Quotient Ltd
Form 10-Q
August 05, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2015

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 Bush Loan, Penicuik, Midlothian	Not Applicable

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 x 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 x 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 x (Do not check if a smaller reporting company)	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 x

As of July 31, 2015 there were 17,029,851 Ordinary Shares, nil par value, of Quotient Limited outstanding.

TABLE OF CONTENTS

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 Final 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," "projec "potential," "will," "would," "could," "should," "continue," "contemplate," "might," "design" and other similar expressions, al 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 threatened 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 proceeds from exercises of our outstanding warrants, and our estimates regarding our capital requirements and capital expenditures (including the expected cost of a new expanded manufacturing facility in Edinburgh, Scotland); 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 section entitled "Risk Factors" in our Annual Report on Form 10-K for the year ended March 31, 2015, 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.

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)

	June 30, 2015	March 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$21,259	$37,525
Trade accounts receivable, net	2,214	1,808
Inventories	5,012	4,608
Prepaid expenses and other current assets	5,738	6,129
Total current assets	34,223	50,070
Property and equipment, net	38,083	29,733
Intangible assets, net	988	950
Other non-current assets	266	366
Total assets	$73,560	$81,119
LIABILITIES AND SHAREHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	$8,844	$7,238
Accrued compensation and benefits	2,723	2,565
Accrued expenses and other current liabilities	7,532	8,787
Financial liability in respect of share warrants	29,209	31,011
Current portion of long-term debt	6,000	4,500
Current portion of lease incentive	452	435
Current portion of capital lease obligation	254	239
Total current liabilities	55,014	54,775
Long-term debt, less current portion	9,305	10,768
Lease incentive, less current portion	1,695	1,740
Capital lease obligation, less current portion	469	276
7% Cumulative redeemable preference shares	15,438	15,175
Total liabilities	81,921	82,734
Commitments and contingencies	—	—
Shareholders' equity (deficit)		
Ordinary shares (nil par value) 17,028,915 and 17,020,574 issued and outstanding at June 30, 2015 and March 31, 2015 respectively;	84,584	84,525
Distribution in excess of capital	(6,316)	(6,684)
Accumulated other comprehensive loss	(2,121)	(5,102)

Accumulated deficit	(84,508)	(74,354)
Total shareholders' deficit	(8,361)	(1,615)
Total liabilities and shareholders' deficit	$73,560	$81,119

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 June 30	
	2015	2014
Revenue:		
Product sales	$4,850	$5,267
Other revenues	—	650
Total revenue	4,850	5,917
Cost of revenue	(2,751)	(2,451)
Gross profit	2,099	3,466
Operating expenses:		
Sales and marketing	(658)	(697)
Research and development, net of government grants	(6,810)	(3,685)
General and administrative expense:		
Compensation expense in respect of share options and management equity incentives	(337)	(226)
Other general and administrative expenses	(4,787)	(3,264)
Total general and administrative expense	(5,124)	(3,490)
Total operating expense	(12,592)	(7,872)
Operating loss	(10,493)	(4,406)
Other income (expense):		
Interest expense, net	(797)	(534)
Change in financial liability for share warrants	1,771	3,579
Other, net	(635)	(1,255)
Other income, net	339	1,790
Loss before income taxes	(10,154)	(2,616)
Provision for income taxes	—	—
Net loss	$(10,154)	$(2,616)
Other comprehensive income (loss):		
Change in fair value of effective portion of foreign currency cash flow hedges	$226	$(94)
Foreign currency gain	2,755	373
Other comprehensive income, net	2,981	279
Comprehensive loss	$(7,173)	$(2,337)
Net loss available to ordinary shareholders - basic and diluted	$(10,154)	$(2,616)
Loss per share - basic and diluted	$(0.60)	$(0.20)
Weighted-average shares outstanding - basic and diluted	17,025,631	12,838,085

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

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

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

	Ordinary shares		Distribution in excess	Accumulated Other Comprehensive	Accumulated	Total Shareholders'
	Shares	Amount	of capital	Loss	Deficit	Deficit
Balances, March 31, 2015	17,020,574	$84,525	$ (6,684)	$ (5,102)	$ (74,354)	$ (1,615)
Issue of shares upon exercise of incentive share options	4,313	24	—	—	—	24
Issue of shares upon exercise of warrants	4,028	35	31	—	—	66
Net loss	—	—	—	—	(10,154)	(10,154)
Change in the fair value of the effective portion of foreign currency cash flow hedges	—	—	—	226	—	226
Foreign currency translation gain	—	—	—	2,755	—	2,755
Other comprehensive loss	—	—	—	2,981	—	2,981
Stock-based compensation	—	—	337	—	—	337
Balances, June 30, 2015	17,028,915	$84,584	$ (6,316)	$ (2,121)	$ (84,508)	$ (8,361)

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)

	Quarter ended June 30,	
	2015	2014
OPERATING ACTIVITIES:		
Net loss	$(10,154)	$(2,616)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	398	282
Share-based compensation	337	226
Amortization of lease incentive	(111)	(119)
Amortization of deferred debt issue costs	194	198
Accrued preference share dividends	263	—
Change in financial liability for share warrants	(1,771)	(3,579)
Net change in assets and liabilities:		
Trade accounts receivable, net	(300)	(757)
Inventories	(134)	28
Accounts payable and accrued liabilities	(400)	(45)
Accrued compensation and benefits	8	(108)
Other assets	722	1,730
Net cash used in operating activities	(10,948)	(4,760)
INVESTING ACTIVITIES:		
Purchase of property and equipment	(6,894)	(4,920)
Net cash used in investing activities	(6,894)	(4,920)
FINANCING ACTIVITIES:		
Proceeds from finance leases	177	91
Proceeds from issuance of ordinary shares	59	34,280
Net cash generated from financing activities	236	34,371
Effect of exchange rate fluctuations on cash and cash equivalents	1,340	94
Change in cash and cash equivalents	(16,266)	24,785
Beginning cash and cash equivalents	37,525	7,192
Ending cash and cash equivalents	$21,259	$31,977
Supplemental cash flow disclosures:		
Income taxes paid	$—	$—
Interest paid	$344	$337

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, 2015 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, 2015 included in the Company's Annual Report on Form 10-K for the year then ended. The results of operations for the quarter ended June 30, 2015 are not necessarily indicative of the results of operations that may be expected for the year ending March 31, 2016 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. As of June 30, 2015, it had an accumulated deficit of $84.5 million. It has expenditure plans in the year ending March 31, 2016 for the continuation of the development and commercialization of MosaiQ™ that are in excess of its current cash holdings. As a result, there is substantial doubt about the Company's ability to continue as a going concern. The Company's operating plans for the financial year ending March 31, 2016 reflect an expectation that substantially all of the outstanding warrants from the initial public offering, which expire on October 25, 2015, will be exercised before that date. In the longer term, the Company expects to fund its remaining development costs for MosaiQ™ from a combination of funding sources, including through the use of existing cash balances, the extension or expansion of its credit facilities and the issuance of new equity. The Company's Directors are confident that the warrants will be exercised and accordingly have prepared the financial statements on the going concern basis. However, there can be no assurance that the warrants will be exercised.

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 June 30, 2015 and March 31, 2015, all cash and cash equivalents comprised readily accessible cash balances except for $326 at June 30, 2015 and $314 at March 31, 2015 held in a restricted account as security for the property rental obligations of the Company's Swiss subsidiary.

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. Additions to the allowance for doubtful accounts are recorded as 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 entirely of foreign exchange contracts, are stated at their estimated fair values, based on quoted market prices for the same or similar instruments. The counterparties to the agreements relating to the Company's derivative instruments consist of large financial institutions of high credit standing.

The Company's main financial institutions for banking operations hold all of the Company's cash and cash equivalents as of June 30, 2015 and at March 31, 2015. 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 June 30, 2015 and March 31, 2015. This customer represented 53% and 47% of the accounts receivable balances as of June 30, 2015 and March 31, 2015, 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 quarters ended June 30, 2015 and June 30, 2014. This customer represented 59% of total product sales for the both the quarter ended June 30, 2015 and the quarter ended June 30, 2014.

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 June 30, 2015 and March 31, 2015.

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:

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 quarters ended June 30, 2015 or June 30, 2014.

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. The Company had been working on this project for more than a year before the formal agreement was signed with OCD. Under the terms of the agreement, the Company is entitled to receive milestone payments of $1,400 upon the receipt of FDA approval of the rare antisera products and two further milestones of $500 each upon the updating of the CE-mark and FDA approvals to cover use of the products on OCD’s automation platform. The Company has concluded that as each of these milestones required significant levels of development work to be undertaken and there was no certainty at the start of the project that the development work would be successful, these milestones are substantive and will be accounted for under the milestone method of revenue recognition. The agreement also contains one further milestone of $650 payable upon fulfillment of $250 of cumulative orders of the rare antisera products covered by the agreement. This payment represents a royalty payment and was recognized in the quarter ended June 30, 2014 when the sales target was achieved.

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 are available for the sponsorship of such research, the grant receipt 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 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 Condensed Consolidated Statements of Comprehensive Loss. Compensation cost related to restricted stock units with a market condition is recognized regardless of whether the market condition is satisfied, provided that the requisite service has been provided. Stock-based

compensation cost for restricted stock units granted to non-employees is measured when the awards vest and the expense is recognized during the period the related services are rendered.

In determining the fair value of the stock-based compensation payments in respect of share options, the Company uses the Black–Scholes model and a single option award approach, which requires the input of subjective assumptions. These assumptions include: the fair value of the underlying share, estimating the length of time employees will retain their vested stock options 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 options that will ultimately not complete their vesting requirements (forfeitures). The Company uses a barrier option pricing model to determine the grant date fair value of its multi-year performance related restricted stock unit awards. This requires the use of similar assumptions to the Black-Scholes model.

Note 3. Intangible Assets

	June 30, 2015			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Ave. Remaining Useful Life
Customer relationships	$3,095	$ (3,095)	$ —	—
Brands associated with acquired cell lines	638	(126)	512	32.1 years
Product licenses	750	(274)	476	6.3 years
Other intangibles	201	(201)	—	—
Total	$4,684	$ (3,696)	$ 988	

	March 31, 2015			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Ave. Remaining Useful Life
Customer relationships	$2,923	$ (2,923)	$ —	—
Brands associated with acquired cell lines	603	(115)	488	32.4 years
Product licenses	703	(241)	462	6.6 years
Other intangibles	190	(190)	—	—
Total	$4,419	$ (3,469)	$ 950	

Note 4. Debt

Long-term debt comprises:

	June 30, 2015	March 31, 2015
Total debt	$15,000	$15,000
Less current portion	(6,000)	(4,500)
Long-term debt	$9,000	$10,500
Fees due on final repayment of debt	487	487
Fair value of associated share warrant, net of amortization	(182)	(219)
	$9,305	$10,768

On December 9, 2013, the Company drew down $15,000 under a new secured credit facility agreement with MidCap Financial LLC. The facility is repayable over a four year period with no repayments until July 1, 2015 when the first of 30 equal monthly repayments is due. The facility bears interest at LIBOR plus 6.7%. The LIBOR rate applicable is the higher of the actual market rate from time to time or 2.0%.

At June 30, 2015, the outstanding debt is repayable as follows:

Within 1 year	$6,000
Between 1 and 2 years	6,000
Between 2 and 3 years	3,487
Total debt	$15,487

Note 5. Consolidated Balance Sheet Detail

Inventory

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

	June 30, 2015	March 31, 2015
Raw materials	$1,313	$1,180
Work in progress	2,230	2,071
Finished goods	1,469	1,357
Total inventories	$5,012	$4,608

Property and equipment

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

	June 30, 2015	March 31, 2015
Plant and Machinery	$28,929	$21,688
Leasehold improvements	13,088	11,412
Total property and equipment	42,017	33,100
Less: accumulated depreciation	(3,934)	(3,367)
Total property and equipment, net	$38,083	$29,733

Depreciation expenses were $376 and $267 in the quarters ended June 30, 2015 and June 30, 2014 respectively.

Accrued compensation and benefits

Accrued compensation and benefits consist of the following:

	June 30, 2015	March 31, 2015
Salary and related benefits	$493	$300
Accrued vacation	245	165
Accrued payroll taxes	680	302
Accrued incentive payments	1,305	1,798
Total accrued compensation and benefits	$2,723	$2,565

Accrued expenses and other current liabilities

Accrued expenses and other current liabilities consist of the following:

	June 30, 2015	March 31, 2015
Accrued legal and professional fees	$1,664	$3,758
Accrued interest	109	112
Goods received not invoiced	1,064	787
Accrued capital expenditure	519	972
Accrued development expenditure	3,149	2,110
Other accrued expenses	1,027	1,048
Total accrued expenses and other current liabilities	$7,532	$8,787

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 June 30, 2015 is £1,790. Regular meetings are held to update Scottish Enterprise 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 $300 and purchase pounds sterling at rates of between £1:$1.60 and £1:$1.50 in each calendar month through December 2015 as a hedge of its U.S. dollar denominated revenues.

Share warrants

As part of its initial public offering in April 2014 the Company issued 5 million warrants each to acquire 0.8 of an ordinary share for a price of $8.80 per whole share. Prior to June 30, 2015, there were 82,669 exercises of these warrants resulting in 4,917,331 remaining at June 30, 2015. The financial statements include a financial liability in respect of these warrants which is equal to the market price of the warrants at the end of each financial period.

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:

	June 30, 2015			
	Level 1	Level 2	Level 3	Total
Assets:				
Foreign currency forward contracts	$27	$ —	$ —	$27
Total assets measured at fair value	$27	$ —	$ —	$27

	June 30, 2015			
	Level 1	Level 2	Level 3	Total
Liabilities:				
Foreign currency forward contracts	$—	$ —	$ —	$—
Fair value of share warrants	29,209	—	—	29,209
Total liabilities measured at fair value	$29,209	$ —	$ —	$29,209

	March 31, 2015			
	Level 1	Level 2	Level 3	Total
Assets:				
Foreign currency forward contracts	$—	$ —	$ —	$—
Total assets measured at fair value	$—	$ —	$ —	$—

	March 31, 2015			
	Level 1	Level 2	Level 3	Total
Liabilities:				
Foreign currency forward contracts	$199	$ —	$ —	$199
Fair value of share warrants	31,011	—	—	31,011
Total liabilities measured at fair value	$31,210	$ —	$ —	$31,210

The change in the estimated fair value of share warrant liabilities is summarized below:

March 31,2015	$31,011
Change in fair value of ordinary share warrants	(1,771)
Exercise of warrants	(31)
June 30, 2015	$29,209

Note 7. Ordinary Shares

Ordinary Shares

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

	Shares Issued and Outstanding		
	June 30, 2015	March 31, 2015	Par value
Ordinary shares	17,028,915	17,020,574	$ —
Total	17,028,915	17,020,574	$ —

Preference shares

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

	Shares Issued and Outstanding		Liquidation amount per share	
	June 30, 2015	March 31, 2015	June 30, 2015	March 31, 2015
7% Cumulative Redeemable Preference shares	666,665	666,665	$23.15	$22.76
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 stock units ("MRSU's") and restricted stock units ("RSU's") issued under its share incentive plans. Share-based compensation expense amounted to $337 and $226 in the quarters ended June 30, 2015 and June 30, 2014, 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, 2015	1,208,118	$ 5.58	103
Granted	312,300	15.17	120
Exercised	(4,313)	5.56	—
Forfeited	(1,568)	10.43	—
Outstanding — June 30, 2015	1,514,537	$ 7.55	104
Exercisable —June 30, 2015	592,145	$ 3.87	97

The Company's closing share price on June 30, 2015 was $14.79.

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 Date	Per Share Intrinsic Value of Options
May 20, 2015	312,300	$ 15.17	$ 15.17	$ 6.08

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 NASDAQ 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:

	May 20, 2015	
Risk-free interest rate	2.29	%
Expected lives (years)	3	
Volatility	57.14	%
Dividend yield	—	
Grant date fair value (per share)	$15.17	
Number granted	312,300	

On May 20, 2015, the Company awarded 137,000 MRSU's. These will vest if the volume weighted average price of the Company's shares exceeds $60 for a continuous twenty day period between April 1, 2018 and December 31, 2018. The Company determined the grant date fair value of the MRSU's 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 $6.09 per MRSU. The Company also issued 10,000 RSU's in the quarter ended June 30, 2015 which will vest over a two year period from the date of grant.

During the quarter ended September 30, 2014, the Company awarded 50,000 RSU's to a non-executive director upon his appointment as a director of the Company. These vest in equal annual installments over the four year period following the date of grant.

Note 9. Net Loss Per Share

In accordance with ASC 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) and the warrants to acquire ordinary shares.

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

	Quarter ended June 30,	
	2015	2014
Numerator:		
Net loss	$(10,154)	$(2,616)
Net loss available to ordinary shareholders - basic and diluted	$(10,154)	$(2,616)
Denominator:		
Weighted-average shares outstanding - basic and diluted	17,025,631	12,838,085
Loss per share - basic and diluted	$(0.60)	$(0.20)

The following sets out the numbers of ordinary shares excluded from the above computation of earnings per share at June 30, 2015 and June 30, 2014 as their inclusion would have been anti-dilutive.

	June 30, 2015	June 30, 2014
Ordinary shares issuable on exercise of options to purchase ordinary shares	1,514,537	1,300,082
Restricted stock units awarded, including the muti-year performance related restricted stock units	197,000	—
Ordinary shares issuable on exercise of warrants at $9.37 per share	64,000	64,000
Ordinary shares issuable on exercise of warrants at $8.80 per share	3,933,865	4,000,000
Ordinary shares issuable on exercise of pre-funded warrants at $0.01 per share	850,000	—
	6,559,402	5,364,082

Note 10. Subsequent Events

On August 3, 2015, the Company's U.S. subsidiary entered into an amended agreement with MidCap Financial LLC ("MidCap") to expand its existing secured term loan facility from $15 million to $30 million. MidCap also agreed to make available additional credit facilities totaling $20.0 million. The Company's U.S. subsidiary and MidCap originally entered into a $15.0 million secured term loan facility on December 6, 2013, which had subsequently been paid down to $14.5 million as of August 3, 2015. The Company received net proceeds in the aggregate amount of $14.8 million, which will be used for working capital purposes.

The initial secured loan of $30.0 million has a term of 48 months with interest only payments for the first 18 months and straight-line amortization of principal for the remaining 30 months. Interest on the outstanding balance of the term credit facility is payable monthly in arrears at an annual rate of one-month LIBOR plus 6.7% subject to a LIBOR floor of 2.0%. The loan is secured by all of the Company's assets, including the equity of all of the Company's subsidiaries.

The additional credit facilities, totaling $20 million, are subject to the Company obtaining European CE Mark for the MosaiQ™ blood grouping consumable and the first commercial sale of the MosaiQ™ blood grouping consumable in the European Union.

Pursuant to the amended agreement, the Company issued to MidCap a warrant ("MidCap Warrant") to purchase 111,525 ordinary shares at an exercise price of $16.14 per ordinary share. The MidCap Warrant is exercisable for a term of ten years and contains cashless exercise provisions and customary, share-based anti-dilution protection provisions.

The terms of the secured term loan facility contain various affirmative and negative covenants. In particular, the Company is not permitted to allow net product revenue over a 12-month period to be lower than a range of minimum thresholds specified in the agreement. The testing dates are on the 15th of each month and the testing periods are the twelve full months ending one full calendar month preceding each testing date. In addition, the Company shall maintain unrestricted cash and cash equivalents in an amount not less than $10 million as of the last day of each calendar month.

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, 2015 filed with the Securities and Exchange Commission on June 1, 2015.

The information set forth and discussed below for the quarter ended June 30, 2015 and June 30, 2014 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 an established, 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 serological 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. Serological disease screening involves the screening of donor blood for unwanted pathogens.

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. 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 currently operate as one business segment with over 271 employees in the United States, the United Kingdom and Switzerland. Our principal markets are the United States, Europe and Japan. Based on the location of the customer, revenues outside the United States accounted for 55% and 54% of total revenue during the quarters ended June 30, 2015 and June 30, 2014, respectively.

We have incurred net losses and negative cash flows from operations in each year since we commenced operations in 2007. As of June 30, 2015, we had an accumulated deficit of $84.5 million. We expect our operating losses will continue at least for the next two years as we continue our investment in the development and commercialization of MosaiQ™. For the quarter ended June 30, 2015, our total revenue was $4.9 million and our net loss was $10.2 million.

On April 29, 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. At the time of the offering, we recorded a financial liability in our financial statements amounting to $8.5 million, which represents the value ascribed to the warrants attributable to our initial public offering of units. On May 27, 2014, our ordinary shares and warrants began trading separately on The NASDAQ Global Market and the units were delisted. Prior to June 30, 2015 there were exercises of 82,669 of these warrants resulting in the issue of 66,132 ordinary shares. At June 30, 2015, 4,917,331 of these warrants remained outstanding and the market value of the warrants at June 30, 2015 was $29.2 million. We have recorded the decrease in the market value of the warrants since March 31, 2015 as income of $1.8 million within net other income (expense) in our income statement for the quarter ended June 30, 2015.

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 permits the holder to subscribe for one new ordinary share at an exercise price of $0.01 per pre-funded warrant.

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.

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 74% and 71% for the quarters ended June 30, 2015 and June 30, 2014, 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 Pounds Sterling, Euros or Yen. Our expenses are generally denominated in the currencies in which our operations are located, which is primarily in the United Kingdom, United States and Switzerland. 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 Part I, Item 3: "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. 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 43% and 59% for the quarters ended June 30, 2015 and June 30, 2014, respectively. Excluding other revenues, which consist of product development fees, our gross margin on product sales was 43% and 53% for the quarters ended June 30, 2015 and June 30, 2014, 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, which should improve our gross margin on product sales.

Our sales and marketing expenses include costs associated with our sales organization, 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 costs related to our sales activities. These expenses also include direct and indirect costs associated with our product marketing activities. 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, but decline as a percentage of product sales.

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. In the year ended March 31, 2015 changes in UK tax legislation enabled our UK subsidiary to claim certain tax credits on its research and development expenditures. Previously, these tax credits increased the unutilized tax losses of our UK subsidiary, but are now being claimed and are included as an offset to our research and development expenses. 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. 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 includes depreciation and amortization. We expect our general and administrative expenses to increase, primarily 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 expenses for investor relations.

Net interest expense consists primarily of interest charges on our 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 loan and report them as interest expense in our statements of operations.

Net other income (expense) consists primarily of realized and unrealized gains and losses on foreign exchange and income or expense arising on the change in the fair value of our warrants. Realized exchange fluctuations result 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.

Results of Operations

Comparison of the Quarters ended June 30, 2015 and 2014

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 June 30,					
	2015		2014		Change	
	Amount	% of revenue	Amount	% of revenue	Amount	%
	(in thousands, except percentages)					
Revenue:						
Product sales	$4,850	100 %	$5,267	89 %	$(417)	-8 %
Other revenues	—	0 %	650	11 %	(650)	0 %
Total revenue	4,850	100 %	5,917	100 %	(1,067)	-18 %
Cost of revenue	2,751	57 %	2,451	41 %	300	12 %
Gross profit	2,099	43 %	3,466	59 %	(1,367)	-39 %
Operating expenses:						
Sales and marketing	658	14 %	697	12 %	(39)	-6 %
Research and development	6,810	140 %	3,685	62 %	3,125	85 %
General and administrative	5,124	106 %	3,490	59 %	1,634	47 %
Total operating expenses	12,592	260 %	7,872	133 %	4,720	60 %
Operating loss	(10,493)	-216 %	(4,406)	-74 %	(6,087)	138 %
Other income (expense):						
Interest expense, net	(797)	-16 %	(534)	-9 %	(263)	49 %

Other, net	1,136	23	%	2,324	39	%	(1,188)	—
Total other income, net	339	7	%	1,790	30	%	(1,451)	—
Loss before income taxes	(10,154)	-209	%	(2,616)	-44	%	(7,538)	288%
Provision for income taxes	—	0	%	—	0	%	—	—
Net loss	$(10,154)	-209	%	$(2,616)	-44	%	$(7,538)	288%

Revenue

Total revenue for the quarter ended June 30, 2015 decreased by 18% to $4.9 million, compared with $5.9 million for the quarter ended June 30, 2014. Product sales revenue decreased 7% to $4.9 million for the quarter ended June 30, 2015, compared with $5.3 million for the quarter ended June 30, 2014. The decrease was attributable to a $0.5 million negative impact of a stronger U.S. dollar relative to the British Pound and Euro and lower shipments of bulk antisera to OEM customers. During the quarter ended June 30, 2015, biomanufacturing capacity traditionally available for OEM production was allocated to the production of reagent antibodies for incorporation as assays on the MosaiQ™ blood grouping consumable. Products sold by standing purchase order were 74% of product

sales for the quarter ended June 30, 2015, compared with 71% for the quarter ended June 30, 2014. Total revenue for the quarter ended June 30, 2014 also included revenue related to our product development services of $0.7 million.

The below table sets forth revenue by product group:

	Quarter ended June 30,							
	2015			2014			Change	
	Amount	% of revenue		Amount	% of revenue		Amount	%
	(in thousands, except percentages)							
Revenue:								
Product sales - OEM customers	$3,430	71	%	$3,806	64	%	$(376)	-10%
Product sales - direct customers and distributors	1,420	29	%	1,461	25	%	(41)	-3 %
Other revenues	—	0	%	650	11	%	(650)	0 %
Total revenue	$4,850	100	%	$5,917	100	%	$(1,067)	-18%

OEM Sales. Product sales to OEM customers decreased 10% to $3.4 million for the quarter ended June 30, 2015, compared with $3.8 million for the quarter ended June 30, 2014. The decrease was attributable to the negative impact of a stronger U.S. dollar relative to the British Pound and Euro and lower shipments of bulk antisera to OEM customers. During the quarter ended June 30, 2015, biomanufacturing capacity traditionally available for OEM production was allocated to the production of reagent antibodies for incorporation as assays on the MosaiQ™ blood grouping consumable.

Direct Sales to Customers and Distributors. Direct product sales of $1.4 million for the quarter ended June 30, 2015 decreased by 3% compared to $1.5 million for the quarter ended June 30, 2014. Direct sales in the United States increased by 16%, which was primarily driven by sales of our reagent red blood cell products. Direct sales outside the United States decreased by 38% as a result of our decision to offer fewer products in Europe and the negative impact of a stronger U.S. dollar relative to the British Pound and Euro.

Other Revenues. Other revenues represent product development fees and there were no such revenues in the quarter ended June 30, 2015 compared with $0.7 million in the quarter ended June 30, 2014.

Cost of revenue and gross margin

Cost of revenue increased by 12% to $2.8 million for the quarter ended June 30, 2015, compared with $2.5 million for the quarter ended June 30, 2014, reflecting growth in product sales volumes, higher shipping costs and incremental conventional reagent manufacturing costs. Gross profit on total revenue for the quarter ended June 30, 2015 was $2.1 million, a decrease of 39% when compared with $3.5 million in the quarter ended June 30, 2014. The decrease was mainly attributable to a $0.6 million decrease in other revenues and lower gross profit on product sales.

Excluding other revenues, gross profit on product sales in the quarter ended June 30, 2015 was $2.1 million, a decrease of 25% when compared with $2.8 million the quarter ended June 30, 2014. The decrease was attributable to the impact of adverse exchange rate movements, higher shipping costs and incremental conventional reagent manufacturing costs, which offset the positive impact of higher sales volumes.

Gross margin, which represents gross profit expressed as a percentage of total revenue, was 43% for the quarter ended June 30, 2015, compared with 59% for the quarter ended June 30, 2014. Gross margin on product sales decreased to

43% for the quarter ended June 30, 2015, compared with 53% for the quarters ended June 30, 2014. The gross margin for the quarter ended June 30, 2015 was affected by the impact of adverse exchange rate movements, higher shipping costs and incremental conventional reagent manufacturing costs.

Sales and marketing expenses

Sales and marketing expense was $0.7 million for the quarter ended June 30, 2015, compared with $0.7 million for the quarter ended June 30, 2014. As a percentage of total product sales, sales and marketing expenses were 14% for the quarter ended June 30, 2015, compared with 12% for the quarter ended June 30, 2014.

Research and development expenses

	Quarter ended June 30,							
	2015		2014		Change			
	Amount	% of revenue	Amount	% of revenue	Amount	%		
	(in thousands, except percentages)							
Research and development expenses:								
MosaiQ™ research and development	$6,263	129 %	$3,248	55 %	$3,015	93%		
Other research and development	623	13 %	442	7 %	181	41%		
Tax credits and grants	(76)	-2 %	(5)	0 %	(71)	—		
Total research and development expenses	$6,810	140 %	$3,685	62 %	$3,125	85%		

Research and development expenses increased by $3.1 million to $6.8 million for the quarter ended June 30, 2015, compared with $3.7 million for the quarter ended June 30, 2014. As a percentage of total revenue, research and development expenses increased to 140% for the quarter ended June 30, 2015, compared with 62% for the quarter ended June 30, 2014. This reflects incremental costs associated with the commercial scale-up of MosaiQ™, including initial production costs, which are currently expensed as research and development. Recent changes in UK tax legislation now enable our UK subsidiary to claim certain tax credits on its research and development expenditures. Previously, these tax credits increased the unutilized tax losses of our UK subsidiary, but are now being claimed and are included as an offset to our research and development expenses.

General and administrative expenses

General and administrative expenses increased by 47% to $5.1 million for the quarter ended June 30, 2015, compared with $3.5 million for the quarter ended June 30, 2014, reflecting greater personnel-related costs, increased facility rental charges and increased corporate costs. We recognized $0.3 million of stock compensation expense in the quarter ended June 30, 2015 compared with $0.2 million in the quarter ended June 30, 2014. As a percentage of total revenue, general and administrative expenses increased to 106% for the quarter ended June 30, 2015, compared with 59% for the quarter ended June 30, 2014.

Other income (expense)

Net interest expense was $0.8 million for the quarter ended June 30, 2015, compared with $0.5 million for the quarter ended June 30, 2014. Interest expense in the quarters ended June 30, 2015 and June 30, 2014 includes interest charges on $15.0 million of borrowings from MidCap Financial LLC, which bore interest at LIBOR plus 6.7% (with a LIBOR floor of 2.00%). In the quarter ended June 30, 2015, it also included $0.3 million of dividends accrued on the 7% preference shares issued to OCD on January 29, 2015. Other expense for the quarter ended June 30, 2015 included income of $1.8 million related to the change in the fair value in the quarter of the warrants issued at the time of our initial public offering. It also included $0.6 million of foreign exchange losses arising on monetary assets and liabilities denominated in foreign currencies. Other income for the quarter ended June 30, 2014 included $3.6 million of income related to the change in the fair value of the warrants issued at the time of our initial public offering offset by an exceptional charge of $0.6 million related to the portion of fees associated with our initial public offering that were attributable to the issuance of ordinary share warrants, an expense of $0.4 million related to the settlement of a legal dispute and $0.2 million of foreign exchange losses arising on monetary assets and liabilities denominated in foreign currencies.

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 2015, the greatest impact of extra product shipments occurred in our first quarter, while the greatest impact thus far in fiscal 2016 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. During the quarter ended June 30, 2015, we had a net loss of $10.2 million and the cash used in our operating activities during this period was $10.7 million. We incurred a net loss of $2.6 million and used $4.8 million of cash in our operations during the quarter ended June 30, 2014. As described under results of operations, this use of cash was primarily attributable to our investment in the development of MosaiQ™. As of June 30, 2015, we had an accumulated deficit of $84.5 million.

Prior to our initial public offering, our principal source of funding had been investment in new share capital by our shareholders, which in the years ended March 31, 2014 and March 31, 2013 amounted to $3.1 million and $4.3 million, respectively. 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 of 5,000,000 units at a price of $8.00 per unit, each unit consisting of one ordinary share and one warrant to purchase 0.8 of one ordinary share, and received net proceeds of $37.2 million after deducting underwriting discounts and commissions. Other costs of the offering, apart from underwriting discounts and commissions, were $3.6 million. The warrants are exercisable at an exercise price of $8.80 per ordinary share until October 25, 2015.

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 permits 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 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.

From our incorporation in 2012 to March 31, 2015, we have raised $70.6 million of gross proceeds through the private placement of our ordinary and preference shares and we have raised $37.2 million of net proceeds from our initial public offering of our units. As of June 30, 2015, we had cash and cash equivalents of $21.3 million, which included $0.3 million of cash held in a restricted account as part of the arrangements relating to the lease of our property in Eysins, Switzerland.

We expect to fund our remaining development costs for MosaiQ™ from a combination of funding sources, including through the use of existing cash balances, the extension or expansion of our credit facilities or the issuance of new equity. Our operating plans for the financial year ending March 31, 2016 reflect an expectation that substantially all of our outstanding warrants from our initial public offering, which expire on October 25, 2015, will be exercised before that date. However, there can be no assurance that the warrants will be exercised.

Cash Flows for the Quarters Ended June 30, 2015 and 2014

Operating activities

Net cash used in operating activities was $10.9 million during the quarter ended June 30, 2015, which included net losses of $10.2 million and non-cash items of $0.7 million. Non-cash items were depreciation and amortization expense of $0.4 million, accrued preference share dividends of $0.3 million, share-based compensation expense of

$0.3 million and amortization of deferred debt issue costs of $0.2 million offset by a change in the fair value of the liability in respect of share warrants of $1.8 million and amortization of lease incentives of $0.1 million. We also experienced a net cash inflow of $0.1 million from changes in operating assets and liabilities during the period, consisting primarily of a $0.7 million decrease in other assets, offset by a $0.4 million reduction in accounts payable and accrued liabilities, a $0.3 million increase in accounts receivable and a $0.1 million increase in inventories.

Net cash used in operating activities was $4.8 million during the quarter ended June 30, 2014, which included net losses of $2.6 million and non-cash items of $3.0 million. Non-cash items were depreciation and amortization expense of $0.3 million, amortization of deferred debt issue costs of $0.2 million, share-based compensation expense of $0.2 million, offset by amortization of lease incentives of $0.1 million and the change in the liability in respect of our ordinary share warrants of $3.6 million. We also experienced a net cash inflow of $0.8 million from changes in operating assets and liabilities during the period, consisting primarily of a $1.7 million reduction of other assets offset by a $0.8 million increase in accounts receivable and a $0.1 million reduction in accounts payable, accrued liabilities and accrued compensation and benefits.

Investing activities

Net cash used in investing activities was $6.9 million and $4.9 million for the quarters ended June 30, 2015 and June 30, 2014, respectively. Purchases of property and equipment for the quarter ended June 30, 2015 were $6.9 million and included $6.3 million related to the MosaiQ™ project and $0.6 million related to our conventional reagent business. Purchases of property and equipment for the quarter ended June 30, 2014 were $4.9 million and included $4.7 million related to the MosaiQ™ project and $0.2 million related to our conventional reagent business.

Financing activities

Net cash provided by financing activities was $0.2 million during the quarter ended June 30, 2015, consisting of $0.1 million of proceeds from the exercise of options and warrants and $0.2 million of net capital lease receipts. Net cash provided by financing activities was $34.4 million during the quarter ended June 30, 2014, consisting primarily of share issuance net proceeds of $34.3 million from our initial public offering 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 next two years. We expect our operating expenses to increase during the year ended March 31, 2016, 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 June 30, 2015, we had cash and cash equivalents of $21.3 million, including $0.3 million of cash held in a restricted account as part of the arrangements relating to 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;
- 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 remaining development costs for MosaiQ™ from a combination of funding sources, including through the use of existing cash balances, the extension or expansion of our credit facilities or the issuance of new equity. Our operating plans for the financial year ending March 31, 2016 reflect an expectation that substantially all of our outstanding warrants from our initial public offering, which expire on October 25, 2015, will be exercised before that date. However, there can be no assurance that the warrants will be exercised.

Contractual Obligations

Our contractual obligations and commitments were summarized in our Annual Report on Form 10-K for the year ended March 31, 2015. There were no major changes in the nature of our contractual commitments between March 31, 2015 and June 30, 2015.

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 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 consolidated financial statements included in this Quarterly Report on Form 10-Q for the quarter ended June 30, 2015, 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.

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 quarter ended June 30, 2015 or the years ended March 31, 2015, 2014 or 2013.

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. Details of the assumptions used to value the various types of awards are set out in the notes to the financial statements included in this quarterly report.

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 May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, “Revenue from Contracts with Customers.” The new guidance sets forth a new five-step revenue recognition model which replaces the prior revenue recognition guidance in its entirety and is intended to eliminate numerous industry-specific pieces of revenue recognition guidance that have historically existed in U.S. GAAP. The underlying principle of the new standard is that a business or other organization will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects what it expects in exchange for the goods or services. The standard also requires more detailed disclosures and provides additional guidance for transactions that were not addressed completely in the prior accounting guidance. The ASU provides alternative methods of initial adoption and is effective for annual periods beginning after December 15, 2016 and interim periods within those

annual periods. Early adoption is not permitted. We are currently evaluating the impact that this standard will have on our condensed consolidated financial statements.

We have other considered 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.

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 June 30, 2015, we had cash and cash equivalents of $21 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.

Term loan facility. In December 2013, we entered into a $15.0 million term loan with MidCap Financial LLC, with the full facility being drawn down at the outset. The term loan carries a variable interest rate of 6.7% above LIBOR, with a LIBOR floor of 2.00%. If there is a rise in LIBOR interest rates above 2.00%, our debt service obligation would increase even though the amount borrowed remained the same, which would affect our results of operations, financial condition and liquidity. Assuming no change in our debt obligations from the amount drawn down under the term loan, a hypothetical one percentage point change in underlying variable rates would not currently change our annual interest expense and cash flow from operations.

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 by entities outside the U.S. in a mixture of Euros, Pounds Sterling and Swiss Francs based upon the currency and amount of expected MosaiQ™ development and other corporate expenditures. These cash balances may not be the same as the functional currencies of the 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 until the planned MosaiQ™ development or other corporate expenditure has been incurred. However, as the cash balances are held in the same currencies as the planned MosaiQ™ development and other corporate expenditures, there is no overall impact on our ability to pay them.

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 June 30, 2015 we estimate that a 5% strengthening of the Pound Sterling against the U.S. Dollar would give rise to a gain of approximately $0.8 million and a 5% weakening of the Pound Sterling against the U.S. Dollar would give rise to loss of approximately $0.8 million. Based on our assets and liabilities held in Swiss Francs at March 31, 2015 we estimate that a 5% strengthening of the Swiss Franc against the U.S. Dollar would give rise to a gain of approximately $1.0 million and a 5% weakening of the Swiss Franc against the U.S. Dollar would give rise to loss of approximately $1.0 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, 2015, the net operating expenses arising in Pounds Sterling from our UK conventional reagent manufacturing operations amounted to $13.8 million. This expenditure is 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. These contracts provide for the conversion $300,000 per month at a rate of $1.60 to £1 each month from July 2015 through September 2015 and $300,000 per month at a rate of $1.50 to £1 each month from October 2015 through December 2015. Based on this, a hypothetical instantaneous 5% strengthening of the Pound Sterling against the U.S. Dollar would reduce our net income by $0.5 million in the year ending March 31, 2016, after taking account of the shelter provided by our hedging arrangements through December 2015. Similarly, a hypothetical instantaneous 5% weakening of the Pound Sterling against the U.S. Dollar would increase group net income by $0.5 million over the same period. Our UK operations also have exposure to fluctuations in the Euro versus Pounds Sterling exchange rate, but to a lesser extent.

Financial liability related to warrants issued at the time of our initial public offering

We record a financial liability in our balance sheet relating to the warrants issued at the time of our initial public offering and we mark this liability to market based on the closing price of the warrants as quoted on NASDAQ at the end of each financial period. Based on the closing price of the warrants on June 30, 2015 a 5% increase in the market value of our warrants would result in an increase in the financial liability and a non-cash expense of $1.5 million and a 5% decrease in the market value of the warrants would result in a reduction of the liability and non-cash income of the same amount.

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

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 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 Chief Financial Officer have concluded that, as of June 30, 2015, our disclosure controls and procedures were 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 Chief Financial Officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Changes in internal control over financial reporting

There have been no 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.

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, 2015.

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

Unregistered Sales of Equity Securities

None.

Use of Proceeds from Initial Public Offering

On April 24, 2014, the SEC declared effective our registration statement on Form S-1 (File No. 333-194390) in connection with our initial public offering. As of March 31, 2015, we estimated that we had used all of the net proceeds from our initial public offering as follows: approximately $24 million of the net proceeds on the conversion of the MosaiQ™ manufacturing facility and the design and

building of the initial manufacturing system for MosaiQ™ consumables and approximately $9 million on development of the initial MosaiQ™ consumables and instrument platform.

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: August 5, 2015 /s/ Paul Cowan
Paul Cowan

Chief Executive Officer and Chairman of the Board of Directors

EXHIBIT INDEX

Exhibit No.	Description
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 Stephen Unger, 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 Stephen Unger, 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, 2014, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets (unaudited), (ii) Condensed Consolidated Statements of Comprehensive 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.