Quotient Ltd
Form 10-Q
August 08, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2017

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File Number 001-36415

QUOTIENT LIMITED

(Exact name of registrant as specified in its charter)

Jersey, Channel Islands (State or other jurisdiction of incorporation or organization)	Not Applicable (I.R.S. Employer Identification No.)
Pentlands Science Park	Not Applicable
Bush Loan, Penicuik, Midlothian	

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

001-44-131-445-6159

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer", "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer		Accelerated filer
Non-accelerated filer	(Do not check if a small reporting company)	Smaller reporting company
Emerging growth company		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Yes No

As of August 4, 2017 there were 37,668,125 Ordinary Shares, nil par value, of Quotient Limited outstanding.

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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 litigation;
- our ability to protect our intellectual property and operate our business without infringing upon the intellectual property rights of others;
- our anticipated cash needs and our expected sources of funding, including the achievement of product development milestones, and our estimates regarding our capital requirements and capital expenditures; and
- our plans for executive and director compensation for the future.

You should also refer to the various factors identified in this and other reports filed by us with the Securities and Exchange Commission, including but not limited to those discussed in the section entitled “Risk Factors” in our Annual Report on Form 10-K for the year ended March 31, 2017, 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, 2017	March 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$13,008	$4,754
Short-term investments	27,661	16,057
Trade accounts receivable, net	2,800	2,556
Inventories	14,810	13,636
Prepaid expenses and other current assets	4,682	3,629
Total current assets	62,961	40,632
Cash reserve account	5,040	5,040
Property and equipment, net	70,062	63,530
Intangible assets, net	784	769
Total assets	$138,847	$109,971
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable	$10,098	$10,782
Accrued compensation and benefits	2,846	3,641
Accrued expenses and other current liabilities	13,398	13,509
Current portion of lease incentive	441	422
Current portion of capital lease obligation	1,445	1,374
Total current liabilities	28,228	29,728
Long-term debt	82,150	80,704
Lease incentive, less current portion	772	844
Capital lease obligation, less current portion	153	174
Defined benefit pension plan obligation	5,535	5,337
7% Cumulative redeemable preference shares	17,538	17,275
Total liabilities	134,376	134,062
Commitments and contingencies	—	—
Shareholders' equity (deficit)		
Ordinary shares (nil par value) 37,667,965 and 29,567,698 issued and outstanding at June 30, 2017 and March 31, 2017 respectively	217,889	172,617
Additional paid in capital	17,170	15,885
Accumulated other comprehensive loss	(17,051)	(19,292)
Accumulated deficit	(213,537)	(193,301)
Total shareholders' equity (deficit)	4,471	(24,091)
Total liabilities and shareholders' equity (deficit)	$138,847	$109,971

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, 2017	2016
Revenue:		
Product sales	$6,226	$5,717
Other revenues	600	—
Total revenue	6,826	5,717
Cost of revenue	(2,832)	(3,091)
Gross profit	3,994	2,626
Operating expenses:		
Sales and marketing	(1,682)	(1,257)
Research and development, net of government grants	(12,673)	(11,801)
General and administrative expense:		
Compensation expense in respect of share options and management equity incentives	(1,285)	(898)
Other general and administrative expenses	(5,260)	(5,048)
Total general and administrative expense	(6,545)	(5,946)
Total operating expense	(20,900)	(19,004)
Operating loss	(16,906)	(16,378)
Other income (expense):		
Interest expense, net	(4,210)	(1,171)
Other, net	880	1,314
Other income (expense), net	(3,330)	143
Loss before income taxes	(20,236)	(16,235)
Provision for income taxes	—	—
Net loss	$(20,236)	$(16,235)
Other comprehensive income (loss):		
Change in fair value of effective portion of foreign currency cash flow hedges	$345	$(263)
Unrealized gain on short-term investments	38	—
Foreign currency gain (loss)	1,815	(3,308)
Provision for pension benefit obligation	43	41
Other comprehensive income (loss), net	2,241	(3,530)
Comprehensive loss	$(17,995)	$(19,765)
Net loss available to ordinary shareholders - basic and diluted	$(20,236)	$(16,235)
Loss per share - basic and diluted	$(0.55)	$(0.64)
Weighted-average shares outstanding - basic and diluted	36,767,544	25,410,598

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

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

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

	Ordinary shares		Additional paid in capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Shareholders' Equity (Deficit)
	Shares	Amount				
March 31, 2017	29,567,698	$172,617	$ 15,885	$ (19,292)	$ (193,301)	$ (24,091)
Issue of Shares , net of Issue Costs of $235	8,050,000	45,167	—	—	—	45,167
Issue of shares upon exercise of incentive share options and vesting of RSUs	50,267	105	—	—	—	105
Net loss	—	—	—	—	(20,236)	(20,236)
Change in the fair value of the effective portion of foreign currency cash flow hedges	—	—	—	345	—	345
Unrealized gain on short-term investments	—	—	—	38	—	38
Foreign currency gain (loss) on:						—
Long-term investment nature intra-entity balances	—	—	—	495	—	495
Retranslation of foreign entities	—	—	—	1,320	—	1,320
Provision for pension benefit obligation	—	—	—	43	—	43
Other comprehensive loss	—	—	—	2,241	—	2,241
Stock-based compensation	—	—	1,285	—	—	1,285
June 30, 2017	37,667,965	$217,889	$ 17,170	$ (17,051)	$ (213,537)	$ 4,471

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, 2017	2016
OPERATING ACTIVITIES:		
Net loss	$(20,236)	$(16,235)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	2,464	2,286
Share-based compensation	1,285	898
Amortization of lease incentive	(109)	(109)
Swiss pension obligation	172	185
Amortization of deferred debt issue costs	1,446	228
Accrued preference share dividends	263	263
Net change in assets and liabilities:		
Trade accounts receivable, net	(170)	(204)
Inventories	(608)	(560)
Accounts payable and accrued liabilities	(2,005)	1,406
Accrued compensation and benefits	(837)	(152)
Other assets	(811)	(1,247)
Net cash used in operating activities	(19,146)	(13,241)
INVESTING ACTIVITIES:		
Increase in short-term investments	(43,000)	—
Realization of short-term investments	31,434	—
Purchase of property and equipment	(5,436)	(6,579)
Purchase of intangible assets	(6)	—
Net cash used in investing activities	(17,008)	(6,579)
FINANCING ACTIVITIES:		
Repayment of finance leases	(29)	(37)
Proceeds from issuance of ordinary shares	45,273	—
Net cash generated from financing activities	45,244	(37)
Effect of exchange rate fluctuations on cash and cash equivalents	(836)	(1,860)
Change in cash and cash equivalents	8,254	(21,717)
Beginning cash and cash equivalents	4,754	44,100
Ending cash and cash equivalents	$13,008	$22,383
Supplemental cash flow disclosures:		
Income taxes paid	$—	$—
Interest paid	$5,068	$679

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

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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, 2017 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, 2017 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, 2017 are not necessarily indicative of the results of operations that may be expected for the year ending March 31, 2018 and any future period.

The Company has incurred net losses and negative cash flows from operations in each year since it commenced operations in 2007 and had an accumulated deficit of $213.5 million as of June 30, 2017. At June 30, 2017, the Company had available cash holdings and short-term investments of $40.7 million. The Company has expenditure plans over the next twelve months that exceed its current cash and short-term investment balances, raising substantial doubt about its ability to continue as a going concern. The Company expects to fund its operations in the near-term, including the continued development of MosaiQ through successful field trial completion to commercialization, from a combination of funding sources, including through the use of existing cash and short-term investment balances, the issuance of new equity, debt or other securities, milestone payments under the Company's distribution and supply agreement with Ortho-Clinical Diagnostics Inc. ("Ortho") related to MosaiQ and the sale and leaseback of the Company's Biocampus facility in Edinburgh, Scotland. The Company's Directors are confident in the availability of these funding sources and accordingly have prepared the financial statements on the going concern basis. However, there can be no assurance the Company will be able to obtain adequate financing when necessary and the terms of any financings may not be advantageous to the Company and may result in dilution to its shareholders.

Note 2. Summary of Significant Accounting Policies

Use of Estimates

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

Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. All cash and cash equivalents comprised readily accessible cash balances except for $5.04 million at each of June 30, 2017 and March 31, 2017 held in a cash reserve account pursuant to the indenture governing the 12% Senior Secured Notes due 2023 (the “Secured Notes”) and $319 and $305 at June 30, 2017 and March 31, 2017, respectively, held in a restricted account as security for the property rental obligations of the Company’s Swiss subsidiary.

Short-term Investments

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

Trade Accounts Receivable

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

Concentration of Credit Risks and Other Uncertainties

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

The Company's main financial institutions for banking operations hold all of the Company's cash and cash equivalents as of June 30, 2017 and at March 31, 2017. 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, 2017 and March 31, 2017. This customer represented 50% and 59% of the accounts receivable balances as of June 30, 2017 and March 31, 2017, respectively.

The Company currently sells products through its direct sales force and through third-party distributors. There was one customer that accounted for 10% or more of total product sales for the quarters ended June 30, 2017 and June 30, 2016. This customer represented 65% of total product sales for the quarter ended June 30, 2017 and 59% for the quarter ended June 30, 2016.

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, 2017 and March 31, 2017.

Property and Equipment

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

- Land—not depreciated.
- Plant, machinery and equipment—4 to 25 years;
- Leasehold improvements—the shorter of the lease term or the estimated useful life of the asset.

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

Intangible Assets and Goodwill

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

Customer relationships—5 years

Brands associated with acquired cell lines—40 years

Product licenses—10 years

Other intangibles assets—7 years

The Company reviews its intangible assets for impairment and conducts an impairment review when events or circumstances indicate the carrying value of a long-lived asset may be impaired by estimating the future undiscounted cash flows to be derived from an asset to assess whether or not a potential impairment exists. No impairment losses have been recorded in either of the quarters ended June 30, 2017 or June 30, 2016.

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.

Pursuant to an Umbrella Supply Agreement with Ortho in June 2013, the Company executed a product attachment relating to the development of a range of rare antisera products. This product attachment was amended in August 2016. During the year ended March 31, 2017, the Company recognized the milestones of $1,300 related to the completion of the CE marking of the products for use on Ortho’s automation platforms and $800 related to the receipt of FDA approval of certain of the rare antisera products. The Company earned a milestone of $600 related to the receipt of FDA approval of the rare antisera products in the quarter ended June 30, 2017 and, under the terms of the amended product attachment, the Company is entitled to receive a milestone payment of $1,500 upon the updating of the FDA approvals to cover use of the products on Ortho’s automation platforms.

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

Research and Development

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

Stock-Based Compensation

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

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

Pension Obligation

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

The Company uses an actuarial valuation to determine its pension benefit costs and credits. The amounts calculated depend on a variety of key assumptions, including discount rates and expected return on plan assets. Details of the assumptions used to determine the net funded status are set out in the notes to the Company's March 31, 2017 financial statements. The Company's pension plan assets are assigned to their respective levels in the fair value hierarchy in accordance with the valuation principles described in the ''Fair Value of Financial Instruments'' section above.

Note 3. Intangible Assets

	June 30, 2017			
	Gross	Accumulated	Net Carrying	Weighted

	Carrying Amount	Amortization	Amount	Average Remaining Useful Life
Customer relationships	$2,560	$ (2,560)	$ —	—
Brands associated with acquired cell lines	528	(130)	398	30.1 years
Product licenses	752	(366)	386	5.1 years
Other intangibles	166	(166)	—	—
Total	$4,006	$ (3,222)	$ 784	17.8 years

	March 31, 2017			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Average Remaining Useful Life
Customer relationships	$2,458	$ (2,458)	$ —	—
Brands associated with acquired cell lines	507	(121)	386	30.4 years
Product licenses	716	(333)	383	5.4 years
Other intangibles	160	(160)	—	—
Total	$3,841	$ (3,072)	$ 769	17.9 years

Note 4. Debt

Long-term debt comprises:

	June 30, 2017	March 31, 2017
Total debt	$84,000	$84,000
Less current portion	—	—
Long-term debt	$84,000	$84,000
Deferred debt costs, net of amortization	(1,850)	(3,296)
	$82,150	$80,704

The Company's debt at June 30, 2017 comprises the Secured Notes issued on October 14, 2016. On that date, the Company completed the private placement of up to $120 million aggregate principal amount of the Secured Notes and entered into an indenture governing the Secured Notes with the guarantors party thereto and U.S. Bank National Association, a national banking association, as trustee and collateral agent. The obligations of the Company under the indenture and the Secured Notes are unconditionally guaranteed on a secured basis by the guarantors, which include all the Company's subsidiaries, and the indenture governing the Secured Notes contains customary events of default. The Company and its subsidiaries must also comply with certain customary affirmative and negative covenants, including a requirement to maintain six-months of interest in a cash reserve account maintained with the collateral agent.

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

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

In connection with the offering on October 14, 2016, the Company entered into royalty rights agreements, pursuant to which the Company sold to the note purchasers in the offering, the right to receive an aggregate payment equal to 2.0% of the aggregate net sales of MosaiQ instruments and consumables made in the donor testing market in the United States and the European Union. The royalty will be payable beginning on the date that the Company or its affiliates enters into a contract for the sale of MosaiQ instruments or consumables in the donor testing market in the European Union or the United States and will end on the last day of the calendar quarter in which the eighth anniversary of the first contract date occurs. The royalty rights agreements are treated as sales of future revenues that meet the requirements of Accounting Standards Codification Topic 470 “Debt” to be treated as debt. The estimated future cash outflows under the royalty rights agreements have been combined with the Secured Notes issuance costs and interest payable to calculate the effective interest rate of the Secured Notes and will be expensed through interest expenses using the effective interest rate method over the term of the Secured Notes and royalty rights agreements. Estimating the future cash outflows under the royalty rights agreements requires the Company to make certain estimates and assumptions about future sales of MosaiQ products. These estimates of the magnitude and timing of MosaiQ sales are subject to significant variability due to the current status of development of MosaiQ products, and thus are subject to significant uncertainty. Therefore, the estimates are likely to change as the Company gains experience of marketing MosaiQ, which may result in future adjustments to the accretion of the interest expense and amortized cost based carrying value of the Secured Notes.

At June 30, 2017, the outstanding debt was repayable as follows:

Within 1 year	$—
Between 1 and 2 years	6,720
Between 2 and 3 years	13,440
Between 3 and 4 years	15,960
Between 4 and 5 years	17,640
After 5 years	30,240
Total debt	$84,000

Note 5. Consolidated Balance Sheet Detail

Inventory

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

	June 30, 2017	March 31, 2017
Raw materials	$9,025	$8,993
Work in progress	4,505	3,260
Finished goods	1,280	1,383
Total inventories	$14,810	$13,636

Inventory at June 30, 2017, included $7,552 of raw materials, $2,288 of work in progress and $245 of finished goods related to the MosaiQ project. Inventory at March 31, 2017, included $7,659 of raw materials and $1,415 of work in progress related to the MosaiQ project.

Property and equipment

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

	June 30, 2017	March 31, 2017
Land	$1,339	$1,286
Plant and equipment	47,515	44,797

Leasehold improvements	39,290	32,343
Total property and equipment	88,144	78,426
Less: accumulated depreciation	(18,082)	(14,896)
Total property and equipment, net	$70,062	$63,530

Depreciation expenses were $2,443 and $2,263 in the quarters ended June 30, 2017 and June 30, 2016, respectively.

Accrued compensation and benefits

Accrued compensation and benefits consist of the following:

	June 30, 2017	March 31, 2017
Salary and related benefits	$750	$403
Accrued vacation	510	413
Accrued payroll taxes	974	325
Accrued incentive payments	612	2,500
Total accrued compensation and benefits	$2,846	$3,641

Accrued expenses and other current liabilities

Accrued expenses and other current liabilities consist of the following:

	June 30, 2017	March 31, 2017
Accrued legal and professional fees	$436	$449
Accrued interest	2,085	4,640
Goods received not invoiced	1,766	932
Accrued capital expenditure	2,985	1,387
Accrued development expenditure	3,890	4,187
Other accrued expenses	2,236	1,914
Total accrued expenses and other current liabilities	$13,398	$13,509

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, 2017 is £1,790. The Company updates Scottish Enterprise periodically with the status of the project and, while the terms of the grant award provide for full repayment of the grant in certain circumstances, the Company does not consider that any repayment is likely.

Hedging arrangements

The Company's subsidiary in the United Kingdom ("UK") has entered into three contracts to sell $500 and purchase pounds sterling at £1:$1.2918 in each calendar month from July 2017 through September 2017, six contracts to sell $500 in each calendar month from October 2017 through March 2018 at £1:$1.2655 and three contracts to sell $500 and purchase pounds sterling at £1:$1.2990 in each calendar month from April 2018 through June 2018 as hedges of its U.S. dollar denominated revenues.

Fair value measurements

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, 2017			
	Level 1	Level 2	Level 3	Total
Assets:				

Pension plan assets (1)	$—	$8,881	$ —	$8,881
Short-term investments (2)	27,661	—	—	27,661
Foreign currency forward contracts (3)	—	93	—	93
Total assets measured at fair value	$27,661	$8,974	$ —	$36,635

	June 30, 2017			
	Level 1	Level 2	Level 3	Total
Liabilities:				
Foreign currency forward contracts (3)	$—	$ —	$ —	$ —
Total liabilities measured at fair value	$—	$ —	$ —	$ —

	March 31, 2017			
	Level 1	Level 2	Level 3	Total
Assets:				
Pension plan assets (1)	$—	$7,981	$ —	$7,981
Short-term investments (2)	16,057	—	—	16,057
Total assets measured at fair value	$16,057	$7,981	$ —	$24,038

	March 31, 2017			
	Level 1	Level 2	Level 3	Total
Foreign currency forward contracts (3)	$—	$252	$ —	$252
Total liabilities measured at fair value	$—	$252	$ —	$252

(1) The fair value of pension plan assets has been determined as the surrender value of the portfolio of active insured employees held within the Swiss Life collective investment fund. See Note 9, "Defined Benefit Pension Plans".

(2) The fair value of short-term investments has been determined based on the quoted value of the units held in the money market fund at the balance sheet date. See Note 2, "Summary of Significant Accounting Policies – Short-term Investments".

(3) The fair value of foreign currency forward contracts has been determined by calculating the present value of future cash flows, estimated using market-based observable inputs including forward and spot exchange rates and interest rate curves obtained from third party market price quotations.

Note 7. Ordinary and Preference Shares

Ordinary shares

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

	Shares Issued and Outstanding		
	June 30, 2017	March 31, 2017	Par value
Ordinary shares	37,667,965	29,567,698	$ —
Total	37,667,965	29,567,698	$ —

Preference shares

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

Shares Issued and Outstanding		Liquidation amount per share	
June 30,	March 31,	June 30,	March 31,

	2017	2017	2017	2017
7% Cumulative Redeemable Preference shares	666,665	666,665	$26.31	$25.92
Total	666,665	666,665		

Note 8. Share-Based Compensation

The Company records share-based compensation expense in respect of options, multi-year performance based restricted share units ("MRSUs") and restricted share units ("RSUs") issued under its share incentive plans. Share-based compensation expense amounted to $1,285 and $898 in the quarters ended June 30, 2017 and June 30, 2016, 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, 2017	1,948,917		