Quotient Ltd
Form 10-Q
August 06, 2014
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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, 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 **Bush Loan, Penicuik, Midlothian** **EH26 0PZ, United Kingdom** **(Address of principal executive offices)**	**Not Applicable** **(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 August 4, there were 14,376,547 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, potential, will, would, could, should, continue, contemplate, might, design and other similar express 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, 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.

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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. 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.

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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, 2014 (unaudited)	March 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$ 31,977	$ 7,192
Trade accounts receivable, net	3,229	2,439
Inventories	4,640	4,557
Prepaid expenses and other current assets	3,383	5,200
Total current assets	43,229	19,388
Property and equipment, net	13,530	8,556
Intangible assets, net	965	967
Other non-current assets	756	897
Total assets	$ 58,480	$ 29,808
LIABILITIES, REDEEMABLE CONVERTIBLE PREFERENCE SHARES AND SHAREHOLDERS DEFICIT		
Current liabilities:		
Accounts payable	$ 6,949	$ 5,343
Accrued compensation and benefits	1,939	2,014
Accrued expenses and other current liabilities	2,931	4,453
Financial liability in respect of share warrants	4,950	421
Current portion of lease incentive	476	485
Capital lease obligation	235	183
Total current liabilities	17,480	12,899
Long-term debt	15,154	15,105
Lease incentive, less current portion	2,263	2,423
Capital lease obligation, less current portion	193	154
Total liabilities	35,090	30,581
Commitments and contingencies		
A Preference shares (nil par value) zero and 12,719,954 shares issued and outstanding at June 30, 2014 and March 31, 2014, respectively;		13,180
		14,991

B Preference shares (nil par value) zero and 14,583,407 and shares issued and outstanding at June 30, 2014 and March 31, 2014, respectively;		
C Preference shares (nil par value) zero and 929,167 and nil shares issued and outstanding at June 30, 2014 and March 31, 2014, respectively;		2,592
Shareholders deficit:		
Ordinary shares (nil par value) 14,376,547 and 60,044 shares issued and outstanding at June 30, 2014 and March 31, 2014, respectively;	56,863	247
A Ordinary shares (nil par value) zero and 244,141 shares issued and outstanding at June 30, 2014 and March 31, 2014, respectively;		
B Ordinary shares (nil par value) zero and 37,957 shares issued and outstanding at June 30, 2014 and March 31, 2014, respectively;		
Distribution in excess of capital	(16,146)	(16,793)
Accumulated other comprehensive income (loss)	584	305
Accumulated deficit	(17,911)	(15,295)
Total shareholders deficit	23,390	(31,536)
Total liabilities, redeemable convertible preference shares and shareholders deficit	$ 58,480	$ 29,808

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

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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,	
	2014	**2013**
Revenue:		
Product sales	$ 5,267	$ 3,907
Other revenues	650	2,768
Total revenue	5,917	6,675
Cost of revenue:	(2,451)	(2,055)
Gross profit	3,466	4,620
Operating expenses:		
Sales and marketing	(697)	(620)
Research and development, net of government grants	(3,685)	(1,618)
General and administrative expenses:		
Compensation expense in respect of share options and management equity incentives	(226)	(199)
Other general and administrative expenses	(3,264)	(1,680)
Total general and administrative expense	(3,490)	(1,879)
Total operating expenses	(7,872)	(4,117)
Operating profit (loss)	(4,406)	503
Other income (expense):		
Interest expense, net	(534)	(77)
Other, net	2,324	(31)
Other income (expense), net	1,790	(108)
Profit (Loss) before income taxes	(2,616)	395
Provision for income taxes		
Net loss	$ (2,616)	$ 395
Other comprehensive income (loss):		
Change in fair value of effective portion of foreign currency cash flow hedges	$ (94)	$
Foreign currency gain	$ 373	$ 147
Other comprehensive income (loss)	279	542

Comprehensive income (loss)	**$**	**(2,337)**	**$**	**542**
Net profit (loss) available to ordinary shareholders	$	(2,616)	$	395
Net profit (loss) available to ordinary shareholders basic	$	(2,616)	$	395
Net profit (loss) available to ordinary shareholders diluted	$	(2,616)	$	395
Earnings (loss) per ordinary share basic	$	(0.20)	$	1.67
Earnings (loss) per ordinary share diluted	$	(0.20)	$	0.04
Weighted-average shares outstanding basic		12,838,085		237,233
Weighted-average shares outstanding diluted		12,838,085		9,408,823

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

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CONDENSED CONSOLIDATED STATEMENTS OF REDEEMABLE CONVERTIBLE PREFERENCE SHARES

AND CHANGES IN SHAREHOLDERS DEFICIT (unaudited)

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

	Redeemable Convertible Preference Shares		Ordinary Shares		Distribution in Excess of Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Total Shareholders Deficit
	Shares	Amount	Shares	Amount				
Balances, March 31, 2014	28,232,528	$ 30,763	342,142	$ 247	$ (16,793)	$ 305	$ (15,295)	$ (31,536)
Conversion of shares	(28,232,528)	(30,763)	9,034,405	30,866	421			31,287
Issue of shares, net of expenses			5,000,000	25,750				25,750
Net loss							(2,616)	(2,616)
Change in fair value of effective portion of foreign currency cash flow hedges						(94)		(94)
Foreign currency translation gain						373		373
Other comprehensive income						279		279
Stock-based compensation, net of repurchases					226			226
Balances, June 30, 2014			14,376,547	$ 56,863	$ (16,146)	$ 584	$ (17,911)	$ 23,390

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

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

(Expressed in thousands of U.S. Dollars)

	Quarter ended June 30, 2014	Quarter ended June 30, 2013
OPERATING ACTIVITIES:		
Net income (loss)	$ (2,616)	$ 395
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	282	120
Share-based compensation	226	199
Amortization of lease incentive	(119)	
Amortization of deferred debt issue costs	198	
Change in fair value of financial liability in respect of share warrants	(3,579)	
Net change in assets and liabilities:		
Trade accounts receivable, net	(757)	(2,782)
Inventories	28	(210)
Accounts payable and accrued liabilities	(45)	(107)
Accrued compensation and benefits	(108)	(174)
Other assets	1,730	(49)
Net cash used in operating activities	(4,760)	(2,608)
INVESTING ACTIVITIES:		
Purchase of property and equipment and intangible assets	(4,920)	(39)
Refund (purchase) of intangibles assets		2
Net cash used in investing activities	(4,920)	(37)
FINANCING ACTIVITIES:		
Proceeds from (repayment of) finance leases	91	(49)
Proceeds from issuance of ordinary and preference shares	34,280	150
Net cash generated from financing activities	34,371	101
Effect of exchange rate fluctuations on cash and cash equivalents	94	69
Change in cash and cash equivalents	24,785	(2,475)
Beginning cash and cash equivalents	7,192	4,219
Ending cash and cash equivalents	$ 31,977	$ 1,744
Supplemental cash flow disclosures:		
Income taxes paid	$	$
Interest paid	$ 337	$ 240

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 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, 2014 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, 2014 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, 2014 are not necessarily indicative of the results of operations that may be expected for the year ending March 31, 2015 and any future period.

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, 2014 and March 31, 2014, all cash and cash equivalents comprised readily accessible cash balances except for $344 at June 30, 2014 and $345 at March 31, 2014 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.

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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 institution for banking operations and its U.S subsidiary together hold all of the Company s cash and cash equivalents as of June 30, 2014 and 99% at March 31, 2014. 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, 2014 and March 31, 2014. This customer represented 54% and 53% of the accounts receivable balances as of June 30, 2014 and March 31, 2014, 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, 2014 and June 30, 2013. This customer represented 59% and 57% of total product sales for the quarters ended June 30, 2014 and June 30, 2013, respectively.

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, 2014 and March 31, 2014.

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.

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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 the 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, 2014 or June 30, 2013.

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 $2,750 upon the receipt of CE-marks for the rare antisera products, $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 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. During the quarter ended June 30, 2013, the Company recognized $2,750 of milestone revenue relating to the achievement of the CE marketing milestone.

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.

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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.

In determining fair value of the stock-based compensation payments, 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).

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Note 3. Intangible Assets

	As of June 30, 2014			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted-Average Remaining Useful Life
Customer relationships	$ 3,367	$ (3,367)	$	
Brands associated with acquired cell lines	694	(119)	576	33.1 years
Product licenses	604	(220)	384	6.4 years
Other intangibles	219	(214)	5	0.2 years
Total	$ 4,884	$ (3,919)	$ 965	

	As of March 31, 2014			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted-Average Remaining Useful Life
Customer relationships	$ 3,283	$ (3,283)	$	
Brands associated with acquired cell lines	677	(112)	565	33.4 years
Product licenses	589	(200)	389	6.6 years
Other intangibles	213	(200)	13	0.4 years
Total	$ 4,762	$ (3,795)	$ 967	

Note 4. Debt

Long-term debt comprises:

	As of	
	June 30, 2014	March 31, 2014
Long-term debt	$ 15,000	$ 15,000
Fees due on final repayment of debt	487	487
Fair value of associated preference share warrant, net of amortization	(333)	(382)
Total long-term debt	$ 15,154	$ 15,105

On December 9, 2013, the Company drew down $15,000 under a new secured bank facility agreement with MidCap Financial LLC. The new facility is repayable over a four year period with no repayments being due until 18 months from the date of drawdown and then equal amounts being repayable monthly over the remaining 30 months. 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%.

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At June 30, 2014 the outstanding debt is repayable as follows:

Within 1 year	$
Between 1 and 2 years	6,000
Between 2 and 3 years	6,000
Between 3 and 5 years	3,000
Total debt	$ 15,000

Note 5. Consolidated Balance Sheet Detail

Inventory

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

	As of	
	June 30, 2014	**March 31, 2014**
Raw materials	$ 1,239	$ 1,420
Work in progress	2,341	2,031
Finished goods	1,060	1,106
Total	$ 4,640	$ 4,557

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Property and equipment

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

	As of June 30, 2014	As of March 31, 2014
Plant and machinery	$ 12,010	$ 7,063
Leasehold improvements	3,941	3,594
Total property and equipment	15,951	10,657
Less: accumulated depreciation	(2,421)	(2,101)
Total property and equipment, net	$ 13,530	$ 8,556

Depreciation expenses were $298 and $245 in the quarters ended June 30, 2014 and June 30, 2013 respectively.

Accrued compensation and benefits

Accrued compensation and benefits consist of the following:

	As of June 30, 2014	As of March 31, 2014
Salary and related benefits	$ 104	$ 75
Accrued vacation	27	26
Accrued payroll taxes	792	281
Accrued incentive payments	1,016	1,632
Total accrued compensation and benefits	$ 1,939	$ 2,014

Accrued expenses and other current liabilities

Accrued expenses and other current liabilities consist of the following:

	As of June 30, 2014	As of March 31, 2014
Accrued legal and professional fees	$ 153	$ 2,007
Accrued interest	109	112
Goods received not invoiced	643	590
Accrued development expenditure	911	799

Other accrued expenses	1,115	945
Total accrued expenses and other current liabilities	$ 2,931	$ 4,453

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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 its Q Screen product. The total grant claimed to June 30, 2014 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

Prior to June 30, 2014, the Company s subsidiary in the United Kingdom (UK) had entered into forward exchange contracts to sell U.S. dollars and purchase pounds sterling as a hedge of its U.S. dollar denominated revenues. There were no such hedges in place at June 30, 2014.

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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:

	As of June 30, 2014			
	Level 1	Level 2	Level 3	Total
Assets:				
Foreign currency forward contracts	$	$	$	$
Total assets measured at fair value	$	$	$	$

	As of June 30, 2014			
	Level 1	Level 2	Level 3	Total
Liabilities:				
Fair value of share warrants	$ 4,950	$	$	$ 4,950
Total liabilities measured at fair value	$ 4,950	$	$	$ 4,950

	As of March 31, 2014			
	Level 1	Level 2	Level 3	Total
Assets:				
Foreign currency forward contracts	$ 94	$	$	$ 94
Total assets measured at fair value	$ 94	$	$	$ 94

	As of March 31, 2014			
	Level 1	Level 2	Level 3	Total
Liabilities:				
Fair value of preference share warrants	$	$	$ 421	$ 421
Total liabilities measured at fair value	$	$	$ 421	$ 421

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

March 31, 2014	$ 421
Exercise of warrants	(0)
Transfer of liability to shareholders equity upon conversion of the preference share warrant to a warrant in respect of ordinary shares	(421)
Issue of ordinary share warrants as part of the company s initial public offering on April 29, 2014	8,529
Change in fair value of ordinary share warrants	(3,579)
June 30, 2014	$ 4,950

Note 7. Ordinary, Deferred and Preference Shares

Ordinary and Deferred shares

The Company s issued and outstanding ordinary and deferred shares consist of the following:

	Shares Issued and Outstanding June 30, 2014	Shares Issued and Outstanding, March 31, 2014	Par value
Ordinary shares	14,376,547	60,044	$
A Ordinary shares		244,141	
B Ordinary shares		37,957	
Total	14,376,547	342,142	$

Preference shares

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

	Shares Issued and Outstanding June 30, 2014	Shares Issued and Outstanding, March 31, 2014	Liquidation amount per share June 30, 2014	Liquidation amount per share March 31, 2014
A Preference shares		12,719,954	$	$ 1.32
B Preference shares		14,583,407	$	$ 1.28

C Preference shares	929,167	$	$	3.11
Total	28,232,528			

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On April 3, 2014, all of the outstanding A ordinary shares, B ordinary shares and preference shares were converted into ordinary shares. The ordinary shares then outstanding were consolidated on the basis of 32 new ordinary shares for every existing 100 ordinary shares. The number of ordinary and deferred shares and number of options and warrants to acquire ordinary shares are presented in these financial statements on the basis of the number after this consolidation. The numbers of preference shares are shown on the basis of the numbers before this consolidation.

Note 8. Share-Based Compensation

The Company records share-based compensation expense in respect of options issued under its share incentive plans and in respect of the deferred shares issued to employees. Share-based compensation expense amounted to $226 and $199 in the quarters ended June 30, 2014 and June 30, 2013, respectively.

2012 Option Plan

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)	Aggregate Intrinsic Value(1)
Outstanding March 31, 2014	779,462	2.92	109	3,960
Granted	524,900	8.00	120	
Exercised		0		
Forfeited	(4,280)	3.20		
Outstanding June 30, 2014	1,300,082	$ 4.97	111	$ 4,409
Exercisable June 30, 2014	192,886	$ 1.97	104	$ 1,233

(1) Intrinsic value is calculated as the difference between the fair value of the Company s ordinary shares as of the end of each reporting period and the exercise price of the option. The Company s closing share price on June 30, 2014 was $8.36.

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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, if any:

Grant Date	Number of Options Granted	Weighted Average Exercise Prices	Ordinary Shares Fair Value Per Share at Grant Date	Intrinsic Value