We also experienced a net cash inflow of \$4.8 million from changes in operating assets and liabilities during the period, consisting of a \$1.3 million increase in inventories, a \$0.1 million reduction of accrued compensation and benefits and a \$0.7 million increase in other assets, offset by a \$6.7 million increase in accounts payable and accrued liabilities and a \$0.2 million reduction in accounts receivable.

Net cash used in operating activities was \$42.7 million during the nine month period ended December 31, 2015, which included net losses of \$24.4 million and negative non-cash items of \$11.2 million. Non-cash items were depreciation and amortization expense of \$1.6 million, share-based compensation expense of \$1.4 million, amortization of deferred debt issue costs of \$1.2 million, accrued preference share dividends of \$0.8 million, offset by a change in the fair value of the liability in respect of share warrants of \$15.9 million and amortization of lease incentives of \$0.3 million. We also experienced a net cash outflow of \$7.1 million from changes in operating assets and liabilities during the period, consisting of a \$3.2 million increase in inventories, a \$2.7 million reduction in accounts payable and accrued liabilities, a \$0.8 million reduction in accrued compensation and benefits and a \$0.7 million increase in other assets, offset by a \$0.3 million reduction in accounts receivable.

Investing activities

Net cash used in investing activities was \$45.3 million for the nine month period ended December 31, 2016 and \$19.9 million for the nine month period ended December 31, 2015. We invested \$30.0 million in a short-term money market fund in the quarter ended December 31, 2016. Purchases of property and equipment for the nine month period ended December 31, 2016 were \$15.2 million and included \$4.1 million related to the MosaiQ™ project and \$11.1 million related to our conventional reagent business. Purchases of property and equipment for the nine month period ended December 31, 2015 were \$19.8 million and included \$17.9 million related to the MosaiQ™ project and \$1.9 million related to our conventional reagent business. Purchases of intangible assets related to our conventional reagent business for the nine month period ended December 31, 2016 were \$0.1 million and were \$0.1 million for the nine month period ended December 13, 2015.

Financing activities

Net cash provided by financing activities was \$61.3 million during the nine month period ended December 31, 2016, consisting of \$16.4 million of net proceeds from the issuance of ordinary shares and \$45.0 million of proceeds from new debt net of issue costs and repayment of our previous MidCap facility, offset by \$0.1 million of repayments on finance leases. Net cash provided by financing activities was \$48.9 million during the nine month period ended December 31, 2015, consisting of \$34.6 million of proceeds from the exercise of options and warrants, \$14.3 million from an increase in our secured credit facility and \$0.1 million of net capital lease receipts.

Operating and Capital Expenditure Requirements

We have not achieved profitability on an annual basis since we commenced operations in 2007 and we expect to incur net losses for at least the current fiscal year. We expect our operating expenses to increase during the year ended March 31, 2017, as we continue to invest in MosaiQ™, grow our customer base, expand our marketing and distribution channels, hire additional employees and invest in other product development opportunities.

As of December 31, 2016, we had cash and cash equivalents and short-term investments of \$44.3 million, including \$5.3 million of cash held in restricted accounts as part of the arrangements relating to our senior secured notes and the lease of our property in Eysins, Switzerland.

Our future capital requirements will depend on many factors, including:

- our progress in developing and commercializing MosaiQ™ and the cost required to complete development, obtain regulatory approvals and complete our manufacturing scale up;
- Ortho's progress in commercializing MosaiQ™ for the patient testing market;
- our ability to manufacture and sell our conventional reagent products, including the costs and timing of further expansion of our sales and marketing efforts;
- our ability to collect our accounts receivable;
- our ability to generate cash from operations;

- 28 -

any acquisition of businesses or technologies that we may undertake; and
our ability to penetrate our existing market and new markets.

We expect to fund our operations in the near term, including the continued development of MosaiQ™ to commercialization, from a combination of funding sources, including through the use of existing cash and short-term investment balances and the issuance of additional equity, debt or other securities. We are confident in the availability of these funding sources. However, there can be no assurance that we will be able to obtain adequate financing when necessary and the terms of any financings may not be advantageous to us and may result in dilution to our shareholders.

Contractual Obligations

Our contractual obligations and commitments were summarized in our Annual Report on Form 10-K for the year ended March 31, 2016.

On October 14, 2016, we issued \$84 million aggregate principal amount of our 12% senior secured notes due 2023 for net proceeds of \$78.5 million after deducting offering expenses, and used a portion of these net proceeds to repay all outstanding obligations under our secured term loan facility with MidCap which amounted to \$33.5 million including fees and expenses. Interest on the notes accrues at a rate of 12% per annum and is payable semi-annually on April 15 and October 15 of each year commencing on April 15, 2017. Commencing on April 15, 2019, we will also pay an installment of principal of the notes on each April 15 and October 15 until October 15, 2023 pursuant to a fixed amortization schedule. In connection with the offering on October 14, 2016, we also entered into royalty rights agreements, pursuant to which we sold to the note purchasers in the offering, the right to receive an aggregate payment equal to 2.0% of the aggregate net sales of MosaiQ™ instruments and consumables made in the donor testing market in the United States and the European Union. The royalty will be payable beginning on the date that we enter into a contract for the sale of MosaiQ™ instruments or consumables in the donor testing market in the European Union or the United States and will end on the last day of the calendar quarter in which the eighth anniversary of the first contract date occurs.

There were no other major changes in the nature of our contractual obligations and commitments between March 31, 2016 and December 31, 2016.

Critical Accounting Policies and Significant Judgments and Estimates

We have prepared our condensed consolidated financial statements in accordance with U.S. GAAP. Our preparation of these condensed consolidated financial statements requires us to make estimates, assumptions and judgments that affect the reported amounts of assets, liabilities, expenses and related disclosures at the date of the consolidated financial statements, as well as revenue and expenses during the reporting periods. We evaluate our estimates and judgments on an ongoing basis. We base our estimates on historical experience and on various other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results could therefore differ materially from these estimates under different assumptions or conditions.

While our significant accounting policies are described in more detail in Note 2 to our condensed consolidated financial statements included in this Quarterly Report, we believe the following accounting policies to be critical to the judgments and estimates used in the preparation of our financial statements.

Revenue recognition and accounts receivable

Revenue is recognized in accordance with Accounting Standards Codification, or ASC, Topic No. 605, "Revenue Recognition," when the following four basic criteria have been met: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred or services are rendered; (3) the fee is fixed or determinable; and (4) collectability is reasonably assured. For product sales, the application of this policy results in sales revenue being recorded at the point of delivery of product to the customer.

We also earn revenue from the provision of development services to a small number of OEM customers. These development service contracts are reviewed individually to ensure that our revenue recognition is in accordance with applicable accounting standards, including ASC Topic No. 605. In the last eighteen months, our product development revenues have been commensurate with achieving milestones specified in the respective development agreements relating to those products. These milestones may include the approval of new products by the European or U.S. regulatory authorities, which are not within our control. While there can be no assurance that we will earn product development revenues when milestones are achieved, the nature of the milestones have been such that they effectively represent full completion of a particular part of a development program. As a result, we typically fully recognize milestone-related revenues as the milestones are achieved in accordance with applicable accounting standards.

- 29 -

Under certain development contracts, we also manufacture and supply the customer with finished products once it has been approved for use by relevant regulatory agencies. These agreements reflect both arrangements for product development and the sales prices and other contractual terms for subsequent supply of the product to the customer. Under these development contracts, we view the development service revenue as distinct from subsequent product sales revenue, and we recognize each separately as described above.

Accounts receivable consist primarily of amounts due from OEM customers, hospitals, donor testing laboratories, and distributors. Accounts receivable are reported net of an allowance for uncollectible accounts, which we also refer to as doubtful accounts. The allowance for doubtful accounts represents a reserve for estimated losses resulting from our inability to collect amounts due from our customers. Direct sales, where we may make many low value sales to a large number of customers, represents a larger risk of doubtful accounts, as opposed to OEM customer sales consisting primarily of a small number of well established businesses with whom we have a long trading history. The collectability of our trade receivables balances is regularly evaluated based on a combination of factors such as the ageing profile of our receivables, past history with our customers, changes in customer payment patterns, customer credit-worthiness and any other relevant factors. Based on these assessments, we adjust the reserve for doubtful accounts recorded in our financial statements.

Inventories

We record inventories at the lower of cost (first-in, first-out basis) or market (net realizable value), net of reserves. We record adjustments to inventory based upon historic usage, expected future demand and shelf life of the products held in inventory. We also calculate our inventory value based on the standard cost of each product. This approach requires us to analyze variances arising in the production process to determine whether they reflect part of the normal cost of production, and should therefore be reflected as inventory value, or whether they are a period cost and should thus not be included in inventory.

Intangible assets

The intangible assets included in our financial statements include intangible assets identified as at the time of the acquisition of the business of Alba Bioscience on August 31, 2007. At the time of this acquisition, we identified intangible assets related to customer relationships, master cell lines and certain other items, which include domain names and product trademarks. The customer relationships have been amortized over a five-year period, which resulted in them becoming fully amortized at August 31, 2012. The other items were amortized over a seven-year period from August 31, 2007, which resulted in them becoming fully amortized at August 31, 2014.

The intangible assets related to master cell lines reflect the know-how and market recognition associated with the cell lines, which are used as the source material of certain of our products. These cell lines are maintained by us and have an indefinite life. We have nevertheless decided to amortize the intangible assets over a forty-year period to reflect the possibility of market changes or other events resulting in the lines becoming technically obsolete at some future date. In the event that any of the lines cease to be used, we would record additional amortization at that point.

We also include in intangible assets the costs of obtaining product licenses for our products. These include external costs such as regulatory agency fees associated with the approval and bringing to market of our products once the development is complete. We amortize these over an expected product life of eight years, although if any such product ceased to be produced, we would record additional amortization at that point.

Income taxes

We account for income taxes under the asset and liability method, which requires, among other things, that deferred income taxes be provided for temporary differences between the tax basis of our assets and liabilities and their financial statement reported amounts. In addition, deferred tax assets are recorded for the future benefit of utilizing NOLs and research and development credit carry forwards. A valuation allowance is established when necessary to reduce deferred tax assets to the amount expected to be realized.

We follow the accounting guidance for uncertainties in income taxes, which prescribes a recognition threshold and measurement process for recording uncertain tax positions taken, or expected to be taken, in a tax return in the financial statements. Additionally, the guidance also prescribes the derecognition, classification, accounting in interim periods and disclosure requirements for uncertain tax positions. We accrue for the estimated amount of taxes for uncertain tax positions if it is more likely than not that we would be required to pay such additional taxes. An uncertain tax position will not be recognized if it has less than a 50% likelihood of being sustained. We did not have any accrued interest or penalties associated with any unrecognized tax positions, and there were no such interest or penalties recognized during the nine month period ended December 31, 2016 or the years ended March 31, 2016, 2015 or 2014.

- 30 -

Stock compensation expense

Stock compensation expense is measured at the grant date based on the fair value of the award and is recognized as an expense in the income statement over the vesting period of the award. The calculation of the stock compensation expense is sensitive to the fair value of the underlying ordinary shares. The fair value of option awards and multi-year performance based restricted share units or MRSUs at the grant date is calculated using the Black-Scholes model or other valuation models, which use a number of assumptions to determine the fair value. Details of the assumptions used are set out in the notes to the condensed consolidated financial statements included in this Quarterly Report.

Defined Benefit Pension Obligations

We account for the pension obligations of our Swiss subsidiary as a defined benefit plans under Accounting Standards Codification Topic, 715 Compensation – Retirement Benefits or ASC 715. This requires that an actuarial valuation be performed to determine the funded status of the pension arrangements. The actuarial valuation is based on a number of assumptions, details of which are set out in the notes to the audited consolidated financial statements included in our March 31, 2016 Annual Report on Form 10-K.

Royalty Liability

The royalty rights agreements entered into in connection with the issue of our senior secured notes in October 2016 are treated as sales of future revenues that meet the requirements of Accounting Standards Codification Topic 470 “Debt” to be treated as debt. . The estimated future cash outflows under the royalty rights agreements have been combined with the Notes issuance costs and interest payable to calculate the effective interest rate of the Notes and will be expensed through interest expenses using the effective interest rate method over the term of the Notes and royalty rights agreements. Estimating the future cash outflows under the royalty rights agreements requires us to make certain estimates and assumptions about future sales of MosaiQ™ products. These estimates of the magnitude and timing of MosaiQ™ sales are subject to significant variability due to the current status of development of MosaiQ™ products, and thus are subject to significant uncertainty. Therefore, the estimates are likely to change as we gain experience of marketing MosaiQ™, which may result in future adjustments to the accretion of the interest expense and the amortized cost based carrying value of the Notes.

Off-Balance Sheet Arrangements

We do not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or for any other contractually narrow or limited purpose.

Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (the “FASB”) issued Accounting Standard Update (“ASU”) 2016-02, “Leases (Topic 842).” The objective of this update is to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. This ASU is effective for fiscal years beginning after December 15, 2018, including interim periods within those annual periods and is to be applied utilizing a modified retrospective approach. We anticipate this standard will have a material impact on our consolidated financial statements. Additionally, we are currently evaluating the impact this standard will have on our policies and procedures and internal control framework.

In May 2014, the FASB issued ASU No. 2014-09, “Revenue from Contracts with Customers”. This update is the result of a collaborative effort by the FASB and the International Accounting Standards Board to simplify revenue

recognition guidance, remove inconsistencies in the application of revenue recognition, and to improve comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets. The FASB is amending the Accounting Standards Codification and creating a new Topic 606, "Revenue from Contracts with Customers". The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. For a public entity, the amendments in this update are effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. We are currently evaluating the impact of this guidance on our consolidated financial statements and control framework.

We have considered other recent accounting pronouncements and determined that they are either not applicable to our business or that no material effect is expected on the consolidated financial statements as a result of future adoption.

- 31 -

JOBS Act

Under the Jumpstart Our Business Startups Act of 2012, emerging growth companies that become public can delay adopting new or revised accounting standards until such time as those standards apply to private companies. We have irrevocably elected not to avail ourselves of this exemption from new or revised accounting standards and, therefore, we will be subject to the same new or revised accounting standards as other public companies that are not emerging growth companies.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risks in the ordinary course of our business. These market risks are principally limited to interest rate fluctuations and foreign currency exchange rate fluctuations.

Interest rate sensitivity

We are exposed to market risk related to changes in interest rates as it impacts our interest income and expense.

Cash and cash equivalents. At December 31, 2016, we had cash and cash equivalents of \$14.3 million. Our exposure to market risk includes interest income sensitivity, which is impacted by changes in the general level of U.S. and European interest rates. Our cash and cash equivalents are held in interest-bearing savings accounts and bank accounts. We do not enter into investments for trading or speculative purposes. Due to the current levels of interest rates, we do not believe an immediate one percentage point change in interest rates would have a material effect on the fair market value of our holdings, and therefore we do not expect our operating results or cash flows to be significantly affected by changes in market interest rates.

Senior secured notes. At December 31, 2016, we had term debt of \$84.0 million outstanding under our senior secured notes. The notes are fixed-rate instruments and, as a result, a change in market interest rates has no impact on our interest expense incurred or cash flows.

Foreign currency exchange risk

The main currencies that we use for our trading operations are the U.S. Dollar, the Pound Sterling, the Swiss Franc and to a lesser extent, the Euro. Our meaningful cash balances are held in a mixture of U.S. Dollars, Euros, Pounds Sterling and Swiss Francs. These cash balances may not be the same as the functional currencies of the Quotient entities in which they are held and as a result, exchange rate fluctuations may result in foreign exchange gains and losses on our income statement.

We are subject to market risks arising from changes in foreign currency exchange rates between the U.S. Dollar and the Pound Sterling and the U.S. Dollar and the Swiss Franc. Accordingly, fluctuations in the U.S. Dollar versus Pounds Sterling and U.S. Dollar versus the Swiss Franc exchange rate give rise to exchange gains and losses. These gains and losses arise from the conversion of U.S. Dollars and Euros to Pounds Sterling and the retranslation of cash, accounts receivable, intercompany indebtedness and other asset and liability balances. Based on our assets and liabilities held in Pounds Sterling at December 31, 2016, we estimate that a 5% strengthening of the Pound Sterling against the U.S. Dollar would give rise to a gain of approximately \$1.9 million and a 5% weakening of the Pound Sterling against the U.S. Dollar would give rise to loss of approximately \$1.9 million. Based on our assets and

liabilities held in Swiss Francs at December 31, 2016, we estimate that a 5% strengthening of the Swiss Franc against the U.S. Dollar would give rise to a gain of approximately \$2.1 million and a 5% weakening of the Swiss Franc against the U.S. Dollar would give rise to loss of approximately \$2.1 million.

A significant proportion of our revenues are earned in U.S. Dollars, but the costs of our conventional reagent manufacturing operations are payable mainly in Pounds Sterling. We therefore closely monitor the results of our UK operations to address this difference. During the year ended March 31, 2016, the net operating expenses arising in Pounds Sterling from our UK conventional reagent manufacturing operations amounted to \$14.0 million. This expenditure was offset by revenues arising in U.S. Dollars and other currencies. We have entered into forward contracts to hedge against the effects of fluctuations in the U.S. Dollar versus the Pounds Sterling exchange rate. The principal value of the hedges related to the results of fiscal year 2017 is \$6.0 million and, based on this, a hypothetical instantaneous 5% strengthening of the Pound Sterling against the U.S. Dollar would reduce our net income by \$0.4 million in the year ending March 31, 2017 after taking account of the shelter provided by our existing hedging arrangements through March 2017. Similarly, a hypothetical instantaneous 5% weakening of the Pound Sterling against the U.S. Dollar would increase group net income by \$0.4 million over the same period.

We do not use financial instruments for trading or other speculative purposes.

- 32 -

Our management does not believe that inflation in past years has had a significant impact on our results from operations. In the event inflation affects our costs in the future, we will offset the effect of inflation and maintain appropriate margins through increased selling prices.

Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures

Our management, with the participation of our Chief Executive Officer and Interim Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this Quarterly Report on Form 10-Q. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on such evaluation, our Chief Executive Officer and Interim Chief Financial Officer have concluded that, as of December 31, 2016, due to our identification of a material weakness in connection with our evaluation of the effectiveness of our internal control over financial reporting as of March 31, 2016, as further described in Item 9A of our Annual Report on Form 10-K for the year ended March 31, 2016, our disclosure controls and procedures were not effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms, and is accumulated and communicated to our management, including our Chief Executive and Interim Chief Financial Officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

During the nine month period ended December 31, 2016 we took the following steps to implement a remediation plan for the material weakness in internal control over financial reporting described in Item 9A of our Annual Report on Form 10-K for the year ended March 31, 2016:

• To maintain effective internal controls on an ongoing basis we established in May 2016 a specific internal control procedure related to requirements of Accounting Standards Codification Topic, 715 Compensation – Retirement Benefits, or ASC-715. In particular, when new entities are set up in countries where the Company lacks the relevant expertise of local regulations, management will obtain and review appropriate professional advice in the country in order to properly assess and account for any material local arrangements, such as pension schemes, that may require specific consideration under US GAAP.

Based on the foregoing processes and remediation measures, management believes that the above mentioned control deficiencies will be remediated, but the material weaknesses cannot be considered remediated until the applicable remedial controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively.

Changes in internal control over financial reporting

Other than the remediation measures noted above, there were no other material changes to our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the period covered by this Quarterly Report on Form 10-Q that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. As part of our Annual Report on Form 10-K for the year ending March 31, 2017, we will provide a report of management on our internal control over financial reporting, including management's

assessment of the effectiveness of our internal control over financial reporting as of March 31, 2017 following the implementation of this remediation plan.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

We are not currently a party to any pending legal proceedings that we believe could have a material adverse effect on our business or financial condition. However, we may be subject to various claims and legal actions arising in the ordinary course of business from time to time.

Item 1A. Risk Factors

There have been no material changes in the risk factors described in Item 1A "Risk Factors" of our Annual Report on Form 10-K for the year ended March 31, 2016 and our Quarterly Report on Form 10-Q for the quarter ended September 30, 2016.

- 33 -

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Unregistered Sales of Equity Securities

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

See the Exhibit Index on the page immediately preceding the exhibits for a list of exhibits filed as part of this Quarterly Report, which Exhibit Index is incorporated herein by this reference.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

QUOTIENT LIMITED

Date: February 7, 2017 /s/ Paul Cowan
Paul Cowan

Chief Executive Officer and Chairman of the Board of Directors

EXHIBIT INDEX

Exhibit No. Description

- 4.1 Indenture, dated as of October 14, 2016, among the Company, the Guarantors from time to time party thereto and U.S. Bank National Association, as trustee and collateral agent (filed as exhibit 4.1 to our report on Form 8-K filed on October 14, 2016 and incorporated herein by reference).
- 10.1 Form of Purchase Agreement (filed as exhibit 10.1 to our report on Form 8-K filed on October 14, 2016 and incorporated herein by reference).
- 10.2 Form of Royalty Rights Agreement (filed as exhibit 10.2 to our report on Form 8-K filed on October 14, 2016 and incorporated herein by reference).
- 10.3 Collateral Agreement, dated as of October 14, 2016, among the Company the Subsidiary Parties from time to time party thereto and U.S. Bank National Association, as trustee and collateral agent (filed as exhibit 10.3 to our report on Form 8-K filed on October 14, 2016 and incorporated herein by reference).
- 10.4 Separation and Release Agreement between Stephen Unger and Quotient Limited, dated November 9, 2016 (filed as exhibit 10.1 to our report on Form 8-K filed on November 15, 2016 and incorporated herein by reference).
- 31.1 Certification of Paul Cowan, Chairman and Chief Executive pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of Roland Boyd, Interim Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification of Paul Cowan, Chairman and Chief Executive pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 Certification of Roland Boyd, Interim Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 101* The following financial statements from the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 2016, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets (unaudited), (ii) Condensed Consolidated Statements of Comprehensive

Edgar Filing: Quotient Ltd - Form 10-Q

Loss (unaudited), (iii) Condensed Consolidated Statements of Redeemable Convertible Preference Shares and Changes in Shareholders' Deficit (unaudited), (iv) Condensed Consolidated Statements of Cash Flows (unaudited) and (v) Notes to Condensed Consolidated Financial Statements, tagged as blocks of text and including detailed tags.

* XBRL information is furnished and not filed for purposes of Section 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934, and is not subject to liability under those sections, is not part of any registration statement, prospectus or other document to which it relates and is not incorporated or deemed to be incorporated by reference into any registration statement, prospectus or other document.