

Quotient Ltd  
Form 10-Q  
February 11, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2014

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

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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 or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act (check one):

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

(Do not check if a smaller reporting company)

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

Yes  No

As of February 10, 2015 there were 16,916,528 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 Financial Condition and Results of Operations” and are also contained elsewhere in this Quarterly Report. Forward-looking statements can be identified by words such as “strategy,” “objective,” “anticipate,” “believe,” “estimate,” “expect,” “intend,” “may,” “plan,” “predict,” “project,” “potential,” “will,” “would,” “could,” “should,” “continue,” “contemplate,” “might,” “design” and other similar expressions, although not all forward-looking statements contain these identifying words. Although we believe that we have a reasonable basis for each forward-looking statement contained in this Quarterly Report, we caution you that these statements are based on a combination of facts and factors currently known by us and our expectations of the future, about which we cannot be certain, and are subject to numerous known and unknown risks and uncertainties.

Forward-looking statements include statements about:

- the development, regulatory approval and commercialization of MosaiQ™;
- the design of blood grouping and disease screening capabilities of MosaiQ™ and the benefits of MosaiQ™ for both customers and patients;
- future demand for and customer adoption of MosaiQ™, the factors that we believe will drive such demand and our ability to address such demand;
- our expected profit margins for MosaiQ™;
- the size of the market for MosaiQ™ ;
- the regulation of MosaiQ™ by the U.S. Food and Drug Administration, or the FDA, or other regulatory bodies, or any unanticipated regulatory changes or scrutiny by such regulators;
- future plans for our conventional reagent products;
- the status of our future relationships with customers, suppliers, and regulators relating to our conventional reagent products;
- future demand for our conventional reagent products and our ability to meet such demand;
- our ability to manage the risks associated with international operations;
- anticipated changes, trends and challenges in our business and the transfusion diagnostics market;
- the effects of competition;
- the expected outcome or impact of threatened litigation;
- our ability to protect our intellectual property and operate our business without infringing upon the intellectual property rights of others;
- our estimates regarding our capital requirements and capital expenditures, including our expenditures associated with the ongoing development of MosaiQ™ and the expected cost of a new expanded manufacturing facility in Edinburgh, Scotland;
- our anticipated cash needs, our expected sources of funding and our ability to obtain expected funding; 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, 2014, 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.

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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](http://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](http://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](http://www.quotientbd.com), we do not incorporate any such website or its contents into this Quarterly Report on Form 10-Q.

## PART I – FINANCIAL INFORMATION

## Item 1. Financial Statements

## CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)

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

	December 31, 2014	March 31, 2014
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 33,050	\$ 7,192
Trade accounts receivable, net	2,012	2,439
Inventories	4,588	4,557
Prepaid expenses and other current assets	5,412	5,200
Total current assets	45,062	19,388
Property and equipment, net	20,033	8,556
Intangible assets, net	1,020	967
Other non-current assets	481	897
Total assets	\$ 66,596	\$ 29,808
<b>LIABILITIES, REDEEMABLE CONVERTIBLE PREFERENCE SHARES AND</b>		
<b>SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 5,519	\$ 5,343
Accrued compensation and benefits	1,540	2,014
Accrued expenses and other current liabilities	7,627	4,453
Financial liability in respect of share warrants	41,775	421
Current portion of long-term debt	3,000	—
Current portion of lease incentive	425	485
Current portion of capital lease obligation	277	183
Total current liabilities	60,163	12,899
Long-term debt, less current portion	12,230	15,105
Lease incentive, less current portion	1,807	2,423
Capital lease obligation, less current portion	332	154
Total liabilities	74,532	30,581
Commitments and contingencies	—	—
A preference shares (nil par value) zero and 12,719,954 issued and outstanding at		
December 31, 2014 and March 31, 2014 respectively;	—	13,180
B preference shares (nil par value) zero and 14,583,407 issued and outstanding at	—	14,991

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December 31, 2014 and March 31, 2014 respectively;

C Preference shares (nil par value) zero and 929,167 issued and outstanding at

December 31, 2014 and March 31, 2014 respectively;	—	2,592
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Shareholders' equity (deficit)

Ordinary shares (nil par value) 16,430,431 and 60,044 issued and outstanding at

December 31, 2014 and March 31, 2014 respectively;	73,847	247
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A Ordinary shares (nil par value) zero and 244,141 issued and outstanding at

December 31, 2014 and March 31, 2014 respectively;	—	—
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B Ordinary shares (nil par value) zero and 37,957 issued and outstanding at

December 31, 2014 and March 31, 2014 respectively;	—	—
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Distribution in excess of capital	(7,156 )	(16,793)
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Accumulated other comprehensive income (loss)	(2,694 )	305
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Accumulated deficit	(71,933 )	(15,295)
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Total shareholders' equity (deficit)	(7,936 )	(31,536)
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Total liabilities, redeemable convertible preference shares and

shareholders' equity	\$ 66,596	\$ 29,808
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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		Nine months ended	
	December 31		December 31	
	2014	2013	2014	2013
<b>Revenue:</b>				
Product sales	\$3,962	\$3,910	\$13,756	\$12,332
Other revenues	100	—	750	2,768
Total revenue	4,062	3,910	14,506	15,100
Cost of revenue	(2,204 )	(1,941 )	(7,361 )	(6,271 )
Gross profit	1,858	1,969	7,145	8,829
<b>Operating expenses:</b>				
Sales and marketing	(789 )	(826 )	(2,095 )	(2,057 )
Research and development, net of government grants	(4,453 )	(1,708 )	(13,573 )	(4,916 )
General and administrative expense:	—	—	—	—
Compensation expense in respect of share options and management equity incentives	(305 )	(279 )	(814 )	(701 )
Other general and administrative expenses	(3,638 )	(1,955 )	(10,617 )	(5,442 )
Total general and administrative expense	(3,943 )	(2,234 )	(11,431 )	(6,143 )
Total operating expense	(9,185 )	(4,768 )	(27,099 )	(13,116 )
Operating loss	(7,327 )	(2,799 )	(19,954 )	(4,287 )
<b>Other expense</b>				
Interest expense, net	(541 )	(424 )	(1,613 )	(582 )
Change in financial liability for share warrants	(34,565)	—	(33,581)	—
Other, net	130	(45 )	(1,490 )	(83 )
Other expense, net	(34,976)	(469 )	(36,684)	(665 )
Loss before income taxes	(42,303)	(3,268)	(56,638)	(4,952 )
Provision for income taxes	—	—	—	—
Net loss	\$(42,303)	\$(3,268)	\$(56,638)	\$(4,952 )
<b>Other comprehensive income (loss):</b>				
<b>Change in fair value of effective portion of</b>				
foreign currency cash flow hedges	\$(35 )	\$—	\$(288 )	\$—
Foreign currency gain (loss)	(1,219 )	186		