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, 2020

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.)**
B1, Business Park Terre Bonne, **Route de Crassier 13,** **1262 Eysins, Switzerland** **(Address of principal executive offices)**	**Not Applicable** **(Zip Code)**

011-41-22-716-9800

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
Ordinary Shares, nil par value	**QTNT**	**The Nasdaq Global Market**

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 every Interactive Data File required to be submitted 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 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	☒	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 February 2, 2021, there were 101,133,253 Ordinary Shares, nil par value, of Quotient Limited outstanding.

TABLE OF CONTENTS

Cautionary note regarding forward-looking statements

This Quarterly Report on Form 10-Q, and exhibits thereto, contains estimates, predictions, opinions, projections and other statements that may be interpreted as "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, that involve substantial risks and uncertainties. The forward-looking statements are contained principally in Part I, Item 2: "Management's Discussion and Analysis of 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," "target," "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 continuing development, regulatory approval and commercialization of the MosaiQ™ technology, or "MosaiQ";
- the design of blood grouping and disease screening capabilities of MosaiQ, the potential for the expansion of MosaiQ into the larger clinical diagnostics market and the benefits of MosaiQ for both customers and patients (including using MosaiQ to test for novel coronavirus disease 2019, or COVID-19, antibodies);
- 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 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;
- continued or worsening adverse conditions in the global economic and financial markets, including as a result of the on-going COVID-19 pandemic;
- the impact on our business of the United Kingdom ceasing to be a member of the European Union;
- the effects of competition;
- the expected outcome or impact of arbitration or 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, including the adequacy of our available cash and short-term investment balances relative to our forecasted cash requirements for the next twelve months, our expected sources of funding, 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, or SEC, 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, 2020, 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.

Available Information

Access to our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to these reports filed with or furnished to the SEC, may be obtained through the investor section of our website at www.quotientbd.com as soon as reasonably practical after we electronically file or furnish these reports. We do not charge for access to and viewing of these reports. Information on our website, including in the investor section, is not part of this Quarterly Report on Form 10-Q or any of our other securities filings unless specifically incorporated herein or therein by reference. In addition, our filings with the SEC may be accessed through the SEC's website at www.sec.gov. All statements made in any of our securities filings, including all forward-looking statements or information, are made as of the date of the document in which the statement is included, and we do not assume or undertake any obligation to update any of those statements or documents unless we are required to do so by law.

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, 2020	March 31, 2020
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3,401	$ 3,923
Short-term investments	131,062	116,871
Trade accounts receivable, net	4,539	5,402
Inventories	23,709	20,501
Prepaid expenses and other current assets	4,928	3,775
Total current assets	167,639	150,472
Restricted cash	9,046	9,017
Property and equipment, net	40,894	40,165
Operating lease right-of-use assets	22,364	21,493
Intangible assets, net	632	625
Deferred income taxes	237	237
Other non-current assets	4,914	4,454
Total assets	$ 245,726	$ 226,463
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable	$ 5,860	$ 4,826
Accrued compensation and benefits	4,844	7,210
Accrued expenses and other current liabilities	11,351	15,490
Current portion of long-term debt	24,167	—
Current portion of operating lease liability	3,309	3,033
Current portion of finance lease obligation	878	598
Total current liabilities	50,409	31,157
Long-term debt, less current portion	135,490	153,024
Operating lease liability, less current portion	21,203	19,914
Finance lease obligation, less current portion	582	1,117
Deferred income taxes	1,455	—
Defined benefit pension plan obligation	7,707	6,353
7% Cumulative redeemable preference shares	21,213	20,425
Total liabilities	238,059	231,990
Commitments and contingencies	—	—
Shareholders' equity (deficit):		
Ordinary shares (nil par value) 101,075,845 and 80,398,326 issued and outstanding at December 31, 2020 and March 31, 2020 respectively	540,819	459,931
Additional paid in capital	36,630	33,132
Accumulated other comprehensive loss	(16,186)	(15,155)
Accumulated deficit	(553,596)	(483,435)
Total shareholders' equity (deficit)	7,667	(5,527)
Total liabilities and shareholders' equity (deficit)	$ 245,726	$ 226,463

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

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS (unaudited)
(Expressed in thousands of U.S. Dollars — except for share data and per share data)

	Quarter ended December 31,		Nine months ended December 31,	
	2020	2019	2020	2019
Revenue:				
Product sales	$ 8,740	$ 7,636	$ 26,207	$ 22,901
Other revenues	11	305	7,534	1,055
Total revenue	8,751	7,941	33,741	23,956
Cost of revenue	(4,970)	(4,532)	(14,883)	(13,067)
Gross profit	3,781	3,409	18,858	10,889
Operating expenses:				
Sales and marketing	(2,283)	(2,290)	(6,757)	(7,123)
Research and development, net of government grants	(14,485)	(14,160)	(38,813)	(38,895)
General and administrative expense:				
Compensation expense in respect of share options and management equity incentives	(1,214)	(1,196)	(3,498)	(3,375)
Other general and administrative expenses	(7,524)	(8,120)	(24,334)	(20,717)
Total general and administrative expense	(8,738)	(9,316)	(27,832)	(24,092)
Total operating expense	(25,506)	(25,766)	(73,402)	(70,110)
Operating loss	(21,725)	(22,357)	(54,544)	(59,221)
Other income (expense):				
Interest expense, net	(6,753)	(7,008)	(19,537)	(20,384)
Other, net	192	1,894	5,423	1,600
Other expense, net	(6,561)	(5,114)	(14,114)	(18,784)
Loss before income taxes	(28,286)	(27,471)	(68,658)	(78,005)
Provision for income taxes	(1,471)	(14)	(1,503)	(41)
Net loss	$ (29,757)	$ (27,485)	$ (70,161)	$ (78,046)
Other comprehensive income (loss):				
Change in fair value of foreign currency cash flow hedges	$ 295	$ 487	$ 571	$ 209
Change in unrealized gain on short-term investments	111	148	(372)	342
Foreign currency gain (loss)	2,031	254	(1,270)	(771)
Provision for pension benefit obligation	13	48	40	144
Other comprehensive loss, net	2,450	937	(1,031)	(76)
Comprehensive loss	$ (27,307)	$ (26,548)	$ (71,192)	$ (78,122)
Net loss available to ordinary shareholders - basic and diluted	$ (29,757)	$ (27,485)	$ (70,161)	$ (78,046)
Loss per share - basic and diluted	$ (0.29)	$ (0.37)	$ (0.79)	$ (1.14)
Weighted-average shares outstanding - basic and diluted	101,016,040	73,768,845	88,512,823	68,722,475

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

CONDENSED CONSOLIDATED STATEMENTS 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				
September 30, 2020	100,965,451	$ 540,769	$ 35,416	$ (18,636)	$ (523,839)	$ 33,710
Issue of shares	—	—	—	—	—	—
Issue of shares upon exercise of incentive share options and vesting of RSUs	110,394	50	—	—	—	50
Net loss	—	—	—	—	(29,757)	(29,757)
Change in the fair value of foreign currency cash flow hedges	—	—	—	295	—	295
Change in unrealized gain on short-term investments	—	—	—	111	—	111
Foreign currency gain (loss) on:						
Long-term investment nature intra-entity balances	—	—	—	(4,692)	—	(4,692)
Retranslation of foreign entities	—	—	—	6,723	—	6,723
Provision for pension benefit obligation	—	—	—	13	—	13
Other comprehensive loss	—	—	—	2,450	—	2,450
Stock-based compensation	—	—	1,214	—	—	1,214
December 31, 2020	101,075,845	$ 540,819	$ 36,630	$ (16,186)	$ (553,596)	$ 7,667

	Ordinary shares		Additional paid in capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Shareholders' Equity (Deficit)
	Shares	Amount				
March 31, 2020	80,398,326	$ 459,931	$ 33,132	$ (15,155)	$ (483,435)	$ (5,527)
Issue of shares, net of issue costs of $5,565	20,294,117	80,685	—	—	—	80,685
Issue of shares upon exercise of incentive share options and vesting of RSUs	383,402	203	—	—	—	203
Net loss	—	—	—	—	(70,161)	(70,161)
Change in the fair value of foreign currency cash flow hedges	—	—	—	571	—	571
Change in unrealized gain on short-term investments	—	—	—	(372)	—	(372)
Foreign currency gain (loss) on:						
Long-term investment nature intra-entity balances	—	—	—	(3,848)	—	(3,848)
Retranslation of foreign entities	—	—	—	2,578	—	2,578
Provision for pension benefit obligation	—	—	—	40	—	40
Other comprehensive loss	—	—	—	(1,031)	—	(1,031)
Stock-based compensation	—	—	3,498	—	—	3,498
December 31, 2020	101,075,845	$ 540,819	$ 36,630	$ (16,186)	$ (553,596)	$ 7,667

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

	Ordinary shares		Additional paid in capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Shareholders' Equity (Deficit)
	Shares	Amount				
September 30, 2019	66,366,706	$ 369,335	$ 30,844	$ (15,897)	$ (431,223)	$ (46,941)
Issue of shares, net of issue costs of $6,227	13,800,000	$ 90,373				90,373
Issue of shares upon exercise of incentive share options and vesting of RSUs	90,240	(22)	—	—	—	(22)
Net loss	—	—	—	—	(27,485)	(27,485)
Change in the fair value of foreign currency cash flow hedges	—	—	—	487	—	487
Change in unrealized gain on short-term investments	—	—	—	148	—	148
Foreign currency gain (loss) on:						
Long-term investment nature intra-entity balances	—	—	—	(7,435)	—	(7,435)
Retranslation of foreign entities	—	—	—	7,689	—	7,689
Provision for pension benefit obligation	—	—	—	48	—	48
Other comprehensive loss	—	—	—	937	—	937
Stock-based compensation	—	—	1,196	—	—	1,196
December 31, 2019	80,256,946	$ 459,686	$ 32,040	$ (14,960)	$ (458,708)	$ 18,058

	Ordinary shares		Additional paid in capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Shareholders' Equity (Deficit)
	Shares	Amount				
March 31, 2019	65,900,447	$ 368,958	$ 28,665	$ (14,884)	$ (381,025)	$ 1,714
Issue of shares, net of issue costs of $6,227	13,800,000	90,373	—	—	—	90,373
Issue of shares upon exercise of incentive share options and vesting of RSUs	556,499	355	—	—	—	355
Net loss	—	—	—	—	(78,046)	(78,046)
Change in the fair value of foreign currency cash flow hedges	—	—	—	209	—	209
Change in unrealized gain on short-term investments	—	—	—	342	—	342
Foreign currency gain (loss) on:	—	—	—	—	—	—
Long-term investment nature intra-entity balances	—	—	—	2,972	—	2,972
Retranslation of foreign entities	—	—	—	(3,743)	—	(3,743)
Provision for pension benefit obligation	—	—	—	144	—	144
Other comprehensive loss	—	—	—	(76)	—	(76)
Stock-based compensation	—	—	3,375	—	—	3,375
Cumulative effect of accounting changes	—	—	—	—	363	363
December 31, 2019	80,256,946	$ 459,686	$ 32,040	$ (14,960)	$ (458,708)	$ 18,058

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

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)
(Expressed in thousands of U.S. Dollars)

	Nine months ended December 31,	
	2020	**2019**
OPERATING ACTIVITIES:		
Net loss	$ (70,161)	$ (78,046)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation, amortization and loss on disposal of fixed assets	6,484	8,996
Share-based compensation	3,498	3,375
Increase in deferred lease rentals	512	215
Swiss pension obligation	776	551
Amortization of deferred debt issue costs	6,633	7,736
Accrued preference share dividends	788	788
Income taxes	1,503	41
Net change in assets and liabilities:		
Trade accounts receivable, net	1,268	(1,638)
Inventories	(1,218)	(3,838)
Accounts payable and accrued liabilities	(3,670)	(2,268)
Accrued compensation and benefits	(2,825)	(268)
Other assets	(330)	(406)
Net cash used in operating activities	(56,742)	(64,762)
INVESTING ACTIVITIES:		
Increase in short-term investments	(72,247)	(95,000)
Realization of short-term investments	57,683	52,700
Purchase of property and equipment	(3,602)	(3,941)
Net cash used in investing activities	(18,166)	(46,241)
FINANCING ACTIVITIES:		
Repayment of finance leases	(491)	(337)
Proceeds from drawdown of new debt	—	25,000
Debt issuance costs and fees paid to noteholders	—	(874)
Proceeds from issuance of ordinary shares and warrants	80,888	90,728
Net cash generated from financing activities	80,397	114,517
Effect of exchange rate fluctuations on cash, cash equivalents and restricted cash	(5,982)	(1,438)
Change in cash, cash equivalents and restricted cash	(493)	2,076
Beginning cash, cash equivalents and restricted cash	12,940	11,603
Ending cash, cash equivalents and restricted cash	$ 12,447	$ 13,679
Supplemental cash flow disclosures:		
Income taxes paid	$ —	$ —
Interest paid	$ 17,499	$ 15,959
Reconciliation of cash, cash equivalents and restricted cash:		
Cash and cash equivalents	$ 3,401	$ 4,664
Restricted cash	9,046	9,015
Total cash, cash equivalents and restricted cash	$ 12,447	$ 13,679

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

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, changes in shareholders' equity and cash flows for the interim periods presented. The March 31, 2020 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, 2020 included in the Company's Annual Report on Form 10-K for the year then ended. The results of operations for the nine month period ended December 31, 2020 are not necessarily indicative of the results of operations that may be expected for the year ending March 31, 2021 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 $553.6 million as of December 31, 2020. At December 31, 2020, the Company had available cash holdings and short-term investments of $134.5 million. The Company's existing available cash and short-term investment balances are adequate to meet its forecasted cash requirements for the next twelve months and accordingly the financial statements have been prepared on the going concern basis.

In the longer term, the Company expects to fund its operations, including the ongoing development of MosaiQ through successful field trial completion, achievement of required regulatory authorizations and commercialization, from existing available cash and short-term investment balances and the issuance of new equity or debt.

Note 2. Summary of Significant Accounting Policies

Use of Estimates

The preparation of unaudited condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the unaudited condensed consolidated financial statements and accompanying notes.

On March 11, 2020, the World Health Organization declared the outbreak of a strain of novel coronavirus disease, COVID-19, a global pandemic. The extent to which the COVID-19 pandemic will impact the Company's business, operations and financial results will depend on future developments and numerous evolving factors, which are highly uncertain and difficult to predict. As of the date of issuance of these unaudited condensed consolidated financial statements, the Company is not aware of any specific event or circumstance that would require the Company to further update estimates, judgments or revise the carrying value of any assets or liabilities. These estimates may change, as new events occur and additional information is obtained, and are recognized in the condensed consolidated financial statements as soon as they become known. Actual results could differ from those estimates and any such differences may be material to the Company's condensed consolidated financial statements.

Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. At December 31, 2020 and March 31, 2020, all cash and cash equivalents comprised readily accessible cash balances. Restricted cash comprised $8,700 at both December 31, 2020 and March 31, 2020, held in a cash reserve account pursuant to the indenture governing the Company's 12% Senior Secured Notes ("the Secured Notes") and $346 and $317 at December 31, 2020 and March 31, 2020, 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 money-market funds which are valued daily and which have no minimum notice period for withdrawals. The funds are 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 funds based on the quoted value of the funds 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 and forecast 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 held all of the Company's cash and cash equivalents as of December 31, 2020 and March 31, 2020. The Company's accounts receivable are derived from net revenue to customers and distributors located in the United States and other countries. The Company performs credit evaluations of its customers' financial condition. The Company provides reserves for potential credit losses, but has not experienced significant losses to date. There was one customer whose accounts receivable balance represented 10% or more of total accounts receivable, net, as of December 31, 2020 and March 31, 2020. This customer represented 69% and 70% of the accounts receivable balances as of December 31, 2020 and March 31, 2020, 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 nine month periods ended December 31, 2020 and December 31, 2019. This customer represented 59% and 60% of total product sales for the nine month period ended December 31, 2020 and the nine month period ended December 31, 2019, 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 or market, net of reserves. Cost is determined at standard cost, approximating average cost. 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. Variances between standard cost and actual cost, arising in the production process, are analyzed to determine whether they reflect part of the normal cost of production, and should therefore be reflected as inventory value, or whether they are a period cost and should thus not be included in inventory. Inventory reserves are recorded based upon historic usage, expected future demand and shelf life of the products held in inventory. No stock-based compensation cost was included in inventory as of December 31, 2020 and March 31, 2020.

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—3 to 20 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

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

Customer relationships—5 years

Brands associated with acquired cell lines—40 years

Product licenses—10 years

Other intangibles assets—7 years

The Company reviews its intangible assets for impairment and conducts an impairment review when events or circumstances indicate the carrying value of a long-lived asset may be impaired by estimating the future undiscounted cash flows to be derived from an asset to assess whether or not a potential impairment exists. No impairment losses have been recorded in either of the nine month periods ended December 31, 2020 or December 31, 2019.

Revenue Recognition

Revenue is recognized in accordance with ASU 2014-09, *Revenue from Contracts with Customers.*

Product revenue is recognized at a point in time upon transfer of control of a product to a customer, which is generally at the time of shipment at an amount based on the transaction price. Customers have no right of return except in the case of damaged goods and 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.

Revenue is also earned from the provision of development services to a small number of original equipment manufacturer ("OEM") customers. These development service contracts are reviewed individually to determine the nature of the performance obligations and the associated transaction prices. In recent years, product development revenues have been commensurate with achieving milestones specified in the respective development agreements relating to those products. These milestones may include the approval of new products by the European or U.S. regulatory authorities, which are not within the Company's control. While there can be no assurance that this will continue to be the case, the milestones have been such that they effectively represent completion of the Company's performance obligations under a particular part of a development program. Should the Company fail to achieve these milestones the Company would not be entitled under the terms of the development agreements to any compensation for the work undertaken to date. As a result, the milestone-related revenues have been recognized as the contractual milestones are achieved.

Pursuant to an Umbrella Supply Agreement with Ortho-Clinical Diagnostics, Inc. ("Ortho"), the Company executed a product attachment relating to the development of a range of rare antisera products. During the year ended March 31, 2020, the Company recognized milestones totaling $1,050 related to the approval by the FDA of an application submitted during the year ended March 31, 2019, and a further FDA submission and approval related to the use of the products on another of Ortho's automation platforms. There are no further milestone revenues due under this agreement.

In January 2015, the Company's subsidiaries, Quotient Suisse and QBD (QS-IP) Limited, entered into a supply and distribution agreement with Ortho related to the commercialization and distribution of certain MosaiQ products (the "Prior Ortho Agreement"), which the Company terminated effective as of December 27, 2019. Under the terms of the Prior Ortho Agreement, the Company was entitled to receive milestone payments, totaling in aggregate $59.0 million, 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. In November 2019, Ortho initiated an arbitration proceeding as result of the Company's termination of the Prior Ortho Agreement. See Note 6, "Commitments and Contingencies—Ortho Arbitration and Settlement," for details.

On September 4, 2020, the Company and Ortho entered into a binding letter agreement (the "Letter Agreement") pursuant to which the Company and Ortho agreed:

- to confirm the termination of the Prior Ortho Agreement and various related contracts;
- to end the parties' disputes regarding the Prior Ortho Agreement by executing mutual releases and terminating their pending arbitration proceeding related to the Prior Ortho Agreement (see Note 6); and
- to negotiate in good faith, and use their respective reasonable best efforts to execute, a new distribution agreement (the "New Distribution Agreement") based on the terms set forth in the Letter Agreement, but if for any reason no such definitive agreement is reached, the Letter Agreement will govern the parties' respective rights and obligations as a binding contract.

Pursuant to the Letter Agreement, Ortho made an initial, non-refundable milestone payment of $7.5 million to the Company on the date of the Letter Agreement.

In the Letter Agreement, the Company and Ortho have agreed that Ortho has the right to distribute, market and sell a dedicated MosaiQ microarray optimized for the patient transfusion diagnostics market (the "MosaiQ IH3 Microarray") in the European Territory (defined as the European Economic Area plus the United Kingdom and Switzerland) and in the United States, solely for use in testing the immuno-hematological profile of the blood of medical patients in the course of their care or treatment. Ortho's rights in the two territories each are for one ten-year term commencing on the receipt of specified regulatory approvals in the respective territory. The Company retains the right to distribute, market and sell the immunohematology Microarrays for use in blood donor testing worldwide and in the patient testing market outside of the European Territory and the United States. Ortho's rights in respect of the MosaiQ IH3 Microarray are exclusive provided it satisfies annual minimum purchase volume requirements in each territory. Ortho also has the non-exclusive right to sell and distribute MosaiQ instruments in the United States and the European Territory for use in testing the immuno-hematological profile of blood of medical patients in the course of their care or treatment. Ortho is required to purchase the MosaiQ IH3 Microarrays, and the instruments, controls and reagents required for their use, only from the Company at specified prices.

In addition to the initial $7.5 million milestone payment, Ortho is required to make up to another $60 million of additional milestone payments upon achievement of certain regulatory milestones and commercial sales benchmarks, including up to $25 million upon the achievement by Ortho of certain cumulative gross revenue hurdles.

The Company has concluded that the initial $7.5 million milestone represents a payment in respect of development work undertaken to date in respect of the MosaiQ IH3 Microarray and accordingly has recognized the revenue in the nine month period ended December 31, 2020.

The Company has also concluded that each of the remaining milestones under the Letter Agreement require significant levels of development work to be undertaken and there is no certainty at the start of the projects that the development work will be successful, these milestones are substantive and, accordingly, the revenue will be recognized when the milestones are achieved.

In the nine month period ended December 31, 2020, revenue recognized from performance obligations related to prior periods was not material. At December 31, 2020 revenues expected to be recognized in future periods related to remaining performance obligations under the Ortho Letter Agreement were as described above. There were no other material revenues to be recognized in future periods related to remaining performance obligations at December 31, 2020.

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. Other than materials assessed as having alternative future uses and which are recognized as prepaid expenses, the Company expenses research and development costs, including products manufactured for research and development purposes and the expenses for research under collaborative agreements, as such costs are incurred. Where government grants are available for the sponsorship of such research, the grant receipt is included as a credit against the related expense.

Stock-Based Compensation

Stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as 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, 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 awards before exercising them (expected term), the estimated volatility of the Company's ordinary share 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).

Where modifications are made to vesting conditions, the Company considers the nature of the change and accounts for the change in accordance with ASC 715 *Compensation – Stock Compensation*. The Company determined that certain modifications made during the nine month periods ended December 31, 2020 and December 31, 2019 were type III in nature and accordingly the original compensation expense related to these awards was reversed and the value of the awards was re-measured at the date of the change and was expensed over the vesting period of the awards concerned.

Share Warrants

As of December 31, 2020, the Company had one class of warrants to purchase ordinary shares outstanding, which comprised warrants that were issued in December 2013 and August 2015 in connection with the establishment or increase of the Company's then existing secured term loan facility. None of these warrants contain any obligation to transfer value and, as such, the issuance of these warrants has been recorded in additional paid in capital as part of shareholders' (deficit) equity.

Leases

At the inception of an arrangement, the Company determines whether the arrangement is or contains a lease based on the unique facts and circumstances present. A lease is a contract, or part of a contract, that conveys the right to control the use of identified property, plant or equipment (an identified asset) for a period of time, in exchange for consideration. The Company determines if the contract conveys the right to control the use of an identified asset for a period of time. The Company assesses throughout the period of use whether the Company has both of the following: (1) the right to obtain substantially all of the economic benefits for use of the identified asset, and (2) the right to direct the use of the identified asset. This determination is reassessed if the terms of the contract are changed. The Company also reviews the terms of the lease in accordance with Accounting Standard Update, or ASU, 2016-02 in order to determine whether the lease concerned is a finance or an operating lease. Most leases with a term greater than one year are recognized on the balance sheet as right-of-use assets, lease liabilities and, if applicable, long-term lease liabilities. The Company has elected not to recognize on the balance sheet leases with terms of one year or less.

For finance leases, an asset is included within property and equipment and a lease liability equal to the present value of the minimum lease payments is included in current or long-term liabilities. Interest expense is recorded over the life of the lease at a constant rate.

Operating lease liabilities and their corresponding right-of-use assets are recorded based on the present value of lease payments over the expected remaining lease term. The operating lease right-of-use assets also include any lease payments made prior to the commencement date and any initial direct costs incurred, less any lease incentives received. The interest rate implicit in lease contracts is typically not readily determinable. As a result, the Company utilizes its incremental borrowing rates, which are the rates incurred to borrow on a collateralized basis over a similar term an amount equal to the lease payments in a similar economic environment. The incremental borrowing rate is determined at lease commencement, or as of April 1, 2019 for operating leases existing upon adoption of ASU 2016-02. The incremental borrowing rate is subsequently reassessed upon modification to the lease arrangement. Operating lease expense is recognized on a straight-line basis over the lease term.

In accordance with the guidance in ASU 2016-02, components of a lease should be split into three categories: lease components (e.g., land, building, etc.), non-lease components (e.g., common area maintenance, maintenance, consumables, etc.), and non-components (e.g., property taxes, insurance, etc.). Although separation of lease and non-lease components is required, certain practical expedients are available. In particular, entities may elect a practical expedient to not separate lease and non-lease components and instead account for each lease component and the related non-lease component together as a single component. The Company has elected to account for the lease and non-lease components of each of its operating leases as a single lease component and allocate all of the contract consideration to the lease component only. The lease component results in an operating lease right-of-use asset being recorded on the balance sheet and amortized on a straight-line basis as lease expense.

The finance lease assets and operating lease right-of-use assets are assessed for impairment in accordance with the Company's accounting policy for long-lived assets.

Derivative Financial Instruments

In the normal course of business, the Company's financial position is routinely subjected to market risk associated with foreign currency exchange rate fluctuations. The Company's policy is to mitigate the effect of these exchange rate fluctuations on certain foreign currency denominated business exposures. The Company has a policy that allows the use of derivative financial instruments to hedge foreign currency exchange rate fluctuations on forecasted revenue denominated in foreign currencies. The Company carries derivative financial instruments (derivatives) on the balance sheet at their fair values. The Company does not use derivatives for trading or speculative purposes. The Company does not believe that it is exposed to more than a nominal amount of credit risk in its foreign currency hedges, as counterparties are large, global and well-capitalized financial institutions. To hedge foreign currency risks, the Company uses foreign currency exchange forward contracts, where possible and prudent. These forward contracts are valued using standard valuation formulas with assumptions about future foreign currency exchange rates derived from existing exchange rates, interest rates, and other market factors.

The Company considers its most current forecast in determining the level of foreign currency denominated revenue to hedge as cash flow hedges. The Company combines these forecasts with historical trends to establish the portion of its expected volume to be hedged. The revenue and expenses are hedged and designated as cash flow hedges to protect the Company from exposures to fluctuations in foreign currency exchange rates. If the underlying forecasted transaction does not occur, or it becomes probable that it will not occur, the related hedge gains and losses on the cash flow hedge are reclassified from accumulated other comprehensive loss to the consolidated statement of comprehensive loss at that time.

Income Taxes

The Company accounts for income taxes using an asset and liability approach, which requires recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the consolidated financial statements, but have not been reflected in taxable income. A valuation allowance is established to reduce deferred tax assets to their estimated realizable value. Therefore, the Company provides a valuation allowance to the extent that is more likely than not that it will generate sufficient taxable income in future periods to realize the benefit of its deferred tax assets. Deferred tax assets and liabilities are classified as noncurrent on the balance sheet.

The Company accounts for uncertain tax positions using a "more-likely-than-not" threshold for recognizing and resolving uncertain tax positions. The Company evaluates uncertain tax positions on a quarterly basis and considers various factors, including, but not limited to, changes in tax law, the measurement of tax positions taken or expected to be taken in tax returns, the effective settlement of matters subject to audit and changes in facts or circumstances related to the tax position.

Termination and Transition Charges

Termination charges are recognized as a result of actions to restructure operations. Transition charges are recognized as a result of the retirement of senior employees. Such charges are recognized upon meeting certain criteria, including the finalization of committed plans or agreements and discussions with the impacted employees.

Loss Contingencies

Loss contingencies from legal proceedings and claims may occur from contractual and other related matters. Accruals are recognized when it is probable that a liability will be incurred and the amount of the loss can be reasonably estimated. Gain contingencies are not recognized until realized. Legal fees are expensed as incurred.

Debt Issuance Costs and Royalty Rights

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

On October 14, 2016, June 29, 2018 and May 15, 2019, the Company issued Secured Notes, and, on December 4, 2018, the Company amended the indenture governing the Secured Notes, which amendments became effective on December 18, 2018. In connection with these issuances and this amendment, the Company entered into royalty rights agreements with the subscribers and the consenting note holders, as applicable, which, as of December 31, 2020, provided for an aggregate amount of royalties payable thereunder of 3.4% of net sales of MosaiQ instruments and consumables made in the donor testing market in the United States and the European Union. All of these royalty rights agreements are treated as sales of future revenues that meet the requirements of Accounting Standards Codification Topic 470 "*Debt"* ("ASC 470") to be treated as debt. The future cash outflows under the royalty rights agreements have been combined with the issuance costs (which includes the one-time consent payment of $3.9 million paid to holders of our Secured Notes in December 2018) and interest payable to calculate the effective interest rate of the Secured Notes and is being expensed through interest expense in the consolidated statement of comprehensive loss using the effective interest rate method over the term of the Secured Notes and royalty rights agreements.

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 service cost component of the net periodic benefit cost is disclosed in the same line item as other employee compensation costs arising from services rendered during the period, and the other components are reported separately from the line item that includes the service cost and within interest expense, net in the consolidated statement of 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 audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2020. 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.

Adoption of New Accounting Standards

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments – Credit Losses". The standard, including subsequently issued amendments, requires a financial asset measured on an amortized cost basis, such as accounts receivable, to be presented at the net amount expected to be collected based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. The Company adopted ASU 2016-13 on

April 1, 2020. The adoption of this standard did not have a material impact on the unaudited condensed consolidated financial statements and related disclosures.

In August 2018, the FASB issued ASU 2018-14, "Compensation Retirement Benefits - Defined Benefit Plans -General (Subtopic 715-20)" or ASU 2018-14. ASU 2018-14 removes the requirements to disclose the amounts in accumulated other comprehensive income (loss) expected to be recognized as components of net periodic benefit cost over the next fiscal year and other disclosure requirements. In addition, the ASU adds the requirement to disclose an explanation for any significant gains and losses related to changes in the benefit obligation for the period. The ASU is effective for fiscal years ending after December 15, 2020 and will be applied on a retrospective basis to all periods presented. Early adoption is permitted. The Company adopted ASU 2018-14 on April 1, 2020. The adoption of this standard did not have a material impact on the unaudited condensed consolidated financial statements and related disclosures.

Note 3. Intangible Assets

	December 31, 2020			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Average Remaining Useful Life
Customer relationships	$ 2,687	$ (2,687)	$ —	—
Brands associated with acquired cell lines	554	(185)	369	26.9 years
Product licenses	936	(673)	263	3.0 years
Other intangibles	175	(175)	—	—
Total	$ 4,352	$ (3,720)	$ 632	16.7 years

	March 31, 2020			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Average Remaining Useful Life
Customer relationships	$ 2,436	$ (2,436)	$ —	—
Brands associated with acquired cell lines	502	(158)	344	27.4 years
Product licenses	849	(568)	281	3.3 years
Other intangibles	158	(158)	—	—
Total	$ 3,945	$ (3,320)	$ 625	16.5 years

Note 4. Debt

Long-term debt comprises:

	December 31, 2020	March 31, 2020
Total debt	$ 145,000	$ 145,000
Less current portion	24,167	—
	$ 120,833	$ 145,000
Royalty liability	$ 20,886	$ 15,473
Deferred debt costs, net of amortization	(6,229)	(7,449)
Long-term debt, less current portion	$ 135,490	$ 153,024

The Company's debt at December 31, 2020 and March 31, 2020, comprises the Secured Notes. On October 14, 2016, 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 Company issued $84 million aggregate principal amount of the Secured Notes on October 14, 2016 and an additional $36 million aggregate principal amount of the Secured Notes on June 29, 2018. On December 18, 2018, the Company also completed certain amendments to the indenture governing the Secured Notes. The amendments included an increase to the aggregate principal amount of Secured Notes that can be issued under the indenture from $120 million to up to $145 million following the European CE Marking of the Company's initial MosaiQ IH Microarray. On April 30, 2019, the Company was notified that it had received the European CE Marking of the initial MosaiQ IH Microarray and, on May 15, 2019, the Company issued the additional $25 million of Secured Notes.

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. Upon the occurrence of a Change of Control, subject to certain conditions, or certain Asset Sales (each, as defined in the indenture), holders of the Secured Notes may require the Company to repurchase for cash all or part of their Secured Notes at a repurchase price equal to 101% or 100%, respectively, of the principal amount of the Secured Notes to be repurchased, plus accrued and unpaid interest to the date of repurchase.

The Company paid $8.7 million of the total proceeds of the three issuances into the cash reserve account maintained with the collateral agent under the terms of the indenture, $1.5 million of which related to the third issuance on May 15, 2019.

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, 2021, the Company will also be required to pay an installment of principal of the Secured Notes on each April 15 and October 15 until April 15, 2024 pursuant to a fixed amortization schedule.

In connection with the three issuances of the Secured Notes as well as the December 2018 amendment of the related indenture, the Company has entered into royalty rights agreements, pursuant to which the Company has agreed to pay 3.4% 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 royalties will be payable beginning on the date that the Company or its affiliates makes its first sale of MosaiQ 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 sale 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 future cash outflows under the royalty rights agreements, estimated at $106.4 million at December 31, 2020 and $87.0 at March 31, 2020, 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 such 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 December 31, 2020, the outstanding debt was repayable as follows:

Within 1 year	$	24,167
Between 1 and 2 years		42,291
Between 2 and 3 years		48,334
Between 3 and 4 years		30,208
Between 4 and 5 years		—
Total debt	$	145,000

Note 5. Consolidated Balance Sheet Detail

Inventory

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

	December 31, 2020	March 31, 2020
Raw materials	$ 10,284	$ 9,737
Work in progress	10,060	8,522
Finished goods	3,365	2,242
Total inventories	$ 23,709	$ 20,501

Inventory at December 31, 2020 included $8,038 of raw materials, $5,103 of work in progress and $1,266 of finished goods related to the MosaiQ project. Inventory at March 31, 2020, included $8,093 of raw materials and $4,395 of work in progress and $368 of finished goods related to the MosaiQ project. During the quarter ended December 31, 2020 the Company recorded inventory provisions of $2,015 in respect of certain raw materials and work-in-progress items related to the MosaiQ project following evaluation of further development data and corresponding changes in manufacturing processes.

Property and equipment

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

	December 31, 2020	March 31, 2020
Plant and equipment	$ 65,878	$ 57,726
Leasehold improvements	34,535	31,395
Total property and equipment	100,413	89,121
Less: accumulated depreciation	(59,519)	(48,956)
Total property and equipment, net	$ 40,894	$ 40,165

Depreciation expenses were $2,343 and $2,901 in the quarters ended December 31, 2020 and 2019, respectively, and $6,433 and $8,923 in the nine month periods ended December 31, 2020 and 2019, respectively. During the quarter ended June 30, 2020, the Company reassessed the useful economic lives of equipment used in the production line at its facility in Eysins, Switzerland. Based on lower utilization rates than initially estimated, the remaining useful lives of the equipment was increased from 4 years to 6 years. The impact of these changes in remaining useful lives was to reduce the depreciation expenses for the nine month period ended December 31, 2020 by $467.

Accrued compensation and benefits

Accrued compensation and benefits consist of the following:

	December 31, 2020	March 31, 2020
Salary and related benefits	$ 262	$ 635
Accrued vacation	1,013	521
Accrued payroll taxes	756	1,200
Accrued incentive payments	2,813	3,700
Accrued termination and transition payments	—	1,154
Total accrued compensation and benefits	$ 4,844	$ 7,210

In the year ended March 31, 2020, the Company incurred termination benefit costs of $1,323 in respect of a restructuring of its operations. The restructuring was completed during the year ended March 31, 2020. In the year ended March 31, 2020 the Company also incurred transition benefit costs of $807 in respect of the transitional arrangements with its former chief financial officer and its former group financial controller. The final payments under these arrangements were made during the quarter ended June 30, 2020.

Accrued expenses and other current liabilities

Accrued expenses and other current liabilities consist of the following:

	December 31, 2020	March 31, 2020
Accrued legal and professional fees	$ 728	$ 829
Accrued interest	3,718	8,056
Goods received not invoiced	1,772	1,724
Accrued capital expenditure	2,188	1,287
Other accrued expenses	2,945	3,594
Total accrued expenses and other current liabilities	$ 11,351	$ 15,490

Note 6. Commitments and Contingencies

Hedging arrangements

The Company's subsidiary in the United Kingdom ("UK") has entered into three contracts to sell $500 in each calendar month from January 2021 through March 2021 at £1:$1.335, three contracts to sell $500 in each calendar month from April 2021 through June 2021 at £1:$1.2630, three contracts to sell $500 in each calendar month from July 2021 through September 2021 at £1:$1.260, and three contracts to sell $500 in each calendar month from October 2021 through December 2021 at £1:$1.3090, as hedges of its U.S. dollar denominated revenues. The fair values of these contracts in place at December 31, 2020, and similar contracts in place at March 31, 2020, amounted to assets of $344 and liabilities of $227, respectively.

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:

	December 31, 2020			
	Level 1	Level 2	Level 3	Total
Assets:				
Pension plan assets[(1)]	$ —	$ 16,131	$ —	$ 16,131
Short-term investments[(2)]	131,062	—	—	131,062
Foreign currency forward contracts[(3)]	$ —	$ 344	$ —	$ 344
Total assets measured at fair value	$ 131,062	$ 16,475	$ —	$ 147,537

	March 31, 2020			
	Level 1	Level 2	Level 3	Total
Assets:				
Pension plan assets[(1)]	$ —	$ 12,436	$ —	$ 12,436
Short-term investments[(2)]	116,871	—	—	116,871
Total assets measured at fair value	$ 116,871	$ 12,436	$ —	$ 129,307

	March 31, 2020			
	Level 1	Level 2	Level 3	Total
Liabilities:				
Foreign currency forward contracts[(3)]	$ —	$ 227	$ —	$ 227
Total liabilities measured at fair value	$ —	$ 227	$ —	$ 227

(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 AXA LLP Foundation Suisse Romande collective investment fund. See Note 10, "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.

The total unrealized gains on the short-term investments were $638 and $1,154 in the nine month periods ended December 31, 2020 and December 31, 2019, respectively. The amount of these unrealized gains reclassified to earnings were $1,010 and $812 in the nine month periods ended December 31, 2020 and December 31, 2019, respectively.

Ortho Arbitration and Settlement

The Company's subsidiaries, Quotient Suisse and QBD (QS-IP) Limited were party to the Prior Ortho Agreement with Ortho related to the commercialization and distribution of certain MosaiQ products. See Note 2, "Summary of Significant Accounting Policies—Revenue Recognition," for information regarding the Prior Ortho Agreement. The Company and an affiliate of Ortho also entered into a subscription agreement pursuant to which the affiliate subscribed for newly issued ordinary shares of the Company and newly issued 7% cumulative redeemable preference shares, of no par value, of the Company for an aggregate subscription price of approximately $25 million.

On November 27, 2019, the Company delivered a notice to Ortho that it had terminated the Prior Ortho Agreement, effective as of December 27, 2019. The Company did not realize any revenue under the Prior Ortho Agreement prior to its termination.

On or about November 17, 2019, Ortho initiated an arbitration proceeding in which it sought a declaration that the Company did not have the right to terminate the Prior Ortho Agreement, specific performance of certain provisions of the Prior Ortho Agreement, and damages including in respect of the difference in amounts Ortho invested in the Company's shares and their market value. The Company pursued counterclaims against Ortho, including that it had the right to terminate the Prior Ortho Agreement and damages that included the milestone payments due under the Prior Ortho Agreement (see Note 2, "Summary of Significant Accounting Policies—Revenue Recognition," for details). In addition, on December 20, 2019, the Company entered into an agreement with Ortho pursuant to which it agreed, while the arbitration was pending, not to grant commercialization rights in respect of products that overlapped with Ortho's rights under the Prior Ortho Agreement without prior written notice to Ortho.

On September 4, 2020, the Company and Ortho entered into the Letter Agreement, pursuant to which the Company and Ortho agreed to confirm the termination of the Prior Ortho Agreement and various related contracts and to end the parties' disputes regarding the Prior Ortho Agreement by executing mutual releases and terminating their pending arbitration proceeding related to the Prior Ortho Agreement.

The Company and Ortho also agreed to negotiate in good faith, and use their respective reasonable best efforts to execute, the New Distribution Agreement based on the terms set forth in the Letter Agreement, but if for any reason no such definitive agreement is reached, the Letter Agreement will govern the parties' respective rights and obligations as a binding contract. See Note 2, "Summary of Significant Accounting Policies—Revenue Recognition," for further details regarding the commercial terms included in the Letter Agreement.

Note 7. Ordinary and Preference Shares

Ordinary shares

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

	Shares Issued and Outstanding		
	December 31, 2020	March 31, 2020	Par value
Ordinary shares	101,075,845	80,398,326	$ —
Total	101,075,845	80,398,326	$ —

On September 15, 2020, the Company completed a public offering of 20,294,117 newly issued ordinary shares at $4.25 per share which raised $86.3 million of gross proceeds before underwriting discounts and other offering expenses of $5.6 million.

Preference shares

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

	Shares Issued and Outstanding		Liquidation amount per share	
	December 31, 2020	March 31, 2020	December 31, 2020	March 31, 2020
7% Cumulative Redeemable Preference shares	666,665	666,665	$ 31.82	$ 30.64
Total	666,665	666,665		

The 7% Cumulative Redeemable Preference shares were issued to Ortho-Clinical Diagnostics Finco S.A.R.L., an affiliate of Ortho on January 29, 2015 at a subscription price of $22.50 per share. These preference shares are redeemable at the request of the shareholder on the "Redemption Trigger Date" which is currently the date of the eighth anniversary of the date of issue of the preference shares, but the Company may further extend the redemption date in one year increments up to the tenth anniversary of the date of issue. Because the 7% Cumulative Redeemable Preference shares are redeemable at the option of the shareholders, they are shown as a liability in the unaudited condensed consolidated balance sheet.

Note 8. Share-Based Compensation

The Company records share-based compensation expense in respect of options and restricted share units ("RSUs") issued under its share incentive plans. Share-based compensation expense amounted to $1,214 and $1,196 in the quarters ended December 31, 2020 and December 31, 2019, respectively, and $3,498 and $3,375 in the nine month periods ended December 31, 2020 and December 31, 2019, 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, 2020	1,848,052	$ 7.73	70
Granted	258,026	5.38	120
Exercised	(46,464)	3.58	—
Forfeited	(94,354)	10.38	—
Outstanding — December 31, 2020	1,965,260	$ 7.40	69
Exercisable — December 31, 2020	1,635,538	$ 7.74	60

The closing price of the Company's ordinary shares on the Nasdaq Global Market at December 31, 2020 was $5.21.

The following table summarizes the options granted in the financial year ending March 31, 2021 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	Exercise Price	Ordinary Shares Fair Value Per Share at Grant Date	Per Share Intrinsic Value of Options
May 24, 2020	60,438	$ 7.69	$ 7.69	$ 4.96
September 1, 2020	45,922	4.81	4.81	3.07
October 29, 2020	81,666	4.55	4.55	2.93
October 30, 2020	70,000	4.72	4.72	3.05

Determining the fair value of share options

The fair value of each grant of share options was determined by the Company using the Black Scholes option pricing model. The total fair value of option awards in the nine month periods ended December 31, 2020 and December 31, 2019 amounted to $889 and $470, respectively.

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

Expected volatility. The expected volatility was based on the historical share price volatility of the Company's shares over a period equal to the expected terms of the options.

Fair value of ordinary shares. Since the Company's initial public offering in April 2014, the fair value of ordinary shares has been based on the share price of the Company's shares on the Nasdaq Global Market immediately prior to the grant of the options concerned.

Risk-Free Interest Rate. The risk-free interest rate is based on the UK Government 10-year bond yield curve in effect at the time of grant prior to the initial public offering and 10-year U.S. Treasury Stock for awards from April 2014 onwards.

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

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

A summary of the assumptions applicable to the share options issued in the nine month period ended December 31, 2020 is as follows:

	May 24, 2020	September 1, 2020	October 29, 2020	October 30, 2020
Risk-free interest rate	0.65%	0.69%	0.81%	0.87%
Expected lives (years)	6	6	6	6
Volatility	74.50%	73.30%	74.30%	74.30%
Dividend yield	—	—	—	—
Grant date fair value (per share)	$ 7.69	$ 4.81	$ 4.55	$ 4.72
Number granted	60,438	45,922	81,666	70,000

A summary of the RSUs in issue at December 31, 2020 is as follows:

	Number of RSUs Outstanding	Weighted Average Remaining Vesting Period (Months)	Period in which the target must be achieved
RSUs subject to time based vesting	875,387	12	N/A
RSUs subject to milestone based vesting	118,650	N/A	N/A

At December 31, 2020, 875,387 RSUs were subject to time-based vesting and the weighted average remaining vesting period was 12 months. In addition, 118,650 RSUs were subject to vesting based on the achievement of various business milestones related mainly to the development, approval and marketing of MosaiQ.

Note 9. Income Taxes

A reconciliation of the income tax expense at the statutory rate to the provision for income taxes is as follows:

	Quarter ended December 31,		Nine months ended December 31,	
	2020	2019	2020	2019
Income tax expense at statutory rate	$ —	$ —	$ —	$ —
Impact of tax uncertainties	$ 1,455		$ 1,455	
Foreign tax rate differential	13	(1,436)	(1,233)	(3,035)
Increase in valuation allowance against deferred tax assets	3	1,450	1,281	3,076
Provision for income tax	$ 1,471	$ 14	$ 1,503	$ 41

In connection with the sale and leaseback transaction of the Company's conventional reagents manufacturing facility, near Edinburgh, Scotland (the "Alan Robb Campus ("ARC") facility") that was completed in March 2018, the Company has agreed to transfer tax allowances related to certain other property, plant and equipment to the purchaser of the facility. An election to effect the transfer of these allowances to the purchaser has been made, but due to uncertainty regarding whether the election will be effective, the tax effect of the transfer of the allowances had not previously been recorded in the financial statements. The Company has determined that during the quarter ended December 31, 2020 it is now more likely than not that this election will be effective and accordingly a net deferred tax expense of $1,455 and an equivalent deferred tax liability have been recorded, including associated adjustments to valuation allowances.

Significant components of deferred tax are as follows:

	December 31, 2020	March 31, 2020
Provisions and reserves	$ 1,521	$ 1,315
Operating lease liability	4,089	3,409
Fixed asset basis difference	—	—
Net operating loss carry forwards	21,293	19,526
Gross deferred tax assets	$ 26,903	$ 24,250
Fixed asset basis difference	$ (2,237)	$ (90)
Operating lease right-of-use assets	$ (4,089)	$ (3,409)
Gross deferred tax liabilities	$ (6,326)	$ (3,499)
Net deferred tax asset	$ 20,577	$ 20,751
Valuation allowance	(21,795)	(20,514)
Net deferred taxes	$ (1,218)	$ 237

The balance sheet classification of deferred tax is as follows:

	December 31, 2020	March 31, 2020
Net noncurrent deferred tax assets	$ 237	$ 237
Net noncurrent deferred tax liabilities	$ (1,455)	$ —
Total	$ (1,218)	$ 237

The following table summarizes the activity related to the Company's uncertain tax positions (excluding interest and penalties and related tax attributes):

	Quarter ended December 31,		Nine months ended December 31,	
	2020	2019	2020	2019
Balance at beginning of period	$ 1,216	$ —	$ 1,216	$ —
Increases related to current year tax positions	—	—	—	—
Increases related to prior years tax positions	—	—	—	—
Balance at end of period	$ 1,216	$ —	$ 1,216	$ —

As of December 31, 2020, the Company has an unrecognized benefit of $1,216, that if recognized would be recorded as a component of tax expense. The Company's unrecognized tax benefits include exposures related to positions taken on income tax returns in all jurisdictions. The Company has interest expense carryforward from March 31, 2017 that potentially would be disqualified as interest expense in the amount of $613. Additionally, the Company has reassessed its transfer pricing policies in certain jurisdictions from 2015 to 2017, the impact of which is $603. In the normal course of business, the Company's tax returns are subject to examination by various taxing authorities. Such examinations may result in future tax and interest assessments by these taxing authorities and the Company has accrued a liability when it believes it is more likely than not that the tax position claimed on tax returns will not be sustained by the taxing authorities on the technical merits of the position. Changes in the recognition of the liability are reflected in the period in which the change in judgment occurs.

Note 10. Defined Benefit Pension Plans

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

	Quarter ended December 31,		Nine months ended December 31,	
	2020	2019	2020	2019
Employer service cost	$ 620	$ 456	$ 1,818	$ 1,362
Interest cost	33	31	95	93
Expected return on plan assets	(62)	(32)	(183)	(94)
Amortization of prior service credit	13	(6)	40	(17)
Amortization of net loss	—	54	—	161
Net pension cost	$ 604	$ 503	$ 1,770	$ 1,505

The employer contributions for the nine month periods ended December 31, 2020 and December 31, 2019 were $995 and $954, respectively. The estimated employer contributions for the fiscal year ending March 31, 2021 are $1,255.

Note 11. Net Loss Per Share

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

The following table sets forth the computation of basic and diluted loss per ordinary share:

	Quarter ended December 31,		Nine months ended December 31,	
	2020	2019	2020	2019
Numerator:				
Net loss	$ (29,757)	$ (27,485)	$ (70,161)	$ (78,046)
Net loss available to ordinary shareholders - basic and diluted	$ (29,757)	$ (27,485)	$ (70,161)	$ (78,046)
Denominator:				
Weighted-average shares outstanding - basic and diluted	101,016,040	73,768,845	88,512,823	68,722,475
Loss per share - basic and diluted	$ (0.29)	$ (0.37)	$ (0.79)	$ (1.14)

The following table sets out the numbers of ordinary shares excluded from the above computation of earnings per share at December 31, 2020 and December 31, 2019 as their inclusion would have been anti-dilutive:

	December 31, 2020	December 31, 2019
Ordinary shares issuable on exercise of options to purchase ordinary shares	1,965,260	1,859,979
Restricted share units awarded	994,037	781,839
Ordinary shares issuable on exercise of warrants at $16.14 per share	111,525	111,525
Ordinary shares issuable on exercise of warrants at $9.375 per share	64,000	64,000
	3,134,822	2,817,343

12. Lease Commitments

The Company has operating lease commitments for real estate and certain equipment in the United States, the United Kingdom, the Republic of Ireland and Switzerland. There are no sublease agreements in place. The Company has finance lease commitments for equipment in the United Kingdom and Switzerland.

The Company leases an 87,200 square foot conventional reagents manufacturing facility, with integrated offices and laboratories, in Edinburgh, Scotland. This lease commenced in March 2018, following completion of a sale and leaseback transaction, and expires in September 2052. Rent is recognized in the consolidated statement of comprehensive loss on a straight-line basis over the lease term. Additionally, the lease required the Company to provide a rent deposit of £3.6 million which amounted to $4.9 million at December 31, 2020 and $4.4 million at March 31, 2020 and is included within other non-current assets in the consolidated balance sheets. In March 2015 the Company signed a five-year lease agreement for its corporate headquarters and MosaiQ manufacturing facility in Eysins, Switzerland. This lease was extended for a further five-year period to March 14, 2025. The Company also leases office space for commercial and development activities under one to three-year lease agreements in Newtown PA, Chapel Hill NC and Dublin, Republic of Ireland.

The operating lease commitments relating to equipment are not material. The finance lease commitments relate to specialized equipment required for manufacturing operations in both Edinburgh, Scotland and Eysins, Switzerland.

Many of the Company's leases contain options to renew and extend lease terms and options to terminate leases early. Reflected in the right-of-use asset and lease liability on the Company's balance sheet are the periods provided by renewal and extension options that the Company is reasonably certain to exercise, as well as the periods provided by termination options that the Company is reasonably certain not to exercise. The Company does not have any existing lease agreements with variable lease components.

In calculating the present value of future lease payments, the Company has elected to utilize an incremental borrowing rate based on the remaining lease term at the date of adoption. Incremental borrowing rates are the rates incurred to borrow on a collateralized basis over a similar term an amount equal to the lease payments in a similar economic environment. The Company has elected to account for each lease component and its associated non-lease component as a single lease component and has allocated all the contract consideration across the lease component only. There are no material non-lease components. As of December 31, 2020, an operating lease right-of-use asset of $22,364 and an operating lease liability of $24,512 (including a current portion of $3,309) were reflected on the condensed consolidated balance sheet. As of March 31, 2020, an operating lease right-of-use asset of $21,493 and an operating lease liability of $22,947 (including a current portion of $3,033) were reflected on the condensed consolidated balance sheet. As of December 31, 2020, the Company had entered into finance leases for the purchase of plant and equipment that had net book values of $1,591. An associated finance lease liability of $1,460 (including a current portion of $878) was reflected on the condensed consolidated balance sheet. As of March 31, 2020, the Company had entered into finance leases for the purchase of plant and equipment that had net book values of $2,216. An associated finance lease liability of $1,715 (including a current portion of $598) was reflected on the condensed consolidated balance sheet.

The elements of lease expense were as follows:

	Quarter ended December 31,		Nine months ended December 31,	
	2020	2019	2020	2019
Lease cost				
Operating lease cost	$ 1,133	$ 950	$ 3,262	$ 2,760
Finance lease cost				
Amortization of right-of-use asset	298	230	814	565
Interest on lease liabilities	28	29	99	84
Short-term lease cost	18	18	52	52
Total lease cost	$ 1,477	$ 1,227	$ 4,227	$ 3,461

Other information related to leases was as follows:

Supplemental cash flow information

	Nine months ended December 31,	
	2020	2019
Cash paid for amounts included in the measurement of lease liabilities		
Operating leases - operating cash flows	$ 2,806	$ 2,270
Finance leases - financing cash flows	$ 490	$ 337
Finance leases - operating cash flows	$ 99	$ 84
Non-cash leases activity		
Right-of-use assets obtained in exchange for new operating lease liabilities	$ 56	$ 5,160
Right-of-use assets obtained in exchange for new finance lease liabilities	$ 130	$ 487

Lease term and discount rate

	As of December 31, 2020
Weighted average remaining lease terms (in years)	
Operating leases	29.6
Finance leases	1.8
Weighted average discount rate	
Operating leases	10.9%
Finance leases	9.1%

Future lease payments required under non-cancellable operating leases were as follows:

	December 31, 2020	March 31, 2020
2021 (excluding the nine months ended December 31, 2020)	$ 927	$ 3,335
2022	3,674	3,319
2023	3,370	3,050
2024	3,360	3,055
2025	3,409	3,105
Thereafter	72,959	66,138
Total lease payments	$ 87,699	$ 82,002
Less : imputed interest	(63,187)	(59,055)
Total operating lease liabilities	$ 24,512	$ 22,947

Future lease payments required under finance leases were as follows:

	December 31, 2020	March 31, 2020
2021 (excluding the nine months ended December 31, 2020)	$ 185	$ 720
2022	958	838
2023	423	349
2024	45	7
2025	13	—
Total lease payments	$ 1,624	$ 1,914
Less : imputed interest	(164)	(199)
Total finance lease liabilities	$ 1,460	$ 1,715

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

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with the corresponding section of our Annual Report on Form 10-K for the year ended March 31, 2020 filed with the SEC on June 12, 2020.

The information set forth and discussed below for the quarters and nine month periods ended December 31, 2020 and December 31, 2019 is derived from the condensed consolidated financial statements included under Part I, Item 1 "Financial Statements" above. The financial information set forth and discussed below is unaudited but includes all adjustments (consisting of normal recurring adjustments) that our management considers necessary for a fair presentation of the financial position and the operating results and cash flows for those periods. Our results of operations for a particular quarter may not be indicative of the results that may be expected for other quarters or the entire year.

In addition to historical financial information, the following discussion contains forward looking statements that reflect our plans, estimates, beliefs and expectations that involve risks and uncertainties. Our actual results and the timing of events could differ materially from those discussed in these forward-looking statements. Factors that could cause or contribute to these differences include those discussed below and elsewhere in this Quarterly Report, and our Annual Report on Form 10-K for the year ended March 31, 2020, particularly in "Risk Factors."

Overview

We were incorporated in Jersey, Channel Islands on January 18, 2012. On February 16, 2012, we acquired the entire issued share capital of Alba Bioscience Limited (or Alba), Quotient Biodiagnostics, Inc. (or QBDI) and QBD (QSIP) Limited (or QSIP) from Quotient Biodiagnostics Group Limited (or QBDG), our predecessor.

Our Business

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

We have over 35 years of experience developing, manufacturing and commercializing conventional reagent products used for blood grouping within the global transfusion diagnostics market. We are developing MosaiQ, our proprietary technology platform, to better address the comprehensive needs of this large and established market. We believe MosaiQ has the potential to transform transfusion diagnostics, significantly reducing the cost of blood grouping in the donor and patient testing environments, while improving patient outcomes.

In addition, in response to the global COVID-19 pandemic, in May 2020, we completed development of a microarray-based SARS-CoV-2 antibody test for use on the MosaiQ platform. The SARS-CoV-2 antibody test is designed as a serological disease screen specific to COVID-19 antibody detection. The assay detects the Immunoglobulin G (IgG) and Immunoglobulin M (IgM) antibodies directed at SARS-CoV-2. We refer to the SARS-CoV-2 antibody test as the MosaiQ COVID-19 Microarray.

We currently operate as one business segment with 439 employees in the United Kingdom, Switzerland and the United States, as of December 31, 2020. Our principal markets are the United States, Europe and Japan. Based on the location of the customer, revenues outside the United States accounted for 30% of total revenue during the nine month period ended December 31, 2020 and 44% during the nine month period ended December 31, 2019.

We have incurred net losses and negative cash flows from operations in each year since we commenced operations in 2007. As of December 31, 2020, we had an accumulated deficit of $553.6 million. We expect our operating losses to continue for at least the remainder of the financial year ending March 31, 2021 as we continue our investment in the commercialization of MosaiQ. For the nine month period ended December 31, 2020, our total revenue was $33.7 million and our net loss was $70.2 million.

From our incorporation in 2012 to March 31, 2020, we have raised $160.0 million of gross proceeds through the private placement of our ordinary and preference shares and warrants, $346.7 million of gross proceeds from public offerings of our shares and issuances of ordinary shares upon exercise of warrants and $145.0 million of gross proceeds from the issuance of 12% Senior Secured Notes, or the "Secured Notes".

On September 15, 2020, we completed a public offering of 20,294,117 newly issued ordinary shares at $4.25 per share which raised $86.3 million of gross proceeds before underwriting discounts and other offering expenses of $5.6 million.

As of December 31, 2020, we had available cash, cash equivalents and short-term investments of $134.5 million and $9.0 million of restricted cash held as part of the arrangements relating to our Secured Notes and the lease of our property in Eysins, Switzerland.

Regulatory and Commercial Milestones

You should read the following regulatory and commercial milestones update in conjunction with the discussion included under the sections "Item 1. Business" and "Item 1A. Risk Factors" of our Annual Report on Form 10-K for the year ended March 31, 2020 filed with the SEC on June 12, 2020.

- *Initial European Regulatory Approval* – we filed for European regulatory approval for our initial MosaiQ IH Microarray in late September 2018 and were notified of its approval on April 30, 2019. We also filed for European regulatory approval of the initial MosaiQ SDS Microarray in June 2019 and were notified of its approval on February 14, 2020.
- *European and U.S. Hypercare Launch* – following the CE mark for our initial MosaiQ IH Microarray, we have commenced and completed hypercare testing with four selected customers.
- *Ongoing Microarray Menu Development* – our activities for the expansion of our IH and SDS, testing menus included the completion of the validation and verification, or "V&V", concordance study for the expanded MosaiQ IH Microarray menu, which we announced in October 2019. The V&V study for the expanded MosaiQ SDS Microarray is planned for the coming months.
- *Field Trials* – we commenced field trials for the expanded MosaiQ IH Microarray in Europe in the first quarter of calendar year 2020. These trials were initially suspended due to the COVID-19 pandemic in March 2020, but by the end of May 2020, quarantine and containment measures and restrictions had eased in all three trial locations allowing the work to recommence. However, subsequent governmental restrictions implemented towards the end of 2020 have impacted our ability to conduct these trials, as discussed below. We announced the initial results from these trials in November 2020. Based on our internal performance testing, we subsequently determined to enhance a limited number of the tests on the expanded MosaiQ IH Microarray. The commencement of field trials in the United States for the expanded MosaiQ IH Microarray has also been postponed due to the COVID-19 pandemic. We expect these trials to commence in the second quarter of calendar year 2021. We expect field trials for the expanded MosaiQ SDS Microarray to commence towards the end of calendar year 2021.
- *Ongoing Regulatory Approval Process* – we filed for U.S. regulatory approval for our initial MosaiQ SDS Microarray on December 23, 2019. On December 10, 2020, we received a request from the FDA for additional testing data related to specific individual performance characteristics of the assays on this microarray. We anticipate that we will resubmit our filing and receive 510(k) clearance for the initial MosaiQ SDS Microarray during the first half of calendar year 2021. We expect to make the initial European regulatory submissions for our expanded MosaiQ IH Microarray during the second quarter of calendar year 2021, with the U.S. regulatory submissions following in the fourth quarter of calendar year 2021. We expect to receive the CE mark for the expanded MosaiQ IH Microarray by the fourth quarter of calendar year 2021. We expect to make a European regulatory submission for the expanded MosaiQ SDS Microarray in the second quarter of calendar year 2022, with the U.S. regulatory submission following in the second or third quarter of calendar year 2022.
- *Patient IH Microarray* – we are developing for Ortho-Clinical Diagnostics Inc. (or Ortho), a dedicated MosaiQ IH Microarray optimized for the patient transfusion market (which we refer to as the MosaiQ IH3 Microarray), and we expect to submit it for CE mark in the first half of calendar year 2022.

COVID-19 Pandemic

You should read the following COVID-19 pandemic update in conjunction with the discussion included under the sections "Item 1. Business" and "Item 1A. Risk Factors" of our Annual Report on Form 10-K for the year ended March 31, 2020 filed with the SEC on June 12, 2020.

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. The governments of each of the major locations in which we operate, the United Kingdom, Switzerland and the United States, have implemented varying measures and restrictions to combat the COVID-19 pandemic.

The restrictions implemented at the beginning of the pandemic directly impacted our on-going clinical trials for our expanded MosaiQ IH Microarray in Europe and the commencement of clinical trials for our expanded MosaiQ IH Microarray in the United States. All external work on these trials was suspended in March 2020 until such time as the existing restrictions in the relevant jurisdictions are removed or moderated. By the end of May 2020, quarantine and containment measures and restrictions had eased in all of the three European trial locations allowing the work to recommence.

In addition, on April 6, 2020, we announced the completion of the development phase of the MosaiQ COVID-19 Microarray, in response to the COVID-19 pandemic. On April 27, 2020, we published the final performance data for the MosaiQ COVID-19 Microarray, achieving 100% sensitivity and 99.8% specificity, and on May 1, 2020, we announced the CE Mark for this Microarray. In addition, in May 2020, we submitted an application to the FDA for an Emergency Use Authorization (EUA) of the MosaiQ COVID-19 Microarray in the United States, and in September 2020, we announced the EUA had been issued by the FDA for this Microarray. We signed the first commercial contract for the sale of the MosaiQ COVID-19 Microarray in May 2020, and we have subsequently entered into nine additional contracts with customers in Europe and the United States. In addition, we developed an enhanced, semi-quantitative MosaiQ COVID-19 Microarray, which has been CE marked as of January 29, 2021 and for which we intend to submit an FDA EUA application in February 2021.

Since October 2020, there has been a widespread increase, or "second wave," in reported infections from COVID-19, including in Europe and the United States. In response, various countries including in Europe have announced the re-imposition of some restrictions on social, business and other activities. Government travel restrictions and lockdowns imposed in response to the second wave seriously affected our operations in Europe and the United Kingdom.

In spite of this widespread increase of COVID-19 infections, the COVID-19 pandemic and the associated restrictions have not had a material adverse impact on our conventional reagent revenues. Customer demand has remained robust since March 31, 2020 and, to date, supply chain disruptions have been minimal. Our manufacturing operations in Edinburgh, Scotland have been adapted to meet social distancing requirements, which impacted our operating costs during the nine month period ended December 31, 2020.

However, the second wave has negatively affected the on-going field trials for our expanded MosaiQ IH Microarray, with travel restrictions and lockdowns making it difficult for relevant teams to spend time on-site and resulting in trials repeatedly stopping and restarting. Furthermore, these restrictions and lockdowns have impacted our research and development activities, slowed down the regulatory approval process and delayed the timing of customer tenders.

The extent to which the COVID-19 pandemic will impact our business, operations and financial results will depend on future developments and numerous evolving factors, which are highly uncertain and difficult to predict.

Revenue

We generate product sales revenue from the sale of conventional reagent products directly to hospitals, donor collection agencies and independent testing laboratories in the United States, the United Kingdom and to distributors in Europe and the rest of the world, and indirectly through sales to our original equipment manufacturer (or OEM) customers. We recognize revenues in the form of product sales when the goods are shipped. Products sold by standing purchase orders as a percentage of product sales revenue were 69% and 71% for the nine month periods ended December 31, 2020 and December 31, 2019, respectively. We also provide product development services to our OEM customers. We recognize revenue from these contractual relationships in the form of product development fees, which are included in other revenues. In addition, during the nine month period ended December 31, 2020, we began to generate sales revenue from the MosaiQ COVID-19 Microarray in Europe and the United States, and our product sales from this microarray were approximately $1 million during this period. Although we anticipate that these product sales will continue for the next three to six months, we believe there is ultimately a limited opportunity for future revenue from our MosaiQ COVID-19 Microarray beyond that timeframe, based on the limited demand for COVID-19 antibody testing that we are observing. For a description of our revenue recognition policies, see “—Critical Accounting Policies and Significant Judgments and Estimates—Revenue Recognition and Accounts Receivable.”

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

Cost of revenue and operating expenses

Cost of revenue consists of direct labor expenses, including employee benefits, overhead expenses, material costs and freight costs, along with the depreciation of manufacturing equipment and leasehold improvements. Our gross profit represents total revenue less the cost of revenue, gross margin represents gross profit expressed as a percentage of total revenue, and gross margin on product sales represents gross margin excluding other revenues as a percentage of revenues excluding other revenues. We expect our overall cost of revenue to increase in absolute U.S. Dollars as we continue to increase our product sales volumes. However, we also believe that we can achieve efficiencies in our manufacturing operations, primarily through increasing production volumes.

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

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

We expense all research and development costs as incurred, net of government grants received and tax credits. Our UK subsidiary claims certain tax credits on its research and development expenditures and these are included as an offset to our research and development expenses. Our research and development efforts are focused on developing new products and technologies for the global transfusion diagnostics market. We segregate research and development expenses for the MosaiQ project from expenses for other research and development projects. We do not maintain detailed records of these other costs by activity. We are nearing completion of the initial development of MosaiQ and expect our costs associated with field trials and regulatory approvals will increase at the same time as our development costs decrease. As we move to commercialization of MosaiQ in the donor testing market, we expect our overall research and development expense to decrease.

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

Net interest expense consists primarily of interest charges on our Secured Notes and the amortization of debt issuance costs (which includes amortization of the one-time consent payment of $3.9 million paid to holders of our Secured Notes in December 2018), as well as accrued dividends on the 7% cumulative redeemable preference shares issued in January 2015. We amortize debt issuance costs over the life of the instrument and report them as interest expense in our statements of operations. Net interest also includes the expected costs of the royalty rights agreements we entered into in October 2016, June 2018, December 2018 and May 2019 with the purchasers and consenting holders, as applicable, of our Secured Notes. See Note 4, "Debt" and Note 7, "Ordinary and Preference Shares – Preference shares" to our condensed consolidated financial statements included in this Quarterly Report for additional information.

Other income (expense), net consists primarily of exchange fluctuations. These include realized exchange fluctuations resulting from the settlement of transactions in currencies other than the functional currencies of our businesses. Monetary assets and liabilities that are denominated in foreign currencies are measured at the period-end closing rate with resulting unrealized exchange fluctuations. The functional currencies of our legal entities are Pounds Sterling, Swiss Francs and U.S. Dollars depending on the entity.

As discussed in more detail below, provision for income taxes in the nine month period ended December 31, 2020 reflected the taxes payable on the taxable income of a subsidiary and the resolution of a major tax uncertainty related to the treatment of certain tax depreciation allowances.

Results of Operations

Comparison of the Quarters ended December 31, 2020 and 2019

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

	Quarter ended December 31,					
	2020		2019		Change	
	Amount	% of revenue	Amount	% of revenue	Amount	%
	(in thousands, except percentages)					
Revenue:						
Product sales	$ 8,740	100%	$ 7,636	96%	$ 1,104	14%
Other revenues	11	0%	305	4%	(294)	-96%
Total revenue	8,751	100%	7,941	100%	810	10%
Cost of revenue	4,970	57%	4,532	57%	438	10%
Gross profit	3,781	43%	3,409	43%	372	11%
Operating expenses:						
Sales and marketing	2,283	26%	2,290	29%	(7)	0%
Research and development	14,485	166%	14,160	178%	325	2%
General and administrative	8,738	100%	9,316	117%	(578)	-6%
Total operating expenses	25,506	291%	25,766	324%	(260)	-1%
Operating loss	(21,725)	-248%	(22,357)	-282%	632	-3%
Other income (expense):						
Interest expense, net	(6,753)	-77%	(7,008)	-88%	255	-4%
Other, net	192	2%	1,894	24%	(1,702)	-90%
Total other expense, net	(6,561)	-75%	(5,114)	-64%	(1,447)	28%
Loss before income taxes	(28,286)	-323%	(27,471)	-346%	(815)	3%
Provision for income taxes	(1,471)	—	(14)	—	(1,457)	21%
Net loss	$ (29,757)	-340%	$ (27,485)	-346%	$ (2,272)	8%

Revenue

Total revenue for the quarter ended December 31, 2020 increased by 10% to $8.8 million, compared with $7.9 million for the quarter ended December 31, 2019. Product sales for the quarter ended December 31, 2020 increased by 14% to $8.7 million, compared with $7.6 million for the quarter ended December 31, 2019. The increase in product sales was primarily attributable to growth in product sales to OEM customers, incremental direct sales of conventional reagent products to customers in the United States and sales of the MosaiQ COVID-19 Microarray. Other revenues for the quarter ended December 31, 2020 related to a small development project for an OEM customer. Other revenues in the quarter ended December 31, 2019 arose from the achievement of product development milestones on a development contract, which was completed during the year ended March 31, 2020.

Products sold by standing purchase order were 70% of product sales for the quarter ended December 31, 2020, compared with 72% for the quarter ended December 31, 2019.

The table below sets forth revenue by product group:

	Quarter ended December 31,					
	2020		2019		Change	
	Amount	% of revenue	Amount	% of revenue	Amount	%
	(in thousands, except percentages)					
Revenue:						
Product sales - OEM customers	$ 5,536	63%	$ 5,071	64%	$ 465	9%
Product sales - direct customers and distributors	$ 2,846	33%	2,565	32%	281	11%
Product sales - MosaiQ	358	4%	—	0%	358	100%
Other revenues	11	0%	305	4%	(294)	-96%
Total revenue	$ 8,751	100%	$ 7,941	100%	$ 810	10%

OEM Sales. Product sales to OEM customers increased 9% to $5.5 million for the quarter ended December 31, 2020, compared with $5.1 million for the quarter ended December 31, 2019. The increase was due to increased sales to existing customers and the impact of pricing increases.

Direct Sales to Customers and Distributors. Product sales directly to customers and distributors of $2.8 million for the quarter ended December 31, 2020 increased by $0.3 million compared with $2.6 million for the quarter ended December 31, 2019. This increase was due to increased direct sales in the United States which increased to $2.6 million in the quarter ended December 31, 2020 from $2.3 million in the quarter ended December 31, 2019 as a result of growth in sales to existing customers and expansion of our customer base.

MosaiQ Product Sales. MosaiQ sales in the quarter ended December 31, 2020 consisted of revenues from our MosaiQ COVID-19 Microarray. There were no MosaiQ sales in the quarter ended December 31, 2019.

Other Revenues. Other revenues in the quarter ended December 31, 2020 related to a small development project for an OEM customer. Other revenues in the quarter ended December 31, 2019 arose from the achievement of product development milestones on a development contract, which was completed during the year ended March 31, 2020.

Cost of revenue and gross margin

Cost of revenue increased by 10% to $5.0 million for the quarter ended December 31, 2020, compared with $4.5 million for the quarter ended December 31, 2019. The increase in cost of revenue reflected the incremental costs associated with greater sales volumes.

Gross profit on total revenue for the quarter ended December 31, 2020 was $3.8 million, an increase of 11% when compared with $3.4 million for the quarter ended December 31, 2019. The increase was attributable to the increase in gross margin on product sales described below.

Gross profit on product sales, which excludes other revenues, was $3.8 million for the quarter ended December 31, 2020, an increase of 21% when compared with $3.1 million for the quarter ended December 31, 2019. This increase was due to a more favorable product mix and lower levels of material scrapped, in addition to the gross profit on increased sales to existing and new customers. Gross margin on product sales, which excludes other revenues, was 43% for the quarter ended December 31, 2020 compared with 41% for the quarter ended December 31, 2019.

Sales and marketing expenses

Sales and marketing expenses were $2.3 million for the quarter ended December 31, 2020, compared with $2.3 million for the quarter ended December 31, 2019. As a percentage of total revenue, sales and marketing expenses were 26% for the quarter ended December 31, 2020 compared to 29% for the quarter ended December 31, 2019.

Research and development expenses

	Quarter ended December 31,					
	2020		2019		Change	
	Amount	% of revenue	Amount	% of revenue	Amount	%
	(in thousands, except percentages)					
Research and development expenses:						
MosaiQ research and development	$ 14,214	162%	$ 13,770	173%	$ 444	3%
Other research and development	397	5%	474	6%	(77)	-16%
Tax credits	(126)	-1%	(84)	-1%	(42)	50%
Total research and development expenses	$ 14,485	166%	$ 14,160	178%	$ 325	2%

Research and development expenses increased by 2% to $14.5 million for the quarter ended December 31, 2020, compared with $14.2 million for the quarter ended December 31, 2019. During the quarter ended December 31, 2020, we recorded inventory provisions of $2.0 million in respect of certain raw materials and work-in-progress items following evaluation of further development data and corresponding changes in manufacturing processes. These expenses were offset by a $0.5 million decrease in depreciation charges as a result of certain leasehold improvements becoming fully depreciated at the start of the current financial year, as well as the impact of extending the useful economic lives of certain operating equipment. Costs incurred with development partners were also $0.8 million lower during the quarter ended December 31, 2020. This decrease was due to our incurring certain upfront contract charges and material deliveries during the quarter ended December 31, 2019 and there were no corresponding charges in the quarter ended December 31, 2020. In addition, termination benefit costs of $0.4 million were included in quarter ended December 31, 2019. There were no termination benefit costs in the quarter ended December 31, 2020.

General and administrative expenses

General and administrative expenses decreased by 6% to $8.7 million for the quarter ended December 31, 2020, compared with $9.3 million for the quarter ended December 31, 2019. The decreases reflected lower legal expenses related to our now settled dispute with Ortho, offset by higher D&O insurance and other advisory costs. In addition, our general and administrative expenses included termination and transition benefit costs of $0.9 million in the quarter ended December 31, 2019. We recognized $1.2 million of stock compensation expense in the quarter ended December 31, 2020 compared with $1.2 million in the quarter ended December 31, 2019. As a percentage of total revenue, general and administrative expenses were 100% for the quarter ended December 31, 2020 compared to 117% for the quarter ended December 31, 2019.

Other income (expense)

Net interest expense was $6.8 million for the quarter ended December 31, 2020, compared with $7.0 million for the quarter ended December 31, 2019. Interest expense in the quarters ended December 31, 2020 and December 31, 2019 included $4.4 million of interest charges on our Secured Notes. Interest expense in the quarters ended December 31, 2020 and December 31, 2019 also included amortization of deferred debt issue costs and estimated royalty costs of $2.2 million and $2.6 million, respectively. The decreased expense reflected changes in the royalty cost estimates. Net interest expense also included $0.3 million of dividends accrued on the 7% cumulative redeemable preference shares in each of the quarters ended December 31, 2020 and December 31, 2019. In addition, in the quarter ended December 31, 2020 we realized interest income of $0.1 million on our short-term money market investments compared to $0.3 million for the quarter ended December 31, 2019.

Other, net in the quarter ended December 31, 2020 comprised $0.2 million of foreign exchange gains arising on monetary assets and liabilities denominated in foreign currencies compared to $1.9 million of foreign exchange gains for the quarter ended December 31, 2019.

Provision for income taxes

Provision for income taxes in the quarter ended December 31, 2020 reflected the taxes payable on the taxable income of a subsidiary and the resolution of a major tax uncertainty related to the treatment of tax depreciation allowances, which resulted in a one-time tax charge of $1.5 million.

Comparison of the Nine Month Periods ended December 31, 2020 and 2019

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

	Nine months ended December 31,					
	2020		2019		Change	
	Amount	% of revenue	Amount	% of revenue	Amount	%
	(in thousands, except percentages)					
Revenue:						
Product sales	$ 26,207	78%	$ 22,901	96%	$ 3,306	14%
Other revenues	7,534	22%	1,055	4%	6,479	614%
Total revenue	33,741	100%	23,956	100%	9,785	41%
Cost of revenue	14,883	44%	13,067	55%	1,816	14%
Gross profit	18,858	56%	10,889	45%	7,969	73%
Operating expenses:						
Sales and marketing	6,757	20%	7,123	30%	(366)	-5%
Research and development	38,813	115%	38,895	162%	(82)	0%
General and administrative	27,832	82%	24,092	101%	3,740	16%
Total operating expenses	73,402	218%	70,110	293%	3,292	5%
Operating (loss)	(54,544)	-162%	(59,221)	-247%	4,677	-8%
Other income (expense):						
Interest expense, net	(19,537)	-58%	(20,384)	-85%	847	-4%
Other, net	5,423	16%	1,600	7%	3,823	239%
Total other expense, net	(14,114)	-42%	(18,784)	-78%	4,670	-25%
Loss before income taxes	(68,658)	-203%	(78,005)	-326%	9,347	-12%
Provision for income taxes	(1,503)	-4%	(41)	—	(1,462)	3566%
Net loss	$ (70,161)	-208%	$ (78,046)	-326%	$ 7,885	-10%

Revenue

Total revenue for the nine month period ended December 31, 2020 increased by 41% to $33.7 million, compared with $24.0 million for the nine month period ended December 31, 2019. The increase in total revenue was due to $7.5 million of other revenues arising from the achievement of product development milestones in the nine month period ended December 31, 2020 and an increase of 14% in product sales. Products sold by standing purchase order were 69% of product sales for the nine month period ended December 31, 2020, compared with 71% for the nine month period ended December 31, 2019.

The table below sets forth revenue by product group:

	Nine months ended December 31,					
	2020		2019		Change	
	Amount	% of revenue	Amount	% of revenue	Amount	%
	(in thousands, except percentages)					
Revenue:						
Product sales - OEM customers	$ 16,754	50%	$ 15,354	64%	$ 1,400	9%
Product sales - direct customers and distributors	8,417	25%	7,547	32%	870	12%
Product sales - MosaiQ	1,036	3%	—	0%	1,036	100%
Other revenues	7,534	22%	1,055	4%	6,479	614%
Total revenue	$ 33,741	100%	$ 23,956	100%	$ 9,785	41%

OEM Sales. Product sales to OEM customers increased 9% to $16.8 million for the nine month period ended December 31, 2020, compared with $15.4 million for the nine month period ended December 31, 2019. The increase was due to increased sales to existing customers and the impact of recently launched new products.

Direct Sales to Customers and Distributors. Product sales directly to customers and distributors of $8.4 million for the nine month period ended December 31, 2020 increased by $0.9 million compared with $7.5 million for the nine month period ended December 31, 2019. This increase was due to increased direct sales in the United States which increased to $7.6 million in the nine month period ended December 31, 2020 from $6.7 million in the nine month period ended December 31, 2019 as a result of higher sales to existing customers and the expansion of our customer base.

MosaiQ Product Sales. MosaiQ sales in the nine month period ended December 31, 2020 consisted of revenues from our MosaiQ COVID-19 Microarray. There were no MosaiQ sales in the nine month period ended December 31, 2019.

Other Revenues. Other revenues for the nine month period ended December 31, 2020 arose from the recognition of an initial milestone payment of $7.5 million received from Ortho in respect of the development of the MosaiQ IH3 Microarray and a small development project for an OEM customer. Other revenues in the nine month period ended December 31, 2019 arose from the achievement of product development milestones on another development contract, which was completed during the year ended March 31, 2020.

Cost of revenue and gross margin

Cost of revenue increased by 14% to $14.9 million for the nine month period ended December 31, 2020, compared with $13.1 million for the nine month period ended December 31, 2019. The increase in cost of revenue reflected additional costs associated with operating social distancing restrictions and the incremental costs associated with the 14% increase in product sales in the nine month period ended December 31, 2020.

Gross profit on total revenue for the nine month period ended December 31, 2020 was $18.9 million, compared with $10.9 million for the nine month period ended December 31, 2019. The increase was attributable to the $6.5 million increase in other revenues in the nine month period ended December 31, 2020 and the increase in gross margin on product sales described below.

Gross profit on product sales, which excludes other revenues, was $11.3 million for the nine month period ended December 31, 2020 compared with $9.8 million for the nine month period ended December 31, 2019. This increase was due to the gross profit on increased sales to existing and new customers, offset in part by higher costs associated with social distancing requirements. Gross margin on product sales, which excludes other revenues, was 43% for the nine month period ended December 31, 2020 compared with 43% for the nine month period ended December 31, 2019.

Sales and marketing expenses

Sales and marketing expenses were $6.8 million for the nine month period ended December 31, 2020, compared with $7.1 million for the nine month period ended December 31, 2019. This decrease was attributable to reduced travel expenses and the cancellation of sales conferences due to the COVID-19 pandemic. As a percentage of total revenue, sales and marketing expenses were 20% for the nine month period ended December 31, 2020 compared to 30% for the nine month period ended December 31, 2019.

Research and development expenses

	Nine months ended December 31,					
	2020		2019		Change	
	Amount	% of revenue	Amount	% of revenue	Amount	%
	(in thousands, except percentages)					
Research and development expenses:						
MosaiQ research and development	$ 37,953	112%	$ 37,536	157%	$ 417	1%
Other research and development	1,409	4%	1,609	7%	(200)	-12%
Tax credits	(549)	-2%	(250)	-1%	(299)	120%
Total research and development expenses	$ 38,813	115%	$ 38,895	162%	$ (82)	0%

Research and development expenses decreased by $0.1 million to $38.8 million for the nine month period ended December 31, 2020, compared with $38.9 million for the nine month period ended December 31, 2019. Our research and development expenses included expenses of $1.0 million in both the nine month periods ended December 31, 2020 and December 31, 2019 related to the costs of our intellectual property license with TTP. During the nine month period ended December 31, 2020, we recorded inventory provisions of $2.0 million in respect of certain raw materials and work-in-progress items following evaluation of further development data and corresponding changes in manufacturing processes. We also incurred additional development costs for the MosaiQ COVID-19 Microarray and higher employee costs in the nine month period ended December 31, 2020. These expenses were offset by a $2.6 million decrease in depreciation charges as a result of certain leasehold improvements becoming fully depreciated in the nine month period ended December 31, 2020, as well as the impact of extending the useful economic lives of certain operating equipment. In addition, termination benefit costs of $0.4 million were included in the nine month period ended December 31, 2019. There were no termination benefit costs in the nine month period ended December 31, 2020.

General and administrative expenses

General and administrative expenses increased by 16% to $27.8 million for the nine month period ended December 31, 2020, compared with $24.1 million for the nine month period ended December 31, 2019, reflecting additional legal expenses related to our dispute with Ortho, higher advisory fees and higher D&O insurance costs. In addition, our general and administrative expenses included termination and transition benefit costs of $0.9 million in the quarter ended December 31, 2019. We recognized $3.5 million of stock compensation expense in the nine month period ended December 31, 2020 compared with $3.4 million in the nine month period ended December 31, 2019. As a percentage of total revenue, general and administrative expenses were 82% for the nine month period ended December 31, 2020 and 101% for the nine month period ended December 31, 2019.

Other income (expense)

Net interest expense was $19.5 million for the nine month period ended December 31, 2020, compared with $20.4 million for the nine month period ended December 31, 2019. Interest expense in the nine month period ended December 31, 2020 included $13.1 million of interest charges on our Secured Notes compared with $12.8 million in the nine month period ended December 31, 2019. Interest expense in the nine month periods ended December 31, 2020 and December 31, 2019 also included amortization of deferred debt issue costs and estimated royalty costs of $6.6 million and $7.7 million, respectively. The decreased expense reflected changes in the royalty cost estimates. Net interest expense also included $0.8 million of dividends accrued on the 7% cumulative redeemable preference shares in each of the nine month periods ended December 31, 2020 and December 31, 2019. In addition, in the nine month period ended December 31, 2020 we realized interest income of $1.0 million on our short-term money market investments compared with $0.9 million for the nine month period ended December 31, 2019.

Other, net in the nine month period ended December 31, 2020 was comprised of $5.4 million of foreign exchange gains arising on monetary assets and liabilities denominated in foreign currencies compared to $1.6 million of foreign exchange gains for the nine month period ended December 31, 2019.

Provision for income taxes

Provision for income taxes in the nine month period ended December 31, 2020 reflected the taxes payable on the taxable income of a subsidiary and the resolution of a major tax uncertainty related to the treatment of tax depreciation allowances, which resulted in a one-time tax charge of $1.5 million.

Quarterly Results of Operations

Our quarterly product sales can fluctuate depending upon the shipment cycles for our red blood cell based products, which account for approximately two-thirds of our current product sales. For these products, we typically experience 13 shipping cycles per year. This equates to three shipments of each product per quarter, except for one quarter per year when four shipments occur. In fiscal 2020, the greatest impact of extra product shipments occurred in our first quarter and the greatest impact thus far in fiscal 2021 has also occurred in the first quarter. The timing of shipment of bulk antisera products to our OEM customers may also impact revenues from quarter to quarter. We also experience some seasonality in demand around holiday periods in both Europe and the United States. As a result of these factors, we expect to continue to see seasonality and quarter-to-quarter variations in our product sales. The timing of product development fees included in other revenues is mostly dependent upon the achievement of pre-negotiated project or revenue milestones.

Liquidity and Capital Resources

Since our commencement of operations in 2007, we have incurred net losses and negative cash flows from operations. As of December 31, 2020, we had an accumulated deficit of $553.6 million. During the nine month period ended December 31, 2020, we incurred a net loss of $70.2 million and used $56.7 million of cash in operating activities. As described under results of operations, our use of cash during the nine month period ended December 31, 2020 was primarily attributable to our investment in the development of MosaiQ and corporate costs, including costs related to being a public company.

From our incorporation in 2012 to March 31, 2020, we have raised $160.0 million of gross proceeds through the private placement of our ordinary and preference shares and warrants, $346.7 million of gross proceeds from public offerings of our shares and issuances of ordinary shares upon exercise of warrants and $145.0 million of gross proceeds from the issuance of the Secured Notes.

On September 15, 2020, we completed a public offering of 20,294,117 newly issued ordinary shares at $4.25 per share, which raised $86.3 million of gross proceeds before underwriting discounts and other offering expenses of $5.6 million.

As of December 31, 2020, we had available cash, cash equivalents and short-term investments of $134.5 million and $9.0 million of restricted cash held as part of the arrangements relating to our Secured Notes and the lease of our property in Eysins, Switzerland.

Cash Flows for the Nine Month Periods ended December 31, 2020 and 2019

Operating activities

Net cash used in operating activities was $56.7 million during the nine month period ended December 31, 2020, which included net losses of $70.2 million offset by non-cash items of $20.2 million. Non-cash items were depreciation and amortization expense of $6.5 million, share-based compensation expense of $3.5 million, Swiss pension costs of $0.8 million, amortization of deferred debt issue costs of $6.6 million, accrued preference share dividends of $0.8 million, deferred lease rentals of $0.5 million and deferred income taxes of $1.5 million. We also experienced a net cash outflow of $6.7 million from changes in operating assets and liabilities during the period, consisting of a $2.8 million reduction in accrued compensation and benefits, a $1.2 million increase in inventories and a $0.3 million increase in other assets and a $3.7 million reduction in accounts payable and accrued liabilities, offset by a $1.3 million reduction in accounts receivables.

Net cash used in operating activities was $64.8 million during the nine month period ended December 31, 2019, which included net losses of $78.0 million offset by non-cash items of $21.7 million. Non-cash items were depreciation and amortization expense of $9.0 million, share-based compensation expense of $3.4 million, Swiss pension costs of $0.6 million, amortization of deferred debt issue costs of $7.7 million, and accrued preference share dividends of $0.8 million and deferred lease rentals of $0.2 million. We also experienced a net cash outflow of $8.5 million from changes in operating assets and liabilities during the period, consisting of a $2.3 million reduction in accounts payable and accrued liabilities, a $0.3 million reduction in accrued compensation and benefits, a $1.6 million increase in accounts receivable, a $3.9 million increase in inventories and a $0.4 million increase in other assets.

Investing activities

Net cash used in investing activities was $18.2 million for the nine month period ended December 31, 2020 compared to $46.2 million for the nine month period ended December 31, 2019. We spent $3.6 million on purchases of property and equipment in the nine month period ended December 31, 2020, which was mainly related to purchasing MosaiQ instruments and investments in our IT infrastructure. Purchases of property and equipment in the nine month period ended December 31, 2019 were $3.9 million, which was mainly related to payments for an additional assembly unit for our MosaiQ manufacturing facility. We also increased our short-term money market investments by $14.6 million in the nine month period ended December 31, 2020, compared with a net increase of $42.3 million for the nine month period ended December 31, 2019.

Financing activities

Net cash provided by financing activities was $80.4 million during the nine month period ended December 31, 2020, consisting of $80.7 million generated from the issuance of ordinary shares on September 15, 2020 and $0.2 million generated from the exercise of share options, offset by $0.5 million of repayments on finance leases. Net cash provided by financing activities was $114.5 million during the nine month ended December 31, 2019, consisting of $24.1 million of net proceeds from the issuance of additional Secured Notes on May 15, 2019, $90.4 million of net proceeds from the issuance of ordinary shares on November 12, 2019 and $0.3 million from the exercise of share options, offset by $0.3 million of repayments on finance leases.

Operating and Capital Expenditure Requirements

We have not achieved profitability on an annual basis since we commenced operations in 2007 and we expect to incur net losses for at least the next fiscal year. As we move towards the commercial launch of MosaiQ in the donor testing market, we expect our operating expenses during the year ended March 31, 2021 to be similar to those of the year ended March 31, 2020, as we continue to invest in growing our customer base, expanding our marketing and distribution channels, completing field trials and regulatory filings, hiring additional employees and investing in other product development opportunities while our development expenditures on MosaiQ decrease.

As of December 31, 2020, we had $134.5 million of available cash, cash equivalents and short-term investments and $9.0 million of restricted cash held as part of the arrangements relating to our Secured Notes and the lease of our property in Eysins, Switzerland.

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

- our progress in developing and commercializing MosaiQ and the cost required to complete development, obtain regulatory approvals and complete our manufacturing scale up;
- Ortho's progress in commercializing the MosaiQ IH3 Microarray for the patient testing market;
- our ability to manufacture and sell our conventional reagent products, including the costs and timing of further expansion of our sales and marketing efforts;
- the impact of the COVID-19 pandemic on the global economy, our business and our development timeline for MosaiQ;
- our ability to collect our accounts receivable;
- our ability to generate cash from operations;
- any acquisition of businesses or technologies that we may undertake; and
- our ability to penetrate our existing market and new markets.

We expect to fund our operations, including the ongoing development of MosaiQ through successful field trial completion, achievement of required regulatory authorizations and commercialization from the use of existing available cash and short-term investment balances and the issuance of new equity or debt, and accordingly have prepared our financial statements on the going concern basis. We may also seek to repay, restructure or refinance our existing indebtedness, including with the proceeds from sales of additional equity or debt securities.

Contractual Obligations

Our contractual obligations and commitments were summarized in our Annual Report on Form 10-K for the year ended March 31, 2020.

Critical Accounting Policies and Significant Judgments and Estimates

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

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

Revenue recognition and accounts receivable

Revenue is recognized in accordance with Accounting Standards Update, or ASU, 2014-09, *Revenue from Contracts with Customers.* Product revenue is recognized at a point in time upon transfer of control of a product to a customer, which is generally at the time of shipment at an amount based on the transaction price. Customers have no right of return except in the case of damaged goods and we have not experienced any significant returns of our products.

We also earn revenue from the provision of development services to a small number of OEM customers. These development service contracts are reviewed individually to determine the nature of the performance obligations and the associated transaction prices. In recent years, our product development revenues have been commensurate with achieving milestones specified in the respective development agreements relating to those products. These milestones may include the approval of new products by the European or U.S. regulatory authorities, which are not within our control. While there can be no assurance that this will continue to be the case, the nature of the milestones has been such that they effectively represent completion of our performance obligations under a particular part of a development program. Should we fail to achieve these milestones, we are not entitled under the terms of the development agreements to any compensation related to the work undertaken to date. As a result, we typically fully recognize milestone-related revenues as the contractual milestones are achieved.

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

Inventories

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

Income taxes

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

We follow the accounting guidance for uncertainties in income taxes, which prescribes a recognition threshold and measurement process for recording uncertain tax positions taken, or expected to be taken, in a tax return in the financial statements. Additionally, the guidance also prescribes the derecognition, classification, accounting in interim periods and disclosure requirements for uncertain tax positions. We accrue for the estimated amount of taxes for uncertain tax positions if it is more likely than not that we would be required to pay such additional taxes. An uncertain tax position will not be recognized if it has less than a 50% likelihood of being sustained.

We did not have any accrued interest or penalties associated with any unrecognized tax positions, and there were no such interest or penalties recognized during the quarter ended December 31, 2020 or in the year ended March 31, 2020.

Stock compensation expense

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

Defined Benefit Pension Obligations

We account for the pension obligations of our Swiss subsidiary as a defined benefit plan under Accounting Standards Codification Topic 715 *Compensation – Retirement Benefits*, or ASC 715. This requires that an actuarial valuation be performed to determine the funded status of the pension arrangements. The actuarial valuation is based on a number of assumptions, details of which are set out in the notes to the audited consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended March 31, 2020.

Royalty Liability

The royalty rights agreements entered into in connection with the issuances of our Secured Notes and the amendment of the related indenture 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 us to make certain estimates and assumptions about future sales of MosaiQ products. These estimates of the magnitude and timing of MosaiQ sales are subject to significant variability due to the current status of development of MosaiQ products, and thus are subject to significant uncertainty. Therefore, the estimates are likely to change as we gain experience of marketing MosaiQ, which may result in future adjustments to the accretion of the interest expense and the amortized cost based carrying value of the Secured Notes.

Leases

At the inception of an arrangement, we determine whether the arrangement is or contains a lease based on the unique facts and circumstances present. A lease is a contract, or part of a contract, that conveys the right to control the use of identified property, plant or equipment (an identified asset) for a period of time, in exchange for consideration. We determine if the contract conveys the right to control the use of an identified asset for a period of time. We assess throughout the period of use whether we have both of the following: (1) the right to obtain substantially all of the economic benefits for use of the identified asset, and (2) the right to direct the use of the identified asset. This determination is reassessed if the terms of the contract are changed. We also review the terms of the lease in accordance with Accounting Standards Update, or "ASU", 2016-02, "*Leases"* in order to determine whether the lease concerned is a finance or an operating lease. Most leases with a term greater than one year are recognized on the balance sheet as right-of-use assets, lease liabilities and, if applicable, long-term lease liabilities. We have elected not to recognize on the balance sheet leases with terms of one year or less.

For finance leases, an asset is included within property and equipment and a lease liability equal to the present value of the minimum lease payments is included in current or long-term liabilities. Interest expense is recorded over the life of the lease at a constant rate.

Operating lease liabilities and their corresponding right-of-use assets are recorded based on the present value of lease payments over the expected remaining lease term. The operating lease right-of-use assets also include any lease payments made prior to the commencement date and any initial direct costs incurred, less any lease incentives received. The interest rate implicit in lease contracts is typically not readily determinable. As a result, we utilize our incremental borrowing rates, which are the rates incurred to borrow on a collateralized basis over a similar term an amount equal to the lease payments in a similar economic environment. The incremental borrowing rate is determined at lease commencement, or as of April 1, 2019 for operating leases existing upon the adoption of ASU 2016-02. The incremental borrowing rate is subsequently reassessed upon modification to the lease arrangement. Operating lease expense is recognized on a straight-line basis over the lease term.

In accordance with the guidance in ASU 2016-02, components of a lease should be split into three categories: lease components (e.g., land, building, etc.), non-lease components (e.g., common area maintenance, maintenance, consumables, etc.), and non-components (e.g., property taxes, insurance, etc.). Although separation of lease and non-lease components is required, certain practical expedients are available. In particular, entities may elect a practical expedient to not separate lease and non-lease components and instead account for each lease component and the related non-lease component together as a single component. We have elected to account for the lease and non-lease components of each of its operating leases as a single lease component and allocate all of the contract consideration to the lease component only. The lease component results in an operating lease right-of-use asset being recorded on the balance sheet and amortized on a straight-line basis as lease expense.

The finance lease assets and operating lease right-of-use assets are assessed for impairment in accordance with our accounting policy for long-lived assets.

Off-Balance Sheet Arrangements

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

Recent Accounting Pronouncements

Refer to Note 2 to our accompanying unaudited condensed consolidated financial statements included elsewhere in this Quarterly Report for a discussion of recently issued accounting pronouncements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Interest rate sensitivity

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

Cash, cash equivalents and cash reserve account. At December 31, 2020, we had cash and cash equivalents of $3.4 million and we also held $9.0 million of restricted cash. Our exposure to market risk includes interest income sensitivity, which is impacted by changes in the general level of U.S. and European interest rates. Our cash and cash equivalents and the restricted cash are held in interest-bearing savings accounts and bank accounts. We do not enter into investments for trading or speculative purposes. Due to the current levels of interest rates, we do not believe an immediate one percentage point change in interest rates would have a material effect on the fair market value of our holdings, and therefore we do not expect our operating results or cash flows to be significantly affected by changes in market interest rates.

Secured notes. At December 31, 2020, we had term debt of $145 million outstanding under the Secured Notes. The Secured Notes are fixed-rate instruments and, as a result, a change in market interest rates has no impact on our interest expense incurred or cash flows.

Foreign currency exchange risk

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

We are subject to market risks arising from changes in foreign currency exchange rates between the U.S. Dollar and the Pound Sterling and the U.S. Dollar and the Swiss Franc. Accordingly, fluctuations in the U.S. Dollar versus Pounds Sterling and U.S. Dollar versus the Swiss Franc exchange rate give rise to exchange gains and losses. These gains and losses arise from the conversion of U.S. Dollars and Euros to Pounds Sterling and the retranslation of cash, accounts receivable, intercompany indebtedness and other asset and liability balances. Based on our assets and liabilities held in Pounds Sterling at December 31, 2020, we estimate that a 5% strengthening of the Pound Sterling against the U.S. Dollar would give rise to a gain of approximately $0.8 million and a 5% weakening of the Pound Sterling against the U.S. Dollar would give rise to loss of approximately $0.8 million. Based on our assets and liabilities held in Swiss Francs at December 31, 2020, we estimate that a 5% strengthening of the Swiss Franc against the U.S. Dollar would give rise to a gain of approximately $1.4 million and a 5% weakening of the Swiss Franc against the U.S. Dollar would give rise to loss of approximately $1.4 million.

Most of our revenues are earned in U.S. Dollars, but the costs of our conventional reagent manufacturing operations are payable mainly in Pounds Sterling. We therefore closely monitor the results of our UK operations to address this difference. During the year ended March 31, 2020, the net operating expenses arising in Pounds Sterling from our UK conventional reagent manufacturing operations amounted to $25.8 million. This expenditure was offset by revenues arising in U.S. Dollars and other currencies. We have entered into forward contracts to hedge against the effects of fluctuations in the U.S. Dollar versus the Pounds Sterling exchange rate. The principal value of the hedges related to the results of fiscal year 2021 is $6.0 million and, based on this, a hypothetical instantaneous 5% strengthening of the Pound Sterling against the U.S. Dollar would reduce our net income by $1.0 million in the year ending March 31, 2021 after taking account of the shelter provided by our existing hedging arrangements through March 31, 2021. Similarly, a hypothetical instantaneous 5% weakening of the Pound Sterling against the U.S. Dollar would increase group net income by $1.0 million over the same period.

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

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

Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this Quarterly Report on Form 10-Q. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit attributes of possible controls and procedures.

Based on their evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of December 31, 2020, due to our identification of a material weakness in internal control over financial reporting as described below, our disclosure controls and procedures were not effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms, and is accumulated and communicated to our management, including our Chief Executive and Chief Financial Officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

A material weakness is defined as "a deficiency, or a combination of deficiencies in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis."

During the quarter ended September 30, 2020, management identified a material weakness in the design of our internal control over the classification of indebtedness and the consistency of our primary financial statements with the underlying note disclosures. This material weakness also existed at June 30, 2020 and, specifically, resulted in $12,083 thousand of indebtedness being classified as non-current liabilities instead of current liabilities in the condensed consolidated balance sheet as of June 30, 2020, while the correct maturity analysis was presented within the related note disclosure. This error had no impact on the condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in shareholders' equity, or condensed consolidated statement of cash flows for the quarter ended June 30, 2020, and this error was corrected prior to the issuance of the condensed consolidated financial statements for the quarter ended September 30, 2020.

Changes in internal control over financial reporting

There were no material changes to our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the period covered by this Quarterly Report on Form 10-Q that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting, other than noted above and except for the following changes:

In order to remediate the material weakness described above, management has implemented immediate steps with regards to the classification of long-term debt by:

- Automating compilation of relevant captions of the primary financial statements from the detailed underlying accounting records

- Strengthening overall disclosure review controls through additional formal review processes

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

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

Our subsidiaries, Quotient Suisse and QBD (QS-IP) Limited were party to a distribution and supply agreement with Ortho related to the commercialization and distribution of certain MosaiQ products, which we refer to as the Prior Ortho Agreement. We also entered into a subscription agreement with an affiliate of Ortho pursuant to which the affiliate subscribed for our newly issued ordinary shares and newly issued 7% cumulative redeemable preference shares, of no par value, for an aggregate subscription price of approximately $25 million.

On November 27, 2019, we delivered a notice to Ortho that we had terminated the Prior Ortho Agreement, effective as of December 27, 2019. We had not realized any revenue under the Prior Ortho Agreement prior to its termination.

On or about November 17, 2019, Ortho initiated an arbitration proceeding in which it sought a declaration that we did not have the right to terminate the Prior Ortho Agreement, specific performance of certain provisions of the Prior Ortho Agreement, and damages including in respect of the difference in amounts Ortho invested in our shares and their market value. We pursued counterclaims against Ortho, including that we had the right to terminate the Prior Ortho Agreement and damages that included the milestone payments due under the Prior Ortho Agreement. In addition, on December 20, 2019, we entered into an agreement, or the Ortho Dispute Agreement, with Ortho pursuant to which we agreed, while the arbitration was pending, not to grant commercialization rights in respect of products that overlapped with Ortho's rights under the Prior Ortho Agreement without prior written notice to Ortho.

On September 4, 2020, we entered into a binding letter agreement with Ortho (or the Letter Agreement) pursuant to which we and Ortho agreed to confirm the termination of the Prior Ortho Agreement and various related contracts and to end the parties' disputes regarding the Prior Ortho Agreement by executing mutual releases and terminating their pending arbitration proceeding related to the Prior Ortho Agreement.

We also agreed with Ortho to negotiate in good faith, and use our respective reasonable best efforts to execute, a new distribution agreement based on the terms set forth in the Letter Agreement, but if for any reason no such definitive agreement is reached, the Letter Agreement will govern the parties' respective rights and obligations as a binding contract. See Note 2, "Summary of Significant Accounting Policies—Revenue Recognition" to our condensed consolidated financial statements included in this Quarterly Report for additional information about the Letter Agreement.

We may also be subject to other claims and legal actions arising in the ordinary course of business from time to time.

Item 1A. Risk Factors

Except as set forth below, there have been no material changes in the risk factors described in Item 1A "Risk Factors" of our Annual Report on Form 10-K for the year ended March 31, 2020.

Our commercialization plan for MosaiQ in the patient transfusion diagnostics market depends on our distributor relationship with Ortho, and we may enter into additional distribution or sales arrangements in the future that may subject us to similar risks.

We will rely on Ortho to commercialize MosaiQ in the highly fragmented patient transfusion diagnostics market in Europe and the United States. Under our distributor relationship with Ortho, we will develop sell the MosaiQ IH3 Microarray for the patient transfusion market, and Ortho will have the right to distribute, market and sell the MosaiQ IH3 Microarray in Europe and in the United States, solely for use in testing the immuno-hematological profile of the blood of medical patients in the course of their care or treatment. Ortho may not commit sufficient resources to this commercialization arrangement, as MosaiQ may compete for time, attention and resources with Ortho's internal programs, or Ortho otherwise may not perform its obligations as expected. In addition, Ortho is both a customer and a competitor of our conventional reagent business. If Ortho is unable, or fails, to perform its obligations, there can be no assurance that we will be able to enter into commercialization relationships with other partners with sufficient existing global sales and support infrastructures necessary to successfully commercialize MosaiQ in the patient transfusion diagnostics market in these territories. Any of these risks could delay the commercialization of MosaiQ in the patient transfusion diagnostics market, result in high costs to us or otherwise materially harm our business and adversely affect our future revenues.

We may also enter into additional distribution or sales arrangements to commercialize MosaiQ in other markets. To the extent that we enter into other distribution or sales arrangements, our product revenue is likely to be lower than if we directly market or sell MosaiQ. In addition, any revenue we receive will depend in whole or in part upon the efforts of third parties, which may not be successful and will generally not be within our control. If we are not successful in commercializing MosaiQ through collaborations with one or more third parties, our future product revenue will suffer and we may incur significant additional losses.

We may need to raise additional capital, which may not be available on favorable terms, if at all, and which may cause dilution to shareholders, restrict our operations or adversely affect our ability to operate our business.

We expect to fund our operations in the near-term, including the ongoing development of MosaiQ through successful field trial completion, achievement of required regulatory authorizations and commercialization, from a combination of funding sources, including with available cash and short-term investment balances and the issuance of new equity or debt. Our ability to raise additional capital may be significantly affected by general market conditions, the market price of our ordinary shares, our financial condition, uncertainty about the future commercial success of MosaiQ, regulatory developments, the status and scope of our intellectual property, any ongoing arbitration or litigation, our compliance with applicable laws and regulations and other factors, many of which are outside our control. Furthermore, the indenture governing the Secured Notes contains limitations on our ability to incur debt and issue preferred and/or disqualified stock. Accordingly, we cannot be certain that we will be able to obtain additional financing on favorable terms or at all. If we are unable to obtain needed financing on acceptable terms, or otherwise, we may not be able to implement our business plan, which could have a material adverse effect on our business, financial condition and results of operations, including a decline in the trading price of our ordinary shares. Any additional equity financings could result in additional dilution to our then existing shareholders. In addition, we may enter into additional financings that restrict our operations or adversely affect our ability to operate our business and, if we issue equity, debt or other securities to raise additional capital or restructure or refinance our existing indebtedness, the new equity, debt or other securities may have rights, preferences and privileges senior to those of our existing shareholders.

Recent global economic and political conditions could result in significant changes to legislation, government policies, rules and regulations, which may have a material adverse effect on our business.

The impact of recent political and economic developments in the United States, the United Kingdom and Europe, including the United Kingdom's exit from the European Union, commonly referred to as "Brexit," are uncertain. These political and economic developments could result in changes to legislation or reformation of government policies, rules and regulations pertaining to the U.S. healthcare system, tax and trade. Such changes could have a significant impact on our business by increasing the cost of doing business, affecting our ability to sell our products and negatively impacting our profitability. In addition, these developments, or continuing uncertainty surrounding these developments, could result in significant financial market volatility, and could also exacerbate, or result in, a slow-down of growth in global, U.S. and other economies, which could have a material adverse effect on our operating performance and the market price of our ordinary shares.

In particular, on January 31, 2020, the United Kingdom ceased to be a member state of the European Union and, on December 31, 2020, the United Kingdom ceased to be part of the E.U. single market and customs union, as well as all E.U. policies and international agreements. As a result, the free movement of persons, goods, services and capital between the United Kingdom and the European Union ended, and the European Union and the United Kingdom formed two separate markets and two distinct regulatory and legal spaces. On December 24, 2020, the European Commission reached a trade agreement with the United Kingdom on the terms of its future cooperation with the European Union, which we refer to as the "Trade Agreement". The Trade Agreement offers U.K. and E.U. companies preferential access to each other's markets, ensuring imported goods will be free of tariffs and quotas; however, economic relations between the United Kingdom and the European Union will now be on more restricted terms than existed previously. In addition, the Trade Agreement sets out certain procedures for approval and recognition of medical products.

Although we cannot predict at this time the full impact that Brexit and the Trade Agreement may have on our business, operations and financial results, we do expect that Brexit will impact our regulatory approval plan for MosaiQ. The European Union is transitioning from the existing European Directive 98/79/EC on in vitro diagnostic medical devices, or the IVDD, to the In Vitro Diagnostic Device Regulation, or the IVDR, which will repeal and replace the IVDD. Unlike the IVDD, which must be implemented into the national laws of the Member States of the European Economic Area, or EEA, the IVDR will be directly applicable in all EEA Member States and is intended to eliminate current differences in the regulation of in vitro diagnostic medical devices among EEA Member States. However, due to Brexit, the United Kingdom will not be subject to the IVDR and has instead introduced its own regulatory framework. As a result, there is a new conformity marking solely for the United Kingdom and, as of January 1, 2021, any new products require a U.K. Conformity Assessed, or UKCA, mark, in addition to a CE mark. However, our existing products will be able to rely on CE marks previously obtained during a transition period that will last until June 30, 2023.

We incur increased costs as a result of being a public company whose ordinary shares are publicly traded in the United States and our management must devote substantial time to public company compliance programs.

As a public company, we have incurred and will continue to incur significant legal, insurance, accounting and other expenses that we did not incur as a private company. We intend to continue to invest resources to comply with evolving laws, regulations and standards, and this investment will result in increased general and administrative expenses and may divert management's time and attention. If our efforts to comply with new laws, regulations and standards differ from the activities intended by regulatory or governing bodies due to ambiguities related to practice, regulatory authorities may initiate legal proceedings against us and our business may be harmed. Our insurance costs have increased, particularly for directors' and officers' liability insurance. Such costs may further increase in the future, and we may be required to accept reduced coverage or incur substantially higher costs to obtain coverage. These factors could also make it more difficult for us to attract and retain qualified members of our Board of Directors, particularly to serve on our audit committee and remuneration committee, and qualified executive officers.

Pursuant to Section 404 of the Sarbanes-Oxley Act, or Section 404, we are required to furnish a report by our management on our internal control over financial reporting on an annual basis, and our management is also required to evaluate our disclosure controls and procedures quarterly. During the quarter ended September 30, 2020, we identified a material weakness in our internal control over financial reporting and concluded that our disclosure controls were not effective as of September 30, 2020 or June 30, 2020. Due to this material weakness, we have also concluded that our disclosure controls were not effective as of December 31, 2020. For additional information, see Part I, Item 4 "Controls and Procedures". We cannot assure you that there will not be additional material weaknesses or significant deficiencies in our internal controls in the future.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

On January 29, 2021, we announced the following changes to our management team:

- Ernest Larnach resigned from his position as our Head of Financial Accounting and Treasury and as our principal accounting officer, effective February 1, 2021.

- Vittoria Bonasso, age 44, was appointed as our Head of Finance & Group Controller, effective February 1, 2021, and will take on the position of principal accounting officer following an initial on-boarding period.

- We and Ms. Bonasso have entered into an employment agreement in connection with her appointment as our Head of Finance & Group Controller.

Resignation of Ernest Larnach as our Head of Financial Accounting and Treasury and Principal Accounting Officer

On January 29, 2021, Mr. Larnach, our Head of Financial Accounting and Treasury and our principal accounting officer, notified us of his decision to leave our company to pursue other career opportunities. Effective February 1, 2021, he resigned from his position as our Head of Financial Accounting and Treasury and our principal accounting officer. Following his resignation date, he will serve as our Head of Group Accounting and will continue to support us through the close of the financial year ended March 31, 2021 and the preparation of our Annual Report on Form 10-K until the end of May 2021 to ensure a smooth transition.

Appointment of Vittoria Bonasso as our Head of Finance & Group Controller and Principal Accounting Officer

On February 1, 2021, Ms. Bonasso joined our company as our Head of Finance & Group Controller. Ms. Bonasso brings over 20 years of experience in public accounting and strategic and financial leadership of healthcare and technology businesses. From 2017 to 2020, Ms. Bonasso served as the Director of Global Financial Controlling & Deputy Chief Financial Officer at EHL Group, a company focused on hospitality education. From 2015 to 2016, Ms. Bonasso served as the Director of Europe Group Controller at eBay Inc., where, among others, she oversaw controlling, accounting and financial reporting activities. From 2010 to 2015, Ms. Bonasso held various roles at Stryker Corporation, a medical technologies corporation, most recently as Director of Finance for Eastern Europe, Middle East & Africa (EEMEA), Regional Chief Financial Officer and Member of the Board of Directors and Leadership Team. From 1998 to 2010, Ms. Bonasso held various roles at PricewaterhouseCoopers, most recently as a Senior Manager specialized in managing large and complex audits of listed multinational corporations. Ms. Bonasso, a Canadian and Swiss citizen, holds a degree in Business Administration and a post-graduate superior specialized diploma in Public Accounting, both from HEC Montreal. She is a member of the Chartered Professional Accountants (CPA) of Canada and is a Certified Chartered Accountant.

Ms. Bonasso will be responsible for overseeing accounting, controlling and treasury activities. After an initial on-boarding period, Ms. Bonasso will assume the role of our principal accounting officer no later than June 1, 2021.

With respect to the disclosure required by Item 401(b) of Regulation S-K, there are no arrangements or understandings between Ms. Bonasso and any other person pursuant to which she will assume the role of our principal accounting officer. With respect to the disclosure required by Item 401(d) of Regulation S-K, there are no family relationships between Ms. Bonasso and any of our directors or executive officers. With respect to Item 404(a) of Regulation S-K, except as described herein, there are no relationships or related transactions between Ms. Bonasso and us that would be required to be reported.

In connection with Ms. Bonasso's appointment as Head of Finance & Group Controller, on December 18, 2020, we entered into an employment agreement with Ms. Bonasso, which sets forth the terms and conditions under which Ms. Bonasso will serve in this position. The employment agreement has no specific term and continues until terminated in accordance with the terms therein. Ms. Bonasso's current annual base salary for fiscal year 2021 will be Swiss Francs (CHF) 250,000. Ms. Bonasso's annual base salary will be reviewed by us from time to time.

Both we and Ms. Bonasso must give a minimum of six months' prior notice to terminate her employment, other than for cause (as provided for in the employment agreement). Ms. Bonasso is obligated to refrain from competition with us and also refrain from soliciting our employees, suppliers or customers for a period of one year after her termination, unless that period is shortened by a period of leave. After notice to terminate has been given by Ms. Bonasso or us, all or part of the duration of the notice period of leave would be counted as part of the non-competition period.

In addition to her salary, Ms. Bonasso is entitled to certain annual allowances and to benefits in accordance with our Swiss pension fund and insurance plans. Ms. Bonasso is eligible for an annual discretionary bonus equal to 25% of her base salary.

On February 1, 2021, we entered into a change of control agreement with Ms. Bonasso. The purpose of the change of control agreement is to establish certain protections for Ms. Bonasso upon a qualifying termination of her employment in connection with a change of control of our company.

The change of control agreement provides that, if we terminate Ms. Bonasso's employment without "Cause" (as defined in the change of control agreement) or Ms. Bonasso terminates her employment for "Good Reason" (as defined in the change of control agreement) and, in either case, such termination occurs within 24 months following a "Change of Control" (as defined in the change of control agreement), then, subject to Ms. Bonasso executing and delivering to us a release and waiver of claims, she will receive a lump sum payment of the following:

- any accrued obligations owed to her, which include: (i) any of her annual base salary earned through the effective date of termination that remains unpaid; (ii) any bonus payable with respect to any fiscal year which ended prior to the effective date of her termination of employment, which remains unpaid; and (iii) any expense reimbursement due to her on or prior to the date of termination which remains unpaid to her; and

- a cash payment equal to 150% of the sum of her base salary plus target annual bonus in effect on the date of termination, without taking into effect any reduction in her annual base salary that may constitute "Good Reason" under the change of control agreement.

In addition, immediately prior to the effective date of termination, 100% of Ms. Bonasso's then outstanding, unvested equity awards, if any, will immediately vest and, if applicable, become exercisable (and any rights of repurchase by us or restriction on sale on Ms. Bonasso's then outstanding equity awards will lapse), and, following the effective date of termination, Ms. Bonasso's then outstanding equity awards, if any, will, if applicable, remain exercisable for a period of 12 months or until the expiration date of the equity award, whichever is the shorter period.

The change of control agreement will expire on February 1, 2024 and will automatically renew for successive one year terms unless our board of directors provides written notice of expiration of the change of control agreement at least 90 days prior to February 1, 2024 or the applicable anniversary thereof.

The above summary descriptions of certain terms contained in the employment agreement and the change of control agreement do not purport to be complete and are qualified in their entirety by reference to the full texts of the employment agreement and the change of control agreement, copies of which are filed as Exhibits 10.1 and 10.2, respectively, hereto.

Item 6. Exhibits

The following is a list of exhibits filed as part of this Quarterly Report on Form 10-Q:

Exhibit No.	Description
10.1	Employment Agreement, dated December 18, 2020, between Quotient Suisse SA and Vittoria Bonasso
10.2	Change of Control Agreement, dated February 1, 2021, between the Company and Vittoria Bonasso
31.1	Certification of Franz Walt, Chief Executive pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Peter Buhler, Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Franz Walt, Chief Executive pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Peter Buhler, Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	The following financial information from Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 2020 filed with the SEC, formatted in Inline Extensible Business Reporting Language (Inline XBRL): (i) Condensed Consolidated Balance Sheets (unaudited), (ii) Condensed Consolidated Statements of Comprehensive Loss (unaudited), (iii) Condensed Consolidated Statements of Changes in Shareholders' Deficit (unaudited), (iv) Condensed Consolidated Statements of Cash Flows (unaudited) and (v) Notes to Condensed Consolidated Financial Statements.
104	Cover Page Interactive Data File, formatted in Inline XBRL (included as Exhibit 101).

SIGNATURES

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

QUOTIENT LIMITED

Date: February 4, 2021

/s/ Franz Walt
Franz Walt
Chief Executive Officer

Date: February 4, 2021

/s/ Peter Buhler
Peter Buhler
Chief Financial Officer