

Scio Diamond Technology Corp
Form 10-K
July 14, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended March 31, 2016

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: 000-54529

SCIO DIAMOND TECHNOLOGY CORPORATION

(Exact name of registrant as specified in its charter)

Nevada

(state or other jurisdiction of incorporation or organization)

45-3849662

(I.R.S. Employer I.D. No.)

**411 University Ridge Suite D
Greenville, SC 29601**

(Address of principal executive offices, including zip code)

(864) 751-4880

(Registrant's telephone number, including area code)

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

None

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

Common Stock, par value \$0.001

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§

Edgar Filing: Scio Diamond Technology Corp - Form 10-K

332.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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

Large accelerated filer o

Accelerated filer o

Non-accelerated filer o

Smaller reporting company x

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No x

The aggregate market value of voting common stock held by non-affiliates of the registrant as of September 30, 2015, the last business day of the registrant's most recently completed second fiscal quarter, computed by reference to the closing sale price of the registrant's common stock on that date, was approximately \$43,414,118.

The number of shares of common stock outstanding as of July 8, 2016 \$0.001 par value, was 65,098,291.

INDEX

| | |
|---|----|
| <u>PART I</u> | 4 |
| <u>ITEM 1. BUSINESS</u> | 4 |
| <u>ITEM 1A. RISK FACTORS</u> | 10 |
| <u>ITEM 1B. UNRESOLVED STAFF COMMENTS</u> | 20 |
| <u>ITEM 2. PROPERTIES</u> | 20 |
| <u>ITEM 3. LEGAL PROCEEDINGS</u> | 20 |
| <u>ITEM 4. MINE SAFETY DISCLOSURES</u> | 20 |
| <u>PART II</u> | 21 |
| <u>ITEM 5. MARKET FOR COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES</u> | 21 |
| <u>ITEM 6. SELECTED FINANCIAL DATA</u> | 21 |
| <u>ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u> | 22 |
| <u>ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u> | 28 |
| <u>ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA</u> | 29 |
| <u>ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS AND FINANCIAL DISCLOSURE</u> | 47 |
| <u>ITEM 9A. CONTROLS AND PROCEDURES</u> | 47 |
| <u>ITEM 9B. OTHER INFORMATION</u> | 48 |
| <u>PART III</u> | 49 |
| <u>ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE</u> | 49 |
| <u>ITEM 11. EXECUTIVE COMPENSATION</u> | 51 |
| <u>ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS</u> | 55 |

| | |
|--|----|
| <u>ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE</u> | 56 |
| <u>ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES</u> | 56 |
| <u>PART IV</u> | 58 |
| <u>ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES</u> | 58 |

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Report, including information included or incorporated by reference in this document, contains statements which constitute forward-looking statements. Forward looking statements made by penny stock issuers such as the Company are excluded from the safe harbor in Section 21E of the Securities Exchange Act of 1934. Forward-looking statements may relate to our financial condition, results of operation, plans, objectives, or future performance. These statements are based on many assumptions and estimates and are not guarantees of future performance. Our actual results may differ materially from those anticipated in any forward-looking statements, as they will depend on many factors about which we are unsure, including many factors which are beyond our control. The words “may,” “would,” “could,” “should,” “will,” “expect,” “anticipate,” “predict,” “project,” “potential,” “believe,” “continue,” “assume,” “intend,” “plan,” and “estimate” and similar expressions, are meant to identify such forward-looking statements.

Forward-looking statements are subject to certain risks and uncertainties which could cause actual results to differ materially from those anticipated. Such risk and uncertainties include, without limitation, those described below under Item 1A - Risk Factors and the following: (1) the Company has limited cash resources and if it is not able to obtain further financing required for continuing operations, marketing, product development, and research its business operations will fail, (2) the Company has not generated substantial revenues or cash flow from operations, and as a result, faces a high risk of business failure, (3) the Company experienced a production shutdown in December 2015 that has limited recent production and revenue, (4) the Company’s lack of diversification and dependence on material customers increases the risks associated with the Company’s business and an investment in the Company, and the Company’s financial condition may deteriorate rapidly if it fails to succeed in developing the Company’s business and expanding our customer base, (5) the Company may not effectively execute the Company’s business plan or manage the Company’s potential future business development, (6) the Company may expend a substantial amount of time and resources in connection with the Securities and Exchange Commission’s (“SEC”) recent subpoena, potential inquiries or legal actions in connection with its filings with the SEC or otherwise, which may impair the Company’s ability to raise capital and to operate its business, (7) the Company’s business could be impaired if it fails to comply with applicable regulations, (8) the Company has had significant turnover in management and may not be able to retain key management personnel to manage the Company or laboratory scientists to carry out the Company’s business operations, which could have a material adverse effect on the Company’s business, (9) the market for lab-grown diamond may not develop as anticipated, (10) competition may adversely affect our business, and (11) the Company needs to raise additional capital and may only issue common shares up to the shares authorized under its articles of incorporation without shareholder approval. You are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date hereof. The Company undertakes no obligation to publish revised forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events. You are also urged to review and consider carefully the various disclosures made hereafter by the Company from time to time with its SEC filings.

PART I

ITEM 1. BUSINESS

Corporate History

We were incorporated on September 17, 2009 in the State of Nevada under the name Krossbow Holdings Corporation (“Krossbow”). Krossbow did not implement its original business plan and decided to acquire existing technology to seek to efficiently and effectively produce man-made diamond. In connection with this change in business purpose, Krossbow changed its name to Scio Diamond Technology Corporation to reflect its new business direction.

In August 2011, the Company acquired certain assets of Apollo Diamond, Inc. (“ADI”) consisting primarily of diamond growing machines and intellectual property related thereto, for which the Company paid ADI an aggregate of \$2,000,000 and also agreed to provide certain current and former stockholders of ADI qualifying as accredited investors the opportunity to acquire up to approximately 16 million shares of common stock of the Company for \$0.01 per share.

In June 2012, the Company acquired substantially all of the assets of Apollo Diamond Gemstone Corporation (“ADGC”), consisting primarily of lab-grown diamond gemstone-related know-how, inventory, and various intellectual property, in exchange for \$100,000 in cash and the opportunity for certain current and former stockholders of ADGC qualifying as accredited investors to acquire up to approximately 1 million shares of common stock of the Company for \$0.01 per share.

In December, 2011, the Company began a build-out of its Greenville, South Carolina production facility. Construction was largely completed in March 2012 and equipment was moved from ADI’s former facility in Massachusetts to South Carolina over the first calendar quarter of 2012. The Company began initial production with ten diamond growing machines in July 2012.

Since July 2012, the Company has been operational with ten diamond growing machines in our Greenville facility. Through March of 2013, the Company’s production was focused on industrial cutting tool products supplied to a single customer. Subsequent to March 2013, the Company has expanded its product focus to include diamond gemstone material.

On September 16, 2013, the Company entered into a series of agreements with SAAMABA, LLC and S21 Research Holdings (the “Grace Rich Agreements”) to form a joint venture (“Grace Rich LTD”) with operations in the People’s Republic of China (“PRC”) to deploy over 100 Company designed diamond growing machines. Under the Grace Rich Agreements, the Company has agreed to license its proprietary technology for the manufacture of diamond gemstones of agreed upon specifications. In exchange for the license, the Company received licensing and development revenue and a 30% ownership position in the joint venture. In addition to the licensed technology, the Grace Rich Agreements include obligations for the Company to provide and be compensated for technology consulting services to the joint venture to support the start-up of operations. The Company does not control the joint venture and is not required to make any on-going funding contributions to the joint venture and our ownership stake cannot be reduced from 30%.

On December 16, 2014, the Company entered into an agreement for the Sale and Lease of Growers (the “Grower Sale-Lease Agreement”) with Heritage Gemstone Investors, LLC (“HGI”). Pursuant to the Grower Sale-Lease Agreement, the Company agreed to a sale-leaseback arrangement for certain diamond growers produced by the Company during the term of the Grower Sale-Leaseback Agreement by which the Company will sell diamond growers to HGI and then lease the growers back from HGI. The direct profit margin generated from the growers will be split between the Company and HGI in accordance with the Grower Sale-Lease Agreement. The Grower Sale-Lease Agreement requires the Company to operate and service the growers, and requires HGI to up-fit certain existing growers and to make capital improvements to the new growers under certain circumstances. The Company will also have the right to repurchase the leased growers upon the occurrence of certain events.

On December 18, 2014 entered into an arrangement with Renaissance Diamonds, Inc. (“Renaissance”) creating Renaissance Created Diamond Company, LLC (“RCDC”). The Company and Renaissance are each 50% members of RCDC. The arrangement was entered into in order to facilitate the development of procedures and recipes for, and to market and sell, lab-grown fancy-colored diamonds. RCDC will purchase rough diamond material from the Company and process and finish the material into finished gemstones for sale to various retailers and other participants in the market for gemstones. Profits generated by RCDC's operations will be distributed between the Company and Renaissance according to the terms of the LLC Agreement.

Our Business

General

The Company is first and foremost a materials company that has developed proprietary technology through which high quality single crystal diamond materials are produced through a chemical vapor deposition (“CVD”) process (the “Diamond Technology”). The Company’s primary mission is the development of profitable and sustainable commercial production of its diamond materials, which are suitable for known, emerging and anticipated industrial, technology and consumer applications. The Company intends to pursue progressive development of its core diamond materials technologies and related intellectual property that the Company hopes will evolve into product opportunities across various applications. We believe these opportunities may be monetized through a combination of end product sales, joint ventures and licensing arrangements with third parties, and through continued development of intellectual property. Anticipated application opportunities for the Company’s diamond materials include the following: precision cutting devices, diamond gemstone jewelry, power switches, semiconductor processors, optoelectronics, geosciences, water purification, and MRI and other medical science technology.

Prior to October 1, 2011, the Company was a development stage company. Developmental activities ceased and the Company commenced producing diamond materials in July 2012. Less than four years into production, the Company is in the initial phases of commercializing the Diamond Technology and our goal is to become a preferred manufacturer of single crystal diamond and a leading global supplier of diamond materials for multiple applications. The Company hopes to further shape the evolution of various markets for its product and to leverage the technical foundation of the Diamond Technology by expanding into strategic partnerships with select industry leaders with distribution channels already in place to capture high value application opportunities.

As of March 31, 2016, nearly all of the Company’s production capacity is being sold for use in the gemstone market.

The Diamond Technology

We acquired our Diamond Technology primarily from ADI. ADI was originally founded in 1990 with the goal of developing and perfecting two advanced semiconductor materials, gallium nitride (now used in light emitting diodes) and diamond. From 2000 onward, ADI focused solely on diamond and developing a process by which large, single-crystal diamond could be grown in a controlled laboratory environment.

The core Diamond Technology that was acquired by the Company is based on a CVD diamond growth system. Diamond wafers produced through the Diamond Technology CVD process have been shown to be exceptionally pure (nitrogen content < 10 ppb), and possess low levels of structural defects. Advances in this technology have dramatically improved the quality, and lowered the cost of high-quality diamond, resulting in new applications of diamond in electronics, optics, high power devices and quantum computing.

The Diamond Technology provides a materials production platform and is supported by intellectual property, including trade secrets, 36 issued patents (28 in the United States and 8 in foreign jurisdictions).

Our Diamond Technology utilizes CVD growth technology to produce diamond crystals. This technology utilizes a highly scalable manufacturing process for producing large size, high-quality diamond crystals at a low cost. Unlike the high-pressure, high-temperature (“HPHT”) process, the Diamond Technology process allows for concurrent production of multiple diamond crystals.

The Company’s diamond crystals are grown on small slices of diamond called “seeds” that the Company either grows internally or acquires from third parties. Over time, the Company has been able to transition to larger seeds than previously used. This transition allows the Company to see a substantial increase in the size of the material it is producing and allows for the Company to better match its production to specific customer needs.

The Diamond Technology can also be scaled through larger capacity diamond growing platforms the Company believes will enable it to increase its production by another fifty percent over the anticipated production with maximum seed size scaling. The Company has moved to this larger diamond platform in fiscal 2016, but the Company needs to continue to invest in research and development to attain the anticipated production increases from this platform.

Finally, we expect that as we increase our production levels, our production costs per carat will actually decrease due to economies of scale.

Facilities

The Company's production facility is located in Greenville, South Carolina. This facility, covering 9,470 square feet of leased space including both our headquarters and our production facility. Ten of the production growers purchased from ADI were installed in the facility and are currently operating. In the last fiscal year, the Company added two additional growers to the Greenville facility during the year which we believe is the maximum capacity of this facility.

The Grace Rich LTD joint venture's production facility is under development in the PRC and is not operational as of March 31, 2016.

Products and Markets

The current market for laboratory-grown diamond remains largely unknown and uncertain. Sales of laboratory-grown diamond into the gemstone market are thought to be very small currently. The industrial market for these products is more developed, but it is diffused globally and the Company is unable to reliably estimate its size or breadth.

In addition to opportunities in the diamond gemstone market and precision cutting market, we will continue to explore other opportunities for our diamond materials through applications where the unique properties of diamond may be desirable and advantageous, including: alternative energy, optoelectronics, communications, biotechnology, water treatment, quantum computing and the diamond device arenas.

Competitive factors that will influence the market for our products include product quality, consistency of supply and price. We believe that we will be able to compete on the basis of these factors. We believe that we will be able to reliably and efficiently produce lab-grown diamond possessing substantially the same qualities and characteristics of their mined diamond counterparts.

Gemstones

Within the gemstone industry, our single-crystal diamond can be used in jewelry products requiring the highest quality gemstones and can be regularly grown in matched color sets ranging in polished sizes from 5-points (0.05 carats) to over 1.50 carats. Our diamond may be well suited for jewelry featuring matching diamond of various sizes, clarities

and colors, diamond engagement rings, and fashion jewelry. The potential consistency and other potential characteristics of lab-grown diamond gemstones grown using the Diamond Technology may provide advantages over their mined counterparts in areas that matter to jewelers, jewelry manufacturers and consumers, with potential characteristics such as:

- Equal quality and brilliance of diamond product;
- Matched sizes, colors and clarities (particularly in goods ranging in sizes from 0.05 - 0.50 carats);
- Consistency of diamond finish due to high quality;
- Opportunity for color palette of diamond gemstones; and
- Lack of negative issues related to environmental and social concerns.

We will seek to establish and maintain market acceptance through consumer education and industry cooperation. We intend to educate retailers and consumers on the physical properties of the Company's lab-grown diamond as compared to mined diamond and quality of the Company's lab-grown diamond.

Commercial, Industrial and Technological Applications

Diamond has exceptional qualities for use in advanced electronics and optics applications, but to date, development progress has been slow because of, among other things, diamond's relative scarcity and high cost. Diamond's unique hardness, clarity and thermal characteristics have made it highly desirable for scientific use for decades. However, material consistency issues and economics have created barriers to mass application adoption of diamond. We believe that our patented technology and production approach give us the ability to improve the quality and lower the cost of producing diamond materials, creating the opportunity for usage in a wider range of applications.

The demand for computing and communications products has increased significantly. As devices become more intelligent and ubiquitous, the need for connectivity at very high speeds, data intensive storage needs and ever-faster computer processors are pushing the limits of conventional silicon-based devices. Diamond enables these technologies to move past their current limitations and may be able to facilitate the development of next-generation devices in key areas such as wireless networking, optical storage, and high speed computing.

The Company anticipates several opportunities to monetize our patented technology and production approach in various technological applications. Pursuit of these opportunities is expected to be directed in part in concert with strategic partners.

Several of diamond's properties provide significant advantages over other materials used in devices/systems, such as high power switches, radiation detectors, and microwave windows suitable for use in plasma fields or other nuclear reactor high-electromagnetic interference ("EMI") environments.

Industrial diamonds already comprise what we estimate is a \$1 billion-plus market per year, but consist of low-quality diamonds that have primarily been utilized in rudimentary cutting and polishing devices. These diamond materials are largely in the form of diamond grit and diamond dust. Through the introduction of higher-quality relatively large diamond materials, substantial growth is anticipated for the industrial diamond market. As previously noted, we have initially experienced this in precision cutting devices.

The diamond and diamond-like materials historically used in the development of these non-gem applications have various limitations that have formerly impeded progress in optoelectronics and other technology applications. As our production volume increases and manufacturing costs continue to decrease due to our capacity expansion, we anticipate that our diamond materials will provide a viable and potentially economically preferred alternative for many of these highly-valued electronic, optical and industrial applications.

In order to more fully explore the opportunities discussed above, we intend to continue current production of our high quality diamond materials and to pursue related commercial opportunities. Currently, we intend to continue to explore opportunities in the precision cutting devices market while concurrently seeking opportunities for our lab-grown diamond gemstones.

The Industry and Competition

Our lab-grown diamond gemstones and diamond materials for use in industrial applications face competition from established producers and sellers of mined diamond, including companies such as De Beers, and other known and current and potential future manufacturers of lab-grown diamond. Our competitors include large multi-national gemstone diamond companies as well as start-up and development-stage gemstone diamond and technology companies, some of whom we may not be aware. Many of our competitors have significantly greater financial, technical, manufacturing and marketing resources and greater access to distribution channels than the Company. Many of our competitors may be able to devote substantially greater resources to promotion and systems development than we can. Barriers to developing competitive technology in our market may not be sufficient to prevent competitors

from entering the industry, and current and new competitors may be able to develop competing diamond at a relatively low cost. We believe that our success will depend heavily upon whether we can achieve significant market acceptance before our potential competitors are able to introduce broadly accepted competitive products.

Companies that produce lab-grown diamond and who may compete with the Company in one or more of its markets include Element Six, a privately held subsidiary of De Beers, AOTC Group NV (Netherlands), Pure Grown Diamond/IIa Technologies (USA, Singapore & Malaysia), Washington Diamond/Carnegie Institute, Sumitomo Electric Industries, Ltd., Diamond Foundry and Cornes Technologies (Japan). Other companies could seek to introduce lab-grown diamond or other competing diamond or to develop competing processes for production of lab-grown diamond and diamond materials. We believe that competition will increase as demand for diamond materials increases for use in industrial and technology applications and as lab-grown diamonds continue to gain market acceptance.

Raw Materials

The principal raw materials used in the manufacture of our products are diamond seeds and certified high purity bottled gases. Certain diamond seeds are purchased from other diamond material producers, but the Company maintains its primary seed inventory through its self-sustaining seed production. Seeds are re-used through multiple production runs.

Our manufacturing process is dependent upon a moderate amount of electrical power delivered on an uninterrupted basis. The Company has worked with the local electric utility, a Fortune 200 company, to build and operate equipment at its manufacturing site that meets its needs. This equipment is provided to the Company on a long-term operating lease, which includes warranty, maintenance, and the delivery of electrical power at attractive per kilowatt/hour rates.

Our process also uses high purity, laboratory grade gases. These gases are readily available from a variety of suppliers in the local region. These gases are used by a number of industrial and medical laboratories and manufacturers. The gases provide the high purity carbon, hydrogen, nitrogen, oxygen and other gases required to deposit high quality, single crystal diamond.

Customers

Our customers in the gemstone marketplace consist of diamond brokers, diamond cutters and diamond wholesalers both domestic and foreign. Diamond cutters take deliveries of diamonds in a rough form, known as cores or whole crystals, where they will employ a variety of industry standard techniques of laser cutting and polishing diamonds. These techniques are identical to the techniques that are used in the production of mined gems. Diamond brokers and wholesalers will also take delivery of our diamonds in the rough form, but will also purchase diamond gems that we cut and polish.

If we continue to reliably manufacture diamond products and are successful in expanding our manufacturing capacity, we anticipate that we will experience increased demand for our products both domestically and internationally, given the potential demand for diamond, the variety of potential uses for these products in gemstone, high tech applications, alternative energy technologies, and defense technologies.

Patents, Trademarks, Licenses, Franchises, Concessions, Royalty Agreements or Labor Contracts

At March 31, 2016, we held the following number of patents:

| Jurisdiction | No. of Patents |
|---------------|----------------|
| United States | 28 |
| Foreign | 8 |
| Total | 36 |

During the fiscal year ended March 31, 2016, the Company had one new patent granted in the United States. This patent expanded our intellectual property rights related to our Diamond Technology.

All of the Company's patents have various lives based on the date of issue. Expiration of individual patents is expected to occur between 2019 and 2032.

Our research and development staff will continue efforts to develop proprietary manufacturing processes and equipment designed to enhance our manufacturing facilities and reduce costs.

We also own various trademarks and trade secrets that we developed within the Company or acquired from ADI and ADGC.

Distribution

Through March 31, 2016 the Company has had a limited number of customers. The Company has distributed its products directly to these customers without using intermediaries or distributors.

Joint Ventures

On September 16, 2013, the Company entered into the Grace Rich Agreements to form a joint venture with operations in the PRC. This joint venture is to initially deploy 100 Scio-designed diamond growing machines. The Company has licensed its proprietary technology for the manufacture of diamond gemstones to the joint venture to produce material of agreed upon specifications. In exchange for the license, the Company has received licensing and development revenue and a 30% non-dilutable ownership position in the joint venture. In addition to the licensed technology, the Grace Rich Agreements include obligations for the Company to provide and be compensated for technology consulting services to the joint venture to support the start-up of operations. The Company is assisting the joint venture with the initial deployment of the licensed technology and the development of its production facility. The Company does not control the joint venture and is not required to make any on-going funding contributions.

On December 18, 2014, the Company entered into an arrangement with Renaissance Diamonds, Inc. (“Renaissance”) creating Renaissance Created Diamond Company, LLC (“RCDC”). The Company and Renaissance are each 50% members of RCDC. The arrangement was entered into in order to facilitate the development of procedures and recipes for, and to market and sell, lab-grown fancy-colored diamonds. RCDC will purchase rough diamond material from the Company and process and finish the material into finished gemstones for sale to various retailers and other participants in the market for gemstones. Profits generated by RCDC's operations will be distributed between the Company and Renaissance according to the terms of the LLC Agreement.

Government Regulations

Laboratory technology activities are subject to various federal, state, foreign and local laws and regulations, which govern research, lab development, taxes, labor standards, occupational health, and waste disposal, protection of the environment, mine safety, hazardous substances and several other matters. We believe that we are in compliance in all material respects with applicable technology, health, safety and environmental statutes and the regulations promulgated by the relevant jurisdictions. Currently, there are no costs associated with our compliance with such regulations and laws. Certain federal and state laws and regulations govern the testing, creation and sale of the types of diamond we intend to produce. The United States Federal Trade Commission (“FTC”) and other comparable regulatory authorities in the United States and in foreign countries may extensively and rigorously regulate our lab-grown diamond, product development activities and manufacturing processes. In the United States, the FTC regulates the introduction and labeling of gemstone diamond. We may be required to:

- Obtain clearance before we can market and sell our lab-grown diamond;
- Satisfy content requirements applicable to our labeling, sales and promotional materials;
- Comply with manufacturing and reporting requirements; and
- Undergo rigorous inspections.

The process of obtaining marketing clearance for new gemstone diamond from the FTC may prove costly and time consuming. The FTC has neither approved nor prohibited the use of the term “cultured” to describe the diamond the Company intends to sell as gemstones. However, in December 2006, the Jewelers’ Vigilance Committee submitted a petition (the “Petition”) to the FTC seeking amendment to the Guides for the Jewelry, Precious Metals, and Pewter Industries, 16 C.F.R. Part 23 (“Guides”) to include the term “cultured” as a proscribed term to describe laboratory-created diamond. By opinion, dated July 21, 2008, the FTC denied the Petition, finding it did not demonstrate that the use of the term “cultured” to describe laboratory-created diamond, when qualified by one of the terms provided in the Guides, is deceptive or unfair and declined to amend the Guides as requested by the Petition. The Company has not procured FTC clearance, and the FTC has not precluded the Company from selling diamond produced using the Diamond Technology. FTC has the power to restrict the offer and sale of diamond that could deceive or have the tendency or effect of misleading or deceiving purchasers or prospective purchasers with regard to the type, kind, quality, character, value, origin or other characteristics of a diamond gemstone. Under current guidelines issued by the FTC, the Company is permitted to market its diamond gemstones as “Scio-created,” “lab-created diamond”, “laboratory created diamond,” “laboratory grown diamond” or “cultured” so long as that term is accompanied by any of the foregoing and such designations may inhibit marketing descriptions that are more favorable to creating consumer demand. We may come under close scrutiny by governmental agencies and industry testing organizations and also by competitors in the gemstone industry, any of which may challenge our promotion and marketing of our lab-grown diamond. If our production or marketing is challenged by governmental agencies or competitors, or if regulations are issued that restrict our ability to produce and market our lab-grown diamond as “cultured diamond”, “lab-created diamond”, or otherwise as a mined diamond alternative, our business, operating results and financial condition could be materially adversely affected.

Our lab-grown diamond must also comply with similar laws and regulations of foreign countries in which we market such diamond. In general, the extent and complexity of gemstone diamond regulation is increasing worldwide. This trend may continue, and the cost and time required to obtain marketing clearance in any given country may increase as a result. Should it prove necessary, there can be no assurances that our lab-grown diamond will obtain any necessary foreign clearances on a timely basis, or at all.

Federal, state, local and foreign laws and regulations (especially those regarding approval of gemstone diamond) are always subject to change, and could have a material adverse effect on the testing and sale of our lab-grown diamond and, therefore, our business.

Research and Development

Our research and development activities have been limited to date as we have focused first on establishment of our production facility and immediately thereafter on production of diamond materials for commercial purposes. We expect to invest in new technology and intellectual property development to further improve production efficiencies and develop new products in the future.

Environmental Regulations

Our operations are subject to local, state and federal laws and regulations governing environmental quality and pollution control. To date, our compliance with these regulations has had no material effect on our operations, capital, earnings, or competitive position, and the cost of such compliance has not been material. We are unable to assess or predict at this time what effect additional regulations or legislation could have on our activities.

Employees

We had nine full-time employees as of March 31, 2016.

Securities Exchange Act of 1934 Reports

We maintain an Internet website at the following address: <http://www.sciodiamond.com>. The contents of the website are not incorporated either directly or by reference into this Form 10-K or into our other filings with the SEC. The Company makes available on or through our Internet website certain reports and amendments to those reports that are filed or furnished to the SEC pursuant to Section 13(a) or 15(d) of the Exchange Act. These include annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and beneficial ownership reports on Forms 3, 4 and 5. This information is available on our website free of charge as soon as reasonably practicable after we electronically file the information with, or furnish it to, the SEC.

ITEM 1A. RISK FACTORS.

Our business, financial condition, and results of operations could be harmed by any of the following risks, or other risks that have not been identified or which we currently believe are immaterial or unlikely. Shareholders should carefully consider the risks described below in conjunction with the other information in this Form 10-K and the information incorporated by reference in this Form 10-K, including our financial statements and related notes.

Risks Related to Our Business

We have a limited operating history, and have incurred losses to date. We have generated limited revenues to date, and therefore it is difficult to evaluate our business and prospects.

Our Company is in its early stages of operation. While our Company has recently engaged in revenue-producing business activities, it is not yet a profitable enterprise and may incur substantial losses for the foreseeable future. In addition, the Company's revenues are presently derived from a limited number of customers. As a company in the early stages of operation, our business is subject to all the risks inherent in a new business enterprise. We have no substantial operating history for investors to consider in evaluating our business and prospects. When making an

investment decision, investors should consider the risks, expenses and difficulties that we may encounter as a young company in a new market. These risks include, but are not limited to, the following:

- Our need to fund and manage our rapidly developing and changing operations;
- Our need to expand our sales and marketing activities;
- Our need to quickly hire and integrate new personnel, including various levels of senior management who have been hired relatively recently;
- Our ability to develop additional applications and markets for our diamond materials, including the diamond gemstone industry;
- Our ability to produce diamond materials sufficient to meet the specifications and needs of various industrial and technology applications;
- Our ability to produce diamond materials and lab-grown diamond sufficient to meet anticipated demand in the gemstone marketplace;
- Acceptance of our lab-grown diamond in the gemstone marketplace; and
- The need to further refine and improve our technology with respect to man-made diamond development/growing and commercialization — including the need to make the diamond growing process commercially viable, acceptable (by our own and third party measures) and economical — and our intellectual property and product offerings, and the need to respond to changing technologies and consumer preferences.

Likewise the diamond materials and lab-grown diamond gemstones produced using the Diamond Technology (collectively “Scio Diamond Materials”) are in a relatively early stage of development and are subject to the risks inherent in the development and marketing of Scio Diamond Materials, including unforeseen design, manufacturing or other problems or failure to develop market acceptance. Our business is subject to the risks inherent in the transition of technology from research and development and prototype proof-of-concept to commercial production and market acceptance.

Failure by the Company to complete and integrate commercial development of the Scio Diamond Materials it will market and distribute in sufficient quantities to meet market demand would have a material adverse effect on the Company’s business, operating results and financial condition. Accordingly, the Company’s prospects must be considered in light of the risks, expenses and difficulties frequently encountered by companies in their early stage of development, particularly technology-based companies operating with developing and unproven manufacturing processes.

To address these risks, the Company must, among other things, respond to competitive developments, attract and motivate qualified personnel, develop market acceptance for its diamond, establish effective distribution channels, effectively manage any growth that may occur and continue to upgrade and successfully commercialize the Diamond Technology and Scio Diamond Materials incorporating such technology.

The Company purchased its Diamond Technology from ADI and ADGC (together, the “Apollo Companies”). Neither of the Apollo Companies was able to successfully (profitably) develop and commercialize their man-made diamond development/growing process.

We will require additional funding.

We currently have limited cash and working capital to support our operations. Our future continuing operations will require additional funding, and we may not be able to obtain such funding on acceptable terms or at all. We likely will require additional capital to be able to fund continued development and improvement of the process for growing Scio Diamond Materials and to fund our expansion of manufacturing capacity to meet projected growth of the market for our diamond. There can be no assurance that such efforts for raising capital will not involve substantial dilution with respect to existing or future stockholders of the Company.

Our future capital requirements will depend on many factors, including the speed at which our production process can be scaled-up for high yield production, market acceptance of and demand for our diamond, and the timing of our expansion into new diamond markets. Our future capital requirements depend upon many factors, including, but not limited to:

- The rate at which we increase our production capacity;
- The rate at which we expand our sales and marketing operations;
- The rate at which we attract consumers, distributors and strategic relationships;
- The extent to which we are able to develop and upgrade the technology and infrastructure; and
- The response of competitors to our Scio Diamond product offerings.

We expect additional financing to be required and there can be no assurance that additional equity or debt financing, if required, will be available on acceptable terms or at all. If we raise additional funds by selling stock, the percentage ownership of our then current stockholders will be reduced, and we may raise these funds with securities that have rights, preferences, or privileges equal or superior to the rights of investors owning our common shares. If we cannot raise adequate funds to satisfy our capital requirements, we may have to limit our operations significantly, or the Company could terminate operations entirely, resulting in a complete loss of investment for our stockholders. Our inability to obtain financing on acceptable terms when needed would have a material adverse effect on the Company’s

business, operating results and financial condition.

We have had significant turnover in key management personnel.

We have had significant turnover in our executive officers. Our success depends in part upon our ability to retain the services of certain executive officers and other key employees and on the skills, experience and performance of senior management and certain other key personnel, most of whom have either never worked together or who have worked together for only a short period of time. The loss of the services of our executive officers or other key employees would have a material adverse effect on our business, operating results and financial condition. Because we are in the early stages of commercialization, we are also dependent on our ability to recruit, retain and motivate personnel with technical, manufacturing and chemical vapor deposition process skills. There are a limited number of personnel with these qualifications and competition for such personnel may be intense. Our inability to attract, integrate and retain additional qualified key personnel would materially adversely affect our business, operating results and financial condition.

We may expend a substantial amount of time and resources in connection with SEC, other regulatory or stockholder-related inquiries or legal actions related to our filed financial statements and other disclosures and the transactions related thereto or other matters.

In 2014, we received a subpoena issued by the SEC ordering the provision of documents and related information concerning various corporate transactions between the Company and its predecessors and other persons and entities. The Company is fully cooperating with this inquiry. We may expend a substantial amount of time and resources in connection with the SEC subpoena, other regulatory or stockholder-related inquiries or legal actions related to our previously filed financial statements and other disclosures and the transactions related thereto or other matters. Such actions could have a material adverse effect on the Company's liquidity and financial condition and could also affect our ability to file periodic reports on a timely basis and investor confidence in the accuracy and completeness of our financial statements, which in turn could harm our business and have an adverse effect on our stock price and our ability to raise additional funds.

We expect future losses.

In order to achieve a commercially viable operation, we have made and expect to make further significant investments in technology, infrastructure, research and development. We expect to expend substantial financial and other resources on expanding our operations, in particular our diamond growth technology infrastructure, diamond fabrication, and sales/marketing activities. As a result, we must generate significant revenues to achieve and maintain profitability. We expect that our sales and marketing expenses, general and administrative expenses, as well as the continued development expenses will continue to increase.

Our current business model has only recently been implemented.

We produce lab-grown diamonds for retail gemstone consumption. Although other companies are selling lab-grown diamond gemstones, the market for such lab-grown diamond is not fully known. Accordingly, our business model may not be successful, and we may need to make substantial changes thereto. Our ability to generate significant revenues will depend, in large part, on our ability to successfully market our product to consumers, distributors and commercial customers. We intend to continue to develop our business model as the market for our products evolves.

We are wholly dependent on the Diamond Technology.

Our diamond supply depends entirely on our ability to manufacture diamond using the Diamond Technology acquired from ADI and ADGC, the original Scio Diamond Technology Corporation, and parties affiliated with those entities (together, the "Asset Purchase").

Although the ability to produce limited quantities of high quality lab-grown diamond gemstones has been demonstrated, it has yet to be proven that such success can be transferred into a mass production process that will yield high-quality gemstones and material suitable for retail gemstone distribution and commercial/industrial applications. The inability or difficulty to transfer the Diamond Technology into a high-yield production facility would have a material adverse effect on our business, operating results and financial condition. Any disruption in our ability to produce high quality lab-grown diamond would have a significant material effect on our business.

Our business is exposed to the risk of facility and equipment failures.

Like any manufacturing process, our business relies upon properly and efficiently run equipment and facilities. Over time, our facilities and equipment depreciates and degrades. In addition, our facilities and equipment are designed and manufactured by independent third parties, which carries a risk of improper design. Although the Company attempts to maintain its facilities and equipment in proper working order and according to its standards, there is a risk of a potential equipment failure in its facilities or equipment. Such a failure could result in a substantial loss to the Company and impact its ability to continue to operate.

Our future revenues are unpredictable, and we expect our operating results to fluctuate from period to period.

Our lack of operating history and the emerging nature of the markets in which we expect to compete make it difficult for us to accurately forecast revenues in any given period. As such, revenues could fall short of our expectations if we experience production delays or difficulties. Likewise, revenues could fall short of expectations should our product not be met with the demand we anticipate from the marketplace. We have limited experience in financial planning for our business on which to base our planned operating expenses.

Our operating results are likely to fluctuate substantially from period to period as a result of a number of factors, many of which are beyond our control. These factors include, but are not limited to, the following:

- Outside market influences beyond our control, including extended periods of decreased demand for Scio diamond;
 - Our ability to enter into successful strategic relationships;
 - Our ability to attract purchasers and/or distributors;
- The amount and timing of operating costs and capital expenditures relating to expansion of production operations;
 - The rate at which individuals and organizations accept our diamond;
 - An announcement or introduction of new or enhanced diamonds or services by our competitors;

Our ability to attract and retain qualified personnel; and
Pricing policies instituted by our current and possible future competitors.

The Company has generated limited revenue to date and consequently its operations are subject to all risks inherent in the establishment of a new business enterprise. We are currently generating limited revenues and expect to continue to generate revenue in the future, but there can be no assurances that we will ever generate sufficient revenues to achieve profitability. If we do achieve profitability, there can be no assurances that we can sustain or increase profitability.

We may not be able to establish effective distribution channels.

We initially intend to sell our diamond in selected markets in the United States and internationally. We expect that we will be required to enter into distribution agreements with, and will be dependent upon, a number of third parties for distribution and sales of our diamond. We are currently selling diamond directly to customers and have not yet entered into distribution agreements with any distributors. There can be no assurance that we will be able to enter into distribution agreements with distributors or that our distribution strategy will prove to be successful. Additionally, there can be no assurance that distributors will devote the efforts needed for successful distribution of our diamond. The inability of the Company to enter into favorable arrangements with distributors or to achieve desired distribution of our diamond would have a material adverse effect on our business, operating results and financial condition.

Our sales of diamond for commercial applications are dependent upon our ability to enter into profitable relationships with businesses best able to reap rewards from the unique characteristics of diamond. There is no assurance that we will be able to initiate and maintain these relationships.

The Diamond Technology may be vulnerable to failure due to potential interruptions in the manufacturing process.

Our success depends, in part, on the performance, reliability and availability of the Diamond Technology and the diamond we ultimately produce. The Diamond Technology and diamond produced thereby may be vulnerable to failure. The failure of the Diamond Technology or diamond produced thereby could adversely affect our business. The process for manufacturing diamond using the Diamond Technology is vulnerable to disruptions due to a variety of factors, which may lead to interruptions, delays, and losses of opportunities or inability to consistently market and sell our lab-grown diamond. The occurrence of any of the foregoing could have a material adverse effect on our business.

We may need to effectively manage rapid growth of our operations.

Our ability to successfully offer diamond and to implement our business plan in new markets requires an effective planning and management process. We are in the process of increasing our operations and anticipate having to increase our headcount as well. Increasing our operations and potentially experiencing rapid growth would place a significant strain on our management systems, infrastructure and resources. We will need to continue to improve our financial and managerial controls and reporting systems and procedures, and will need to continue to expand, train and manage our workforce.

Furthermore, we may be required to manage an increasing number of relationships with various users, customers and other third parties. Any failure to expand any of the foregoing areas efficiently and effectively could cause our business to suffer. We could experience a period of rapid and significant growth, which could continue over several years. We believe rapid growth would place a significant strain on our resources. Our ability to manage growth effectively will require us to implement and improve operational and financial systems and to expand, train and manage our employee base. We also may be required to manage multiple relationships with various suppliers, customers and other third parties. Our future operating results will also depend on our ability to expand sales and marketing, research and development and administrative support organizations. If the Company were unable to manage growth effectively, our business, financial condition and results of operations would be materially adversely affected.

We will need to hire additional personnel.

Our future success depends on our ability to identify, attract, hire, train, retain and motivate highly skilled executive, technical, managerial, sales and marketing and business development personnel. We intend to hire a number of executive, technical, sales, and marketing, business development and administrative personnel during the next one or two years. Competition for qualified personnel may prove intense, particularly in the technology markets. If we fail to successfully attract, assimilate and retain a sufficient number of qualified executives, technical, managerial, sales and marketing, business development and administrative personnel, our business could suffer.

Our success depends upon achieving a critical mass of customers and strategic relationships.

Our success is largely dependent upon achieving significant market acceptance for our diamond. The market for our diamond is at an early stage of development. Although we believe that our diamond will ultimately achieve broad market acceptance, our existing and potential competitors may offer diamond that could negatively affect the market acceptance of our product and damage our business prospects.

Our success is also dependent upon attracting significant numbers of distributors and strategic relationships in order to market our diamond. In particular, our ability to enter into beneficial distribution partnerships will depend in large part upon our success in convincing diamond gemstone consumers that our lab-grown diamond gemstone is of a desired quality. Failure to achieve and maintain a critical mass of market acceptance will seriously harm our business in the diamond gemstone industry.

The current and future state of the global economy may curtail our operations and our anticipated revenues.

Our business may be adversely affected by changes in domestic and international economic conditions, including inflation, changes in consumer preferences and changes in consumer spending rates, personal bankruptcy and the ability to collect our accounts receivable. Changes in global economic conditions may adversely affect the demand for our products and make it more difficult to collect accounts receivable, thereby negatively affecting our business, operating results and financial condition. The recent disruptions in credit and other financial markets and deterioration of national and global economic conditions could, among other things, impair the financial condition of some of our customers and suppliers, thereby increasing customer bad debts or non-performance by suppliers.

Acts of war, terrorism or other unknown and unexpected events could disrupt our business and we could be required to cease our operations.

Involvement in a war or other military action or acts of terrorism may cause significant disruption to commerce throughout the world. To the extent that such disruptions result in (i) delays or cancellations of customer orders, (ii) a general decrease in consumer spending, (iii) our inability to effectively market and distribute our products or (iv) our inability to access capital markets, our business and results of operations could be materially and adversely affected. We are unable to predict whether the involvement in a war or other military action will result in any long-term commercial disruptions or if such involvement or responses will have any long-term material adverse effect on our business, results of operations or financial condition.

There is a “going concern” qualification in our financial statements due to uncertainty about our ability to stay in business.

We have not generated material revenues and have negative operating cash flows. These issues, among others, raise substantial doubt about our ability to continue as a “going concern.”

Risks Related to Our Industry

The potential market for our lab-grown diamond is relatively new and may be impacted by public perception.

The market for lab-grown diamond gemstones is new and continues to evolve. We believe that companies operating in the gemstone field may not be fully aware of the existence and attributes of our lab-grown diamond. As is the case with any new or potential product, market acceptance and demand are subject to a significant amount of uncertainty. Our future financial performance will depend upon consumer acceptance of lab-grown diamond as a realistic and comparable alternative to mined diamond and other gemstones. Because no widely-developed markets now exist for lab-grown diamond gemstones, it is difficult to predict the future growth rate, if any, and the size of the market for our lab-grown diamond gemstones. We may spend significant amounts of capital to acquire diamond production systems at a time when demand for our lab-grown diamond is not at a level to fund those expenditures. The market for our lab-grown diamond gemstones may never develop or may develop at a slower pace than expected due to a general lack of consumer acceptance of lab-grown diamond gemstones. If the market fails to develop or develops more slowly than expected, or if our lab-grown diamond gemstones do not achieve significant market acceptance, our business, operating results and financial condition would be materially adversely affected.

We face significant competition.

Our lab-grown gemstone diamond will face competition from established producers and sellers of earth-mined diamond and other known and potential manufacturers of lab-grown gemstones. Other companies could seek to introduce lab-grown diamond or other competing diamonds or to develop competing processes for production of lab-grown diamond gemstones. We believe that the more successful the Company is in creating market acceptance for Scio diamond, which includes lab-grown gemstones, the more competition can be expected to increase. Increased competition could result in a decrease in the price charged by the Company for our diamond or reduce demand for our diamond, which would have a material adverse effect on our business, operating results and financial condition. Further, our current and potential competitors may have significantly greater financial, technical, manufacturing and marketing resources and greater access to distribution channels than the Company. There can be no assurance that we will be able to compete successfully with existing or potential competitors.

Widespread consumer acceptance of lab-grown diamond gemstones is still developing. At this time, the Company is aware that it may be competing with companies that produce lab-grown diamond for industrial and gemstone markets, including Pure Grown Diamond/IIa Technologies, Washington Group, D'Nea, Element Six, Sumitomo and Diamond Foundry. We believe that as lab-grown diamond continues to gain widespread commercial and consumer acceptance, the more competition can be expected to increase. Increased competition could result in a decrease in the price expected to be charged by the Company for our diamond or reduce demand for our diamond, which would have a material adverse effect on our business, operating results and financial condition.

Our potential competitors in the gemstone diamond industry may have significantly greater financial, technical, manufacturing and marketing resources and greater access to distribution channels than the Company. Our competitors will likely include large multi-national gemstone diamond companies as well as numerous start-up and development-stage gemstone diamond and technology companies, some of whom we may not be aware. We expect intense competition as we execute our business plan. It is believed that some of our existing and potential competitors, as well as potential entrants into our market, have longer operating histories, larger user bases, greater brand recognition and significantly greater financial, marketing and other resources than the Company. Many of these potential competitors may be able to devote substantially greater resources to promotion and systems development than we can. Barriers to developing competitive technology in our market may not be sufficient and current and competitors may be able to develop competing diamonds at a relatively low cost. Accordingly, we believe that our success will depend heavily upon achieving significant market acceptance before our potential competitors introduce competing products. There can be no assurance that we will be able to compete successfully with potential competitors.

Rapid technological change will affect our business.

Rapidly changing technology, industry standards, evolving consumer demands and frequent new product introductions are expected to define our market. Our market's early stage of development may exacerbate these characteristics. Our future success will depend in significant part on our ability to continuously improve the quality of lab-grown diamond and our production capabilities in response to both the evolving demands of the market and competitive product offerings. Efforts in these areas may not be successful.

We expect to have limited protection of our intellectual property and proprietary rights.

We regard the patents, trade secrets and similar intellectual property acquired via the Asset Purchase as critical to our success. We must rely on patent law, trade secret protection and confidentiality agreements with our employees, customers, strategic partners, advisors and others to protect those proprietary rights. Such measures, however, afford only limited protection, and we may not be able to maintain the propriety and/or confidentiality of the Diamond Technology. Despite these precautions, unauthorized third parties might use information that we regard as proprietary

to compete or help others to compete with us. There is no assurance that any of the existing patent applications or future patent applications, if made, will be granted, or, if granted, will not be invalidated or circumvented, or that the rights granted there under will provide us with a competitive advantage. Any misappropriation of our proprietary information by third parties could materially adversely affect our business. There can be no assurance that any other patents issued will provide any significant commercial protection to the Company, that the Company will have sufficient resources to prosecute its patents or that any patents will be upheld by a court should the Company seek to enforce its respective rights against an infringer.

There can be no assurances that:

- Any pending patent application or future patent application will result in issuances of patents;
- The scope of any patent protection will be effective to exclude competitors or provide competitive advantages to us;
 - We will be able to commercially exploit any issued patents before they expire;
 - Any of the patents held will be held valid if subsequently challenged;
- Others will not claim rights in or ownership of, the patents and other proprietary rights acquired or produced by the Company;
- Our diamond will not infringe, or be alleged to infringe, the proprietary rights of others; or
- We will be able to protect meaningful rights in proprietary technology over which the party does not hold patents.

Furthermore, there can be no assurances that others have not developed or will not develop diamond which may duplicate any of the diamond produced using the Diamond Technology or our expected manufacturing processes, or those others will not design around any of the Company's patents. The existence of valid patents does not provide absolute prevention from other companies independently developing competing technologies. Existing producers of laboratory-created diamond may refine existing processes for growing diamond or develop new technologies for growing diamond in a manner that does not infringe any intellectual property rights of the Company.

Other parties may independently develop or otherwise acquire substantially equivalent techniques, gain access to our acquired proprietary technology or disclose such technology. In addition, whether or not we obtain additional patents, others may hold or receive patents covering components of diamond we independently develop in the future. There can be no assurances that third parties will not claim infringement by us, and seek substantial damages, with respect to current or future diamond-related activities. If we were to become involved in a dispute regarding intellectual property, whether ours or that of another company, we may become involved in material legal proceedings. Any such claims, with or without merit, could be time-consuming, result in costly litigation, cause product shipment delays and require us to:

- Cease manufacturing and selling the product in question, which could seriously harm us;
- Enter into royalty or licensing agreements; or
- Design commercially acceptable non-infringing alternative diamond.

There can be no assurance that we would be able to obtain royalty or licensing agreements, if required, on terms acceptable to us or at all, or that we would be able to develop commercially acceptable non-infringing alternative diamond. The failure to do so could have a material adverse effect upon our business, financial condition, operating results and cash flows. We cannot be absolutely certain that the Diamond Technology does not infringe issued patents or other intellectual property rights of others. In addition, because patent applications in the United States are not publicly disclosed until the patent is issued, applications may have been filed which relate to the Diamond Technology.

There can be no assurance that our business and ability to produce diamond will not be impaired by claims that we are infringing upon the intellectual property of others. We may be subject to future legal proceedings and claims from time to time in the ordinary course of our business, including claims of alleged infringement of the trademarks and other intellectual property rights of third parties. Intellectual property litigation is expensive and time-consuming and could divert the Company's management's attention from diamond production and operating our business. As a result of the foregoing, the limited protection of our acquired intellectual property rights and proprietary information could have a material adverse effect on the Company's business, operating results and financial condition.

Regulatory authorities may limit or restrict our ability to sell our lab-grown diamond in the future.

Certain federal and state laws and regulations govern the testing, creation and sale of the types of diamond we intend to produce. The United States Federal Trade Commission ("FTC") and other comparable regulatory authorities here and in foreign countries may extensively and rigorously regulate our Scio Diamond Materials, product development activities and manufacturing processes. In the United States, the FTC regulates the introduction and labeling of gemstone diamond. We may be required to:

Edgar Filing: Scio Diamond Technology Corp - Form 10-K

- Obtain clearance before we can market and sell our lab-grown diamond gemstones;
- Satisfy content requirements applicable to our labeling, sales and promotional materials;
- Comply with manufacturing and reporting requirements; and
- Undergo rigorous inspections.

Further, we may be subject to regulatory requirements in the future. Government authorities can withdraw marketing clearance due to our failure to comply with regulatory standards or due to the occurrence of unforeseen problems following initial clearance. Ongoing regulatory requirements are wide-ranging and govern, among other things:

- Product manufacturing;
- Annual inspections related to ISO certification of our quality system;
- Supplier substitution;
- Product changes;
- Process modifications;
- The process of assuring origin of mine and/or production of diamond;
- Lab-grown diamond gemstone reporting and disclosure; and
- Product sales and distribution.

Various government agencies may inspect our facilities from time to time to determine whether we are in compliance with applicable laws and regulations. Additionally, if we fail to comply or maintain compliance with laws and regulations pertaining to diamond gemstones, regulatory authorities may fine us and bar us from selling our lab-grown diamond gemstones. If a regulatory agency believes we are not in compliance with such laws or regulations, it may be able to:

- Seize our lab-grown diamond gemstones;
- Require a recall;
- Withdraw previously granted market clearances;
- Implement procedures to stop future violations; and/or
- Seek civil and criminal penalties against us.

Risks Related to an Investment in our Common Stock

An investment in the Company involves a high degree of risk.

An investment in the Company is speculative and involves a high degree of risk, including the loss of an investor's entire investment in the Company. There is no guaranteed rate of return on an investor's investment in the Company, and there is no assurance that investors will be able to resell their shares for the amount they paid for such shares or for any other amount. Investors should not invest in the Company unless such investors can afford to lose their entire investment.

A recent settlement agreement resulted in restructured Board of Directors and shareholder voting agreement that results in our directors and officers controlling a large percentage of the Company's stock.

On June 23, 2014, the Company entered into a settlement agreement (the "Settlement Agreement") by and among Edward S. Adams, Michael R. Monahan, Gerald McGuire, James Korn, Bruce Likly, Theodorus Strous, and Robert C. Linares, their present and past affiliates, such as Apollo Diamond, Inc., Apollo Diamond Gemstone Corporation, Adams Monahan LLP, Focus Capital Group, Inc. and Oak Ridge Financial Services Group, Inc., family members and spouses (the "Adams Group"), and Thomas P. Hartness, Kristoffer Mack, Paul Rapello, Glen R. Bailey, Marsha C. Bailey, Kenneth L. Smith, Bernard M. McPheely, James Carroll, Robert M. Daisley, Ben Wolkowitz, Craig Brown, Ronnie Kobrovsky, Lewis Smoak, Brian McPheely, Mark P. Sennott, the Sennott Family Charitable Trust, and their affiliates (the "Save Scio Group"), pursuant to which the Company and the Save Scio Group settled the previously pending consent contest for the election of directors. Pursuant to the Settlement Agreement, on June 23, 2014, Messrs. Adams, Strous, Linares and McGuire resigned as directors effective immediately; the Board expanded the size of the Board to 7 directors and appointed Messrs. McPheely, Wolkowitz, Smoak and Leaverton (the "Save Scio Nominees") to

fill all but one of the resulting vacancies. In addition, the Company agreed to nominate each of Messrs. Korn and Likly (the “Adams Group Nominees”) and the Save Scio Nominees for election to the Board at the Company’s 2014 annual meeting of stockholders. Pursuant to the Settlement Agreement, the Adams Group and the Save Scio Group must vote their shares of Common Stock for the other’s nominees for the next three years, and will also have replacement rights in the event these nominees are unable to serve as directors.

As of July 8, 2016, the Company had 65,098,291 shares of common stock outstanding. As of the date of the Settlement Agreement, the total number of shares subject to the voting agreements related to the settlement agreement is 17,492,928 or approximately 27% of the outstanding shares. Therefore, the Save Scio Group and the Adams Group collectively have considerable influence to:

- Elect or defeat the election of our directors;
- Amend or prevent amendment of our Articles of Incorporation or Bylaws;
- Effect or prevent a merger, sale of assets or other corporate transaction; and
- Determine the outcome of any other matter submitted to the stockholders for vote.

The limited ability of other stockholders to exercise control over the Company may adversely affect the future market price for our securities and the rights of our stockholders.

Provisions in our Articles of Incorporation and bylaws or Nevada law might discourage, delay or prevent a change of control of us or changes in our management and, therefore, depress the trading price of the common stock.

Nevada corporate law and our Articles of Incorporation and Bylaws contain other provisions that could discourage, delay or prevent a change in control of our Company or changes in its management that our stockholders may deem advantageous. These include provisions that:

- Deny holders of our common stock cumulative voting rights in the election of directors, meaning that stockholders owning a majority of our outstanding shares of common stock will be able to elect all of our directors;
- Require any stockholder wishing to properly bring a matter before a meeting of stockholders to comply with specified procedural and advance notice requirements; and
- Allow any vacancy on the Board of Directors, however the vacancy occurs, to be filled by the directors.

There is a limited active public market for any of our securities, which are not listed on any stock exchange, and transfer of our securities is restricted.

There is presently a limited active public market for our securities, and there can be no assurance that a trading market will continue to develop or, if developed, that it will be maintained. Our common stock is not listed on any stock exchange and it is currently quoted on the OTC Bulletin Board and OTC PINK marketplace under the ticker "SCIO". We believe that we currently may not have enough stockholders or outstanding shares to support an active trading market, even if our common stock were listed on a recognized trading exchange. There can be no assurance that our investors will be able to resell any of our securities at any price. The Company makes no representation to investors regarding the value of its securities, and, particularly in light of the thin trading in the Company's securities, trading prices may or may not reasonably reflect the intrinsic value, if any, of the Company's securities.

We have been deemed to be a former shell company in accordance with the Securities Act. As a result, our shares of common stock may not be resold under Rule 144 of the Securities Act except pursuant to Rule 144(i). Resales under Rule 144(i) generally require, that, in addition to the normal Rule 144 requirements and limitations: (1) we are subject to the reporting requirements of the Securities Exchange Act of 1934 (the "Exchange Act"); (2) we have filed all Exchange Act reports required for the past 12 months; and (3) a minimum of one year has elapsed since we filed current Form 10 information on Form 8-K changing our status from a shell company to a non-shell company. An investment in the Company should be considered a long-term, illiquid investment, and investors should be able to withstand a complete loss of their investment.

Our bylaws specifically provide that we shall not be required to effectuate the transfer of any shares of our common stock without first receiving from the transferring stockholder (i) an opinion of counsel satisfactory to the Company that a proposed transfer may be made lawfully without the registration of such shares pursuant to the Securities Act of 1933, as amended (the "Securities Act"), and applicable state securities laws, or (ii) evidence that the shares proposed to be transferred have been registered under the Securities Act. The existence of the foregoing restrictions may, therefore, adversely affect the future market price for our securities and the rights of our stockholders.

Future stock issuances could severely dilute our current shareholders' interests.

We must raise additional capital in order for our business plan to succeed. A likely source of additional capital will be through the sale of additional shares of common stock. Such stock issuances would cause stockholders' voting interests in our Company to be diluted and may cause the book value per share held by existing stockholders to be diluted. Also, any stock we sell in the future may be valued on an arbitrary basis by us and the issuance of shares of common stock or preferred stock for future services, acquisitions or other corporate actions may have the effect of diluting the value of the shares held by our existing shareholders. Such dilution could negatively affect the value of investors' shares.

It is the Company's current intention (depending on the development of the business plan and other factors) to raise substantial additional capital during the fiscal year ending March 31, 2017, which we expect to result in substantial dilution in the percentage of our common stock held by our existing shareholders.

We do not expect to pay cash dividends in the foreseeable future.

We are not obligated to pay dividends with respect to our capital stock, and we do not anticipate the payment of cash dividends on our capital stock in the foreseeable future. Any decision to pay dividends will depend upon our profitability at the time, cash available, and other factors; however, it is currently anticipated that any future profits received from operations will be retained for operations. Therefore, no assurance can be given that there will ever be any such cash dividend or distribution in the future. Accordingly, investors must rely on sales of their capital stock after price appreciation, which may never occur, or a sale of our Company or other similar transaction as the only way to realize a gain on their investment.

If we do not obtain additional financing, our business may fail.

We anticipate that additional funding will be needed for general administrative expenses, operating costs and marketing costs. There is no guarantee that we will be able to raise the required cash and because of this our business may fail. We have generated limited revenues from operations to date. The specific cost requirements needed to maintain operations depends upon the production we are able to generate. If we are not able to raise the capital necessary to fund our business objectives, we may have to delay the implementation of our business plan. Obtaining additional funding will be subject to a number of factors, including general market conditions, investor acceptance of our business plan and initial results from our business operations. These factors may impact the timing, amount, terms or conditions of additional financing available to us. The most likely source of future funds available to us is through the sale of additional shares of common stock. There is no guarantee that we will be able to raise the funds required by the Company and, if we are not able to raise such funds, then our business may fail.

Because our continuation as a going concern is in doubt, we may be forced to cease business operations unless we can generate profitable operations in the future.

We will be incurring losses until we build a break-even level of revenue. Further losses are anticipated in the development of our business. As a result, there is substantial doubt about our ability to continue as a going concern. Our ability to continue as a going concern is dependent upon our ability to generate profitable operations in the future and/or to obtain the necessary financing to meet our obligations and repay our liabilities arising from normal business operations when they come due. We will require additional funds in order to provide proper service to our potential clients. At this time, we cannot assure investors that we will be able to obtain financing. If we are unable to raise needed financing, we may have to delay or abandon further operations. If we cannot raise financing to meet our obligations, we will be insolvent and may be forced to cease our business operations.

If an active trading market for our common stock does not sufficiently develop, stockholders may be unable to sell their shares.

There is currently a limited trading market for our common stock and we can provide no assurance that a significant market will develop. Our common stock currently trades on the OTC Bulletin Board and the OTC PINK marketplace. We may decide to apply for listing of our common stock on a U.S. and/or foreign exchange. However, we can provide no assurances that we will apply or that our common stock would be accepted for listing on any stock exchange. Accordingly, we can provide investors with no assurance that our shares will be traded on a U.S. and/or foreign exchange or, if traded, that a significant active public trading market will materialize. If no active trading market is ever developed for our shares, it will be difficult for stockholders to sell their shares.

Our shares of common stock are subject to the “penny stock” rules of the SEC and the trading market in our securities will be limited, which will make transactions in our stock cumbersome and may reduce the value of an investment in our stock.

The SEC has adopted rules that regulate broker-dealer practices in connection with transactions in “penny stocks.” Penny stocks generally are equity securities with a price of less than \$5.00 (other than securities registered on certain national securities exchanges or quoted on the NASDAQ system, provided that current price and volume information with respect to transactions in such securities is provided by the exchange or system). Penny stock rules require a broker-dealer, prior to a transaction in a penny stock not otherwise exempt from those rules, to deliver a standardized risk disclosure document prepared by the SEC, which specifies information about penny stocks and the nature and significance of risks of the penny stock market. A broker-dealer must also provide the customer with bid and offer quotations for the penny stock, the compensation of the broker-dealer and sales person in the transaction, and monthly account statements indicating the market value of each penny stock held in the customer’s account. In addition, the penny stock rules require that, prior to a transaction in a penny stock not otherwise exempt from those rules; the broker-dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser’s written agreement to the transaction. These disclosure requirements may have the effect of reducing the trading activity in the secondary market for stock that becomes subject to those penny stock rules. If a trading market for our common stock develops, our common stock will probably become subject to the penny stock rules, and stockholders may have difficulty in selling their shares.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

Disclosure under this item is not applicable because the Company is a smaller reporting company.

ITEM 2. PROPERTIES.

Our corporate headquarters and production facility are located at 411 University Ridge, Greenville, South Carolina. The production facility includes approximately 3,200 square feet adjoining our headquarters office, and the facility overall has 9,470 square feet of space. We have three years remaining on the lease for this facility.

Annual rental payments for the next five fiscal years for these facilities are as follows:

| | |
|---------------------|-----------|
| 2017 | \$224,410 |
| 2018 | 224,410 |
| 2019 | 224,410 |
| 2020 | — |
| 2021 | — |
| 2022 and thereafter | \$— |

ITEM 3. LEGAL PROCEEDINGS.

We are subject, from time to time, to various claims, lawsuits or actions that arise in the ordinary course of business. As of March 31, 2016 there were no material outstanding claims by the Company or against the Company.

In May 2014, the Company received a subpoena issued by the SEC ordering the provision of documents and related information concerning various corporate transactions between the Company and its predecessors and other persons and entities. The Company is fully cooperating with this ongoing inquiry.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

20

PART II**ITEM 5. MARKET FOR COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES***Market Information*

Our common stock is currently quoted on the OTC Bulletin Board and OTC PINK marketplace under the ticker “SCIO”. Because we are quoted on the OTC Bulletin Board, our common stock is less liquid, may receive less coverage by security analysts and news media, and generate lower prices than might otherwise be obtained if it were listed on a national securities exchange. The OTC Bulletin Board prices are quotations, which reflect inter-dealer prices without retail mark-up, mark-down, or commissions and may not represent actual transactions.

The following table sets forth the quarterly high and low bid prices for our common stock for the fiscal years ending March 31, 2016 and 2015, as reported by the OTC Bulletin Board. These quotations reflect inter-dealer prices, without retail mark-up, markdown, or commission, and may not represent actual transactions.

| Fiscal Year Ended March 31, 2015 | High | Low |
|----------------------------------|--------|--------|
| First Fiscal Quarter | \$0.75 | \$0.22 |
| Second Fiscal Quarter | 0.55 | 0.32 |
| Third Fiscal Quarter | 0.97 | 0.28 |
| Fourth Fiscal Quarter | 1.42 | 0.80 |

| Fiscal Year Ended March 31, 2016 | High | Low |
|----------------------------------|--------|--------|
| First Fiscal Quarter | \$1.23 | \$0.60 |
| Second Fiscal Quarter | 1.20 | 0.60 |
| Third Fiscal Quarter | 0.79 | 0.20 |
| Fourth Fiscal Quarter | 0.34 | 0.21 |

As of July 8, 2016, there were 65,098,291 shares of common stock outstanding held by approximately 1,780 stockholders of record.

Dividends

We have not declared or paid any cash dividends on our common stock since our inception, and we do not intend to declare cash dividends for the foreseeable future. Any decision to pay dividends will depend upon our profitability at the time, cash available, and other factors; however, it is currently anticipated that any future profits received from operations will be retained for operations.

Recent Sales of Unregistered Securities

Unless otherwise indicated, the issuances of our securities listed below were made in reliance on an exemption from registration under Section 4(a)(2) of the Securities Act, as we reasonably believed that the investors were sophisticated, that no general solicitations were involved and the transactions did not otherwise involve a public offering.

In March 2016, the Company sold and issued 275,000 units at a price of \$0.30 per unit with each unit consisting of a common share and warrant to purchase one additional share of common stock at an exercise price of \$0.15 to accredited investors. The Company raised \$77,100 from this offering net of broker fees and commissions of \$5,400.

In May 2016, the Company initiated an offering of up to 7,000,000 shares of common stock at a price of \$0.22 per share to accredited investors. Through July 8, 2016, the Company has sold 1,179,000 shares in this offering and raised \$241,223 net of broker commissions and fees of \$18,157.

ITEM 6. SELECTED FINANCIAL DATA.

Not applicable.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

You should read the following discussion in conjunction with the financial statements of the Company, and the notes to those statements, included elsewhere in this Form 10-K, as well as the rest of this Annual Report on Form 10-K. The statements in this discussion regarding outlook, our expectations regarding our future performance, liquidity and capital resources and other non-historical statements in this discussion are forward-looking statements. These forward-looking statements are subject to numerous risks and uncertainties, including, but not limited to, the risks and uncertainties described in the "Risk Factors" and "Cautionary Notice Regarding Forward Looking Statements" sections of this Annual Report on Form 10-K. Our actual results may differ materially from those contained in or implied by any forward- looking statements.

GENERAL

Corporate History

We were incorporated on September 17, 2009 in the State of Nevada under the name Krossbow Holdings Corporation ("Krossbow"). Krossbow did not implement its original business plan and decided to acquire existing technology to seek to efficiently and effectively produce man-made diamond. In connection with this change in business purpose, Krossbow changed its name to Scio Diamond Technology Corporation to reflect its new business direction.

In August 2011, the Company acquired certain assets of Apollo Diamond, Inc. ("ADI") consisting primarily of diamond growing machines and intellectual property related thereto, for which the Company paid ADI an aggregate of \$2,000,000 and also agreed to provide certain current and former stockholders of ADI qualifying as accredited investors the opportunity to acquire up to approximately 16 million shares of common stock of the Company for \$0.01 per share.

In June 2012, the Company acquired substantially all of the assets of Apollo Diamond Gemstone Corporation ("ADGC"), consisting primarily of lab-grown diamond gemstone-related know-how, inventory, and various intellectual property, in exchange for \$100,000 in cash and the opportunity for certain current and former stockholders of ADGC qualifying as accredited investors to acquire up to approximately 1 million shares of common stock of the Company for \$0.01 per share.

In December 2011, the Company began a build-out of its Greenville, South Carolina production facility. Construction was largely completed in March 2012 and equipment was moved from ADI's former facility in Massachusetts to South Carolina over the first calendar quarter of 2012. The Company began initial production with ten diamond growing machines in July 2012. Our initial production was focused on industrial cutting tool products supplied to a single customer. Since March 2013, the Company has expanded its product focus to include gemstone diamond material.

On September 16, 2013, the Company entered into the Grace Rich Agreements to form a joint venture with operations in the People's Republic of China to deploy at least 100 Scio designed diamond growing machines. Under the Grace Rich Agreements, the Company has agreed to license its proprietary technology for the manufacture of diamond gemstones of agreed upon specifications. In exchange for the license, the Company will receive licensing and development revenue and a 30% ownership position in the joint venture. In addition to the licensed technology, the Grace Rich Agreements include obligations for the Company to provide and be compensated for technology consulting services to the joint venture to support the start-up of operations. The Company is not required to make any on-going funding contributions to the joint venture and its ownership stake cannot be reduced from 30%.

On December 16, 2014, the Company entered into the Grower Sale-Lease Agreement with HGI. Pursuant to the Grower Sale-Lease Agreement, the Company agreed to a sale-leaseback arrangement for certain diamond growers produced by the Company during the term of the Grower Sale-Leaseback Agreement by which the Company will sell diamond growers to HGI and then lease the growers back from HGI. The direct profit margin generated from the growers will be split between the Company and HGI in accordance with the Grower Sale-Lease Agreement. The Grower Sale-Lease Agreement requires the Company to operate and service the growers, and requires HGI to up-fit certain existing growers and to make capital improvements to the new growers under certain circumstances. The Company will also have the right to repurchase the leased growers upon the occurrence of certain events.

On December 18, 2014 entered into an arrangement with Renaissance creating RCDC. The Company and Renaissance are each 50% members of RCDC. The arrangement was entered into in order to facilitate the development of procedures and recipes for, and to market and sell, lab-grown fancy-colored diamonds. RCDC will purchase rough diamond material from the Company and process and finish the material into finished gemstones for sale to various retailers and other participants in the market for gemstones. Profits generated by RCDC's operations will be distributed between the Company and Renaissance according to the terms of the LLC Agreement.

Business Overview

The Company's primary mission is the development of profitable and sustainable commercial production of its diamond materials, which are suitable for known, emerging and anticipated industrial, technology and consumer applications. The Company intends to pursue progressive development of its core diamond materials technologies and related intellectual property that the Company hopes will evolve into product opportunities across various applications. We believe these opportunities may be monetized through a combination of end product sales, joint ventures and licensing arrangements with third parties, and through continued development of intellectual property. Anticipated application opportunities for the Company's diamond materials include the following: precision cutting devices, diamond gemstone jewelry, power switches, semiconductor processors, optoelectronics, geosciences, water purification, and MRI and other medical science technology.

While the Company product offering continues to include industrial products, as of March 31, 2016 nearly all of the Company's production capacity is being sold as gemstone materials. As of March 31, 2016, we had generated \$3,643,040 in net revenue since inception from sales of our diamond materials and licensing of our technology. To date, over 50% of our product has been sold overseas and 100% of these sales have been to external customers and to our joint venture partners as discussed in Item 8, NOTES 12 and 13. We expect continued development of an international market for our diamond materials.

See Part I, Item 1. (Business) for additional information regarding our business.

Significant Partner Agreements

On September 16, 2013, the Company entered into the Grace Rich Agreements to form a joint venture with operations in the People's Republic of China to deploy at least 100 Scio designed diamond growing machines. Under the Grace Rich Agreements, the Company has agreed to license its proprietary technology for the manufacture of diamond gemstones of agreed upon specifications. In exchange for the license, the Company will receive licensing and development revenue and a 30% ownership position in the joint venture. In addition to the licensed technology, the Grace Rich Agreements include obligations for the Company to provide and be compensated for technology consulting services to the joint venture to support the start-up of operations. The Company is not required to make any on-going funding contributions to the joint venture and its ownership stake cannot be reduced from 30%.

On December 16, 2014, the Company entered into the Grower Sale-Lease Agreement with HGI. Pursuant to the Grower Sale-Lease Agreement, the Company agreed to a sale-leaseback arrangement for certain diamond growers produced by the Company during the term of the Grower Sale-Leaseback Agreement by which the Company will sell

diamond growers to HGI and then lease the growers back from HGI. The direct profit margin generated from the growers will be split between the Company and HGI in accordance with the Grower Sale-Lease Agreement. The Grower Sale-Lease Agreement requires the Company to operate and service the growers, and requires HGI to up-fit certain existing growers and to make capital improvements to the new growers under certain circumstances. The Company will also have the right to repurchase the leased growers upon the occurrence of certain events.

On December 18, 2014 entered into an arrangement with Renaissance creating RCDC. The Company and Renaissance are each 50% members of RCDC. The arrangement was entered into in order to facilitate the development of procedures and recipes for, and to market and sell, lab-grown fancy-colored diamonds. RCDC will purchase rough diamond material from the Company and process and finish the material into finished gemstones for sale to various retailers and other participants in the market for gemstones. Profits generated by RCDC's operations will be distributed between the Company and Renaissance according to the terms of the LLC Agreement.

Critical Accounting Policies

We have adopted various accounting policies that govern the application of accounting principles generally accepted in the United States ("GAAP"). We describe our significant accounting policies in the notes to our audited financial statements as of March 31, 2016.

Some of the accounting policies involve significant judgments and assumptions by us that have a material impact on the carrying value of our assets and liabilities. We consider these accounting policies to be critical accounting policies. The judgment and assumptions we use are based on historical experience and other factors that we believe to be reasonable under the circumstances. Because of the nature of the judgments and assumptions we make, actual results could differ from these judgments and estimates and could materially affect the carrying values of our assets and liabilities and our results of operations.

The following is a summary of the more significant judgmental estimates and complex accounting principles, which represent our critical accounting policies.

Revenue Recognition

We recognize product revenue when persuasive evidence of an arrangement exists, delivery of products has occurred, the sales price is fixed or determinable, and collectability is reasonably assured. For our Company, this generally means that we recognize revenue when we have shipped finished product to the customer. Our sales terms do not allow for a right of return except for matters related to any manufacturing defects on our part. The Company has an allowance for returns of \$8,681 at March 31, 2016. This allowance has reduced reported revenues and is considered an accrued expense in the balance sheet. The allowance at March 31, 2015 was \$5,000.

For product sales to our joint venture partners for further processing and finishing, we currently defer all revenues when products are shipped. We currently recognize revenue at the earlier of when the joint venture partner sells the finished goods manufactured from our materials or the Company is paid by for the goods. Licensing and development revenues are recognized in the month as detailed in appropriate licensing and development contracts. In the event that licensing funds are received prior to the contractual commitment, The Company will recognize deferred revenue (liability) for the amount received.

Inventories

Inventories are stated at the lower of average cost or market. The carrying value of inventory is reviewed and adjusted based upon slow moving and obsolete items. Inventory costs include material, labor, and manufacturing overhead and are determined by the “first-in, first-out” (FIFO) method. The components of inventories include raw materials and supplies, work in process and finished good.

At March 31, 2016, the Company maintains an inventory reserve for instances where finished goods inventory may yield lower than expected results. The Company has periodically experienced selling prices that were lower than cost and as a result has recorded a lower of cost or market write down to the value of our inventory. The estimation of the total write-down to inventory involves management judgments and assumptions, including assumptions regarding future selling price forecasts, the estimated costs to complete and disposal costs.

Property, Plant and Equipment

Depreciation of property, plant and equipment is on a straight-line basis beginning at the time it is placed in service, based on the following estimated useful lives:

| | Years |
|-------------------------|--------------|
| Machinery and equipment | 3–15 |
| Furniture and fixtures | 3–10 |
| Engineering equipment | 5–12 |

Leasehold improvements are depreciated at the lesser of the remaining term of the lease or the life of the asset (generally three to seven years).

Expenditures for major renewals and betterments that extend the useful lives of property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred.

Intangible Assets

Intangible assets, such as acquired in-process research and development (“IPRD”) costs, are considered to have an indefinite useful life until such time as they are put into service at which time they will be amortized on a straight-line basis over the shorter of their economic or legal useful life. Management’s estimate of useful life of any patents when placed in service is a critical judgment. Management evaluates indefinite life intangible assets for impairment on an annual basis and on an interim basis if events or changes in circumstances between annual impairment tests indicate that the asset might be impaired. The ongoing evaluation for impairment of its indefinite life intangible assets requires significant management estimates and judgment. Management reviews definite life intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

During the fiscal year ended March 31, 2016, IPRD of \$1,832,370 was placed in service and is being amortized over its remaining legal useful life. Through March 31, 2016, the Company has allocated \$9,967,433 to patents that are being amortized over a period ranging from 6.75 years to 19.46 years, corresponding to their remaining life.

RESULTS OF OPERATIONS

Fiscal Year Ended March 31, 2016 Compared to the Fiscal Year Ended March 31, 2015

During the fiscal year ended March 31, 2016, we recorded product revenue of \$616,758 compared to \$351,193 in the prior fiscal year. This \$265,565 increase was due to increased product sales and per unit prices. The Company projected this increase in product revenue to be substantially higher; however, a water leak in our facility in mid-December 2015 caused damage to our diamond growers and temporarily halted production. Product that was growing at the time of the shutdown terminated early and was not marketable. Our factory resumed operations shortly after the shutdown but did not return to full operations until early April 2016 due to delays in receiving parts and equipment from our vendors. The shutdown and the prolonged restart of full operations had an adverse impact on our production and product revenues in the remainder of fiscal 2016. Total revenue for the fiscal year ended March 31, 2016 was \$616,758, compared to \$726,193 in net revenue during the fiscal year ended March 31, 2015. The Company received \$375,000 in development fees from the Grace Rich joint venture during the fiscal year ended March 31, 2015 that were not received during the fiscal year ended March 31, 2016 resulting in a decrease in total revenue for the comparable periods. The Company does not anticipate receiving any additional licensing revenues from the Grace Rich joint venture until it is operational.

Cost of goods sold was \$1,630,666 for the fiscal year ended March 31, 2016 versus \$1,497,465 for the fiscal year ended March 31, 2015. Cost of goods sold includes direct and indirect labor costs of \$463,197 during the fiscal year ended March 31, 2016 and \$397,767 during the fiscal year ended March 31, 2015. This increase in labor costs is the result of increased operational staff. Depreciation expense of \$612,591 and \$603,604 was recorded in cost of goods sold during the fiscal years ended March 31, 2016 and 2015, respectively. The Company received \$438,754 in payments for lost property and business interruption from our insurance carrier as a result of the production shutdown in December 2015 that were used to reduce our cost of goods sold during the fiscal year ended March 31, 2016.

Gross (deficit) was \$(1,013,908) for the fiscal year ended March 31, 2016 versus \$(771,272) for the fiscal year ended March 31, 2015. The gross (deficit) for the fiscal year ended March 31, 2015 included \$375,000 of development fees that were not received during the comparable fiscal year ended March 31, 2016. Excluding these development fees results in gross deficit for the fiscal year ended March 31, 2015, results in gross deficits of \$(1,013,908) versus \$(1,146,275) for March 31, 2016 and 2015, respectively. While the Company is selling products at prices that exceed our per unit manufacturing costs, the Company continues to operate at a gross (deficit) due to relatively low production yields and quantities sold. The Company expects our gross (deficit) to improve as quantities sold increase in the future.

Salary and benefit expenses recognized as general and administrative expenses were \$1,018,340 and \$821,272 during the fiscal years ended March 31, 2016 and 2015, respectively. The Company recognized \$481,105 in non-cash

stock-based compensation expense during the fiscal year ended March 31, 2016. During the fiscal year ended March 31, 2015, the Company recognized \$305,077 in executive severance. Adjusting the relative periods for the non-cash stock-based compensation and the executive severance results in relatively consistent salary and benefit expense of \$537,235 and \$516,195 for the fiscal years ended March 31, 2016 and 2015, respectively.

Professional and consulting fees were \$298,105 compared to \$566,154 for the fiscal years ended March 31, 2016 and 2015, respectively. The professional fees for the fiscal years ended March 31, 2016 and 2015 included reductions of \$73,282 and \$168,015 for payments made by our insurance carrier for past professional fees. Adjusting for these reductions, professional and consulting fees would be \$371,387 and \$734,169 for the fiscal years ended March 31, 2016 and 2015 respectively. This decrease is primarily due to reduced legal expense due to the settlement of litigation during fiscal 2015.

Corporate general and administrative expenses were \$357,175 and \$345,263 for the fiscal year ended March 31, 2016 and 2015, respectively. This increase was primarily due to executive relocation costs of \$106,163 incurred during the fiscal year ended March 31, 2016 more than offsetting other reductions in corporate general and administrative expenses.

The other components of our general and administrative expenses were relatively consistent between the fiscal year ended March 31, 2016 and 2015. Rent, equipment lease and facilities expenses were \$155,737 and \$145,252, respectively; marketing costs were \$86,468 and \$59,727, respectively; and depreciation and amortization expenses were \$841,695 and \$798,477, respectively.

During the fiscal year ended March 31, 2016, the Company reached an amendment to the separation, waiver and release agreement executed on December 4, 2012 with our former Chief Executive Officer, Mr. Joseph Lancia. This amendment allowed for no further severance payments to Mr. Lancia and resulted in the Company reversing \$137,561 in previously accrued severance liabilities. In addition, during the fiscal year ended March 31, 2016, the Company revised its estimates of legal liabilities related to litigation settled in 2014 and reversed \$192,576 of legal accounts payable. During the fiscal year ended March 31, 2015, the Company reached an agreement with a former legal services provider that allowed the Company to settle outstanding past legal fees from prior fiscal years. This settlement of \$165,453 was recorded as a reversal of legal accounts payable.

During the fiscal years ended March 31, 2016 and 2015, management evaluated intangible assets included in IPRD. There were no impairment charges during the fiscal year ended March 31, 2016. However, this process did result in an impairment charge of \$418,065 recognized during the fiscal year ended March 31, 2015.

During the fiscal year ended March 31, 2016, the Company evaluated its fixed assets including those acquired from ADI and those damaged in the December 2015 production shutdown and disposed of obsolete equipment with a net book value of \$41,406. The Company made a similar evaluation in the fiscal year ended March 31, 2015 that resulted in a loss on disposal of fixed assets of \$182,609.

We have continued to generate limited revenue to offset our expenses, and so we have incurred net losses. Our net loss for fiscal year ended March 31, 2016 was \$3,623,383, compared to a net loss of \$4,141,653 during the fiscal year ended March 31, 2015. Our net loss per share for the fiscal year ended March 31, 2016 was \$(0.06) per share, compared to a net loss per share of \$(0.08) for the fiscal year ended March 31, 2015. The weighted average number of shares outstanding was 59,613,578 and 53,025,462, for the fiscal years ended March 31, 2016 and 2015.

FINANCIAL CONDITION

At March 31, 2016, we had total assets of \$10,239,502 compared to total assets of \$12,231,394 at March 31, 2015. This decrease in assets was primarily related to write downs and depreciation of fixed assets, amortization of intangibles and decreases in current assets. We had cash of \$192,880 at March 31, 2016 compared to \$767,214 at March 31, 2015. This decrease is due to cash used in operations and capital expenditures exceeding the Company's proceeds from common stock sales. At March 31, 2016, the Company's accounts receivables had decreased \$68,481 from March 31, 2015. This decrease is due to payments of amounts due from the RCDC joint venture. At March 31, 2016 and 2015, the Company had deferred \$142,471 and \$179,969, respectively, of contract costs related to deferred revenues from sales to the RCDC joint venture.

Total liabilities at March 31, 2016 were \$3,595,821 compared to total liabilities of \$4,098,772 at March 31, 2015. This decrease is due to reduced accounts payable and accrued expenses.

The Company had negative working capital (defined as current assets less current liabilities) of \$(462,543) at March 31, 2016 versus positive \$86,254 at March 31, 2015. The most substantial change in working capital was due to the cash used in operations reducing our cash balance.

Total shareholders' equity was \$6,643,681 at March 31, 2016, compared to \$8,132,622 at March 31, 2015. Shareholders' equity decreased during the year primarily due to continuing net losses increasing the Company's accumulated deficit more than offsetting increase in additional paid in capital from our common stock offerings.

CASH FLOWS

Operating Activities

The Company has not generated positive cash flows from operating activities. For the year ended March 31, 2016, net cash flows used in operating activities were \$(1,929,932) compared to \$(2,131,217) for the year ended March 31, 2015. The net cash flow used in operating activities for the year ended March 31, 2016 consists primarily of a net loss of \$(3,623,383) offset by depreciation and amortization of \$1,454,286, loss on disposal of equipment of \$41,406, employee stock based compensation of \$481,105, income from joint venture of \$(18,230), a decrease in current assets of \$191,229 and a decrease in current and other liabilities of \$(456,345).

Investing Activities

For the year ended March 31, 2016, net cash flows used in investing activities were \$(292,228), consisting primarily of the purchases of property, plant, and equipment \$(328,226) offset by the allocation of \$36,000 of proceeds from our insurance carrier related to the production shutdown that was used to purchase replacement equipment. Net cash flows used in investing activities were \$(237,496) for the year ended March 31, 2015. The capital expenditures in both fiscal years were the result of the Company's purchases of fixed assets for the expansion of its production facility that occurred during the years ended March 31, 2016 and 2015, respectively.

Financing Activities

We have financed our operations primarily through advancements or the issuance of equity and debt instruments. For the years ended March 31, 2016 and March 31, 2015, we generated \$1,647,826 and \$3,087,940 from financing activities, respectively. The cash generated during the year ended March 31, 2016 was primarily from the sale of common stock.

LIQUIDITY AND CAPITAL RESOURCES

We estimate that existing cash of \$192,880 as of March 31, 2016, is not adequate to meet our current obligations or fund our continuing operations. We expect that working capital requirements will continue to be funded through a combination of our existing funds, revenues generated from operations, further issuances of securities, and/or further credit facilities or corporate borrowings. In addition, the Company's market opportunities continue to grow and as we expand our operations, we may need to raise additional capital to fund future operations. As of March 31, 2016, we had no additional lines of credit or other bank financing arrangements other than as described above. Generally, we have financed operations through March 31, 2016 through the proceeds of sales of our common stock and borrowings under our existing credit facilities.

During the year ended March 31, 2016, the Company sold and issued 5,491,667 shares of common stock to accredited investors at a price of \$0.30 per share and raised \$1,642,099 net of broker fees and commissions. These funds were used to meet operating cash requirements.

In May 2016, the Company initiated an offering of up to 7,000,000 shares of common stock at a price of \$0.22 per share to accredited investors. Through July 8, 2016, the Company has sold 1,179,000 shares in this offering and raised \$241,223 net of broker commissions and fees of \$18,157. The Company is using these funds to meet its current operating requirements. Upon completion of this offering, the Company will have limited shares available for future equity offerings without approval of our shareholders.

We expect that our short-term working capital requirements will continue to be funded through a combination of our existing funds, cash generated by operations and additional capital raises. The Company is pursuing further issuances of equity securities subject to our shares authorized, and future credit facilities or corporate borrowings. Our working capital requirements are expected to increase in line with the growth of our business.

Additional issuances of equity or convertible debt securities will result in dilution to our current stockholders. Such securities might have rights, preferences or privileges senior to our common stock. Additional financing may not be available upon acceptable terms, or at all. If adequate funds are not available or are not available on acceptable terms, we may not be able to take advantage of prospective new business endeavors or opportunities, which could significantly and materially restrict our business operations and could result in the shutdown of operations.

MATERIAL COMMITMENTS AND ARRANGEMENTS

On September 16, 2013, the Company entered into the Grace Rich Agreements with SAAMABA, LLC and S21 Research Holdings to form a joint venture with operations in the People's Republic of China to deploy Scio designed diamond growing machines. Under the Grace Rich Agreements, the Company has agreed to license its proprietary technology for the manufacture of diamond gemstones of agreed upon specifications. In exchange for the license, the Company received licensing and development revenue and a minority ownership position in the joint venture. In addition to the licensed technology, the Grace Rich Agreements include obligations for the Company to provide and be compensated for technology consulting services to the joint venture to support the start-up of operations.

On December 16, 2014, the Company entered into an agreement for the sale and lease of growers with HGI. Pursuant to the Grower Sale-Lease Agreement, the Company agreed to a sale-leaseback arrangement for certain diamond growers produced by the Company during the term of the Grower Sale-Leaseback Agreement by which the Company will sell diamond growers to HGI and then lease the growers back from HGI. The direct profit margin generated from the growers will be split between the Company and HGI in accordance with the Grower Sale-Lease Agreement. The Grower Sale-Lease Agreement requires the Company to operate and service the growers, and requires HGI to up-fit certain existing growers and to make capital improvements to the new growers under certain circumstances. The Company will also have the right to repurchase the leased growers upon the occurrence of certain events.

On December 18, 2014 entered into an arrangement with Renaissance creating RCDC. The Company and Renaissance are each 50% members of RCDC. The arrangement was entered into in order to facilitate the development of procedures and recipes for, and to market and sell, lab-grown fancy-colored diamonds. RCDC will purchase rough Diamond material from the Company and process and finish the material into finished gemstones for sale to various retailers and other participants in the market for gemstones. Profits generated by RCDC's operations will be distributed between the Company and Renaissance according to the terms of the LLC Agreement.

OFF BALANCE SHEET ARRANGEMENTS

As of the date of this Annual Report, we do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not required because the Company is a smaller reporting company.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and

Shareholders of Scio Diamond Technology Corporation

We have audited the accompanying balance sheets of Scio Diamond Technology Corporation (the “Company”) as of March 31, 2016 and 2015, and the related statements of operations, shareholders’ equity, and cash flows for the years then ended. The Company’s management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Scio Diamond Technology Corporation as of March 31, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has generated limited revenue, incurred net losses and incurred negative operating cash flows since inception and will require additional financing to fund the continued development of products. The availability of such financing cannot be assured. These conditions raise

substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters also are described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Cherry Bekaert LLP

Greenville, South Carolina

July 14, 2016

29

SCIO DIAMOND TECHNOLOGY CORPORATION

BALANCE SHEETS

As of March 31, 2016 and 2015

| | March 31, 2016 | March 31, 2015 |
|---|----------------------|----------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 192,880 | \$ 767,214 |
| Accounts receivable | 175,448 | 243,929 |
| Deferred contract costs | 142,471 | 179,969 |
| Inventory, net | 189,527 | 295,760 |
| Prepaid expenses | 52,150 | 57,012 |
| Prepaid rent | 19,238 | 23,050 |
| Total current assets | 771,714 | 1,566,934 |
| Property, plant and equipment | | |
| Facility | 886,630 | 904,813 |
| Manufacturing equipment | 3,294,425 | 2,927,761 |
| Other equipment | 73,543 | 71,059 |
| Construction in progress | 24,981 | 207,252 |
| Total property, plant and equipment | 4,279,579 | 4,110,885 |
| Less accumulated depreciation | (2,085,508) | (1,543,652) |
| Net property, plant and equipment | 2,194,071 | 2,567,233 |
| Intangible assets, net | | |
| Prepaid rent, noncurrent | — | 19,238 |
| Investment in joint venture – RCDC | 48,271 | 30,041 |
| TOTAL ASSETS | \$ 10,239,502 | \$ 12,231,394 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current Liabilities: | | |
| Accounts payable | \$ 438,466 | \$ 708,760 |
| Customer deposits | 46,096 | 38,603 |
| Deferred revenue | 174,280 | 215,375 |
| Accrued expenses | 353,921 | 517,942 |
| Current portion of notes payable | 98,999 | — |
| Current portion of capital lease obligation | 122,495 | — |

Edgar Filing: Scio Diamond Technology Corp - Form 10-K

| | | |
|---|---------------------|---------------------|
| Total current liabilities | 1,234,257 | 1,480,680 |
| Notes payable, non-current | 2,201,001 | 2,500,000 |
| Capital lease obligation – non-current | 71,994 | — |
| Other liabilities | 88,569 | 118,092 |
| TOTAL LIABILITIES | 3,595,821 | 4,098,772 |
| Common stock, \$0.001 par value, 75,000,000 shares authorized; 63,919,291 and 56,531,499 shares issued and outstanding at March 31, 2016 and 2015, respectively | 63,919 | 56,532 |
| Additional paid-in capital | 28,942,060 | 26,815,005 |
| Accumulated deficit | (22,362,298) | (18,738,915) |
| Total stockholders' equity | 6,643,681 | 8,132,622 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$10,239,502 | \$12,231,394 |

The accompanying notes are an integral part of these financial statements.

SCIO DIAMOND TECHNOLOGY CORPORATION

STATEMENTS OF OPERATIONS

For the years ended March 31, 2016 and 2015

| | Year Ended March 31, 2016 | Year Ended March 31, 2015 |
|---|------------------------------|------------------------------|
| Revenue | | |
| Product revenue, net | \$ 616,758 | \$ 351,193 |
| Licensing revenue | — | 375,000 |
| Revenues, net | 616,758 | 726,193 |
| Cost of goods sold | | |
| Cost of goods sold | 1,630,666 | 1,497,465 |
| Gross margin (deficit) | (1,013,908) | (771,272) |
| General and administrative expenses | | |
| Salaries and benefits | 1,018,340 | 821,272 |
| Professional and consulting fees | 298,105 | 566,154 |
| Rent, equipment lease and facilities expense | 155,737 | 145,252 |
| Marketing costs | 86,468 | 59,727 |
| Corporate general and administrative | 357,175 | 345,263 |
| Depreciation and amortization | 841,695 | 798,477 |
| Reversal of severance/legal liabilities | (330,137) | (165,453) |
| Loss on disposal of equipment | 41,406 | 182,609 |
| Loss on impairment of in-process research and development | — | 418,065 |
| Total general and administrative expenses | 2,468,789 | 3,171,366 |
| Loss from operations | (3,482,697) | (3,942,638) |
| Other income (expense) | | |
| Income from joint venture – RCDC | 18,230 | 29,041 |
| Interest expense | (158,916) | (228,056) |
| Net loss | \$ (3,623,383) | \$ (4,141,653) |
| Loss per share | | |
| Basic: | | |
| Weighted average number of shares outstanding | 59,613,578 | 53,025,462 |
| Loss per share | \$ (0.06) | \$ (0.08) |
| Fully diluted: | | |

Edgar Filing: Scio Diamond Technology Corp - Form 10-K

| | | |
|---|------------|------------|
| Weighted average number of shares outstanding | 59,613,578 | 53,025,462 |
| Loss per share | \$ (0.06 |) \$ (0.08 |

The accompanying notes are an integral part of these financial statements

SCIO DIAMOND TECHNOLOGY CORPORATION

STATEMENTS OF CASH FLOW

For the years ended March 31, 2016 and 2015

| | Year Ended March 31, 2016 | Year Ended March 31, 2015 |
|---|---------------------------------|---------------------------------|
| Cash flows from operating activities: | | |
| Net loss | \$(3,623,383) | \$(4,141,653) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 1,454,286 | 1,476,916 |
| Loss on disposal of equipment | 41,406 | 182,609 |
| Loss on impairment of in-process research and development | — | 418,065 |
| Expense for stock issued in exchange for operating expenses | — | 77,858 |
| Income from joint venture – RCDC | (18,230) | (29,041) |
| Employee stock based compensation | 481,105 | 155,000 |
| Inventory write down | — | 68,722 |
| Changes in assets and liabilities: | | |
| Decrease in accounts receivable and deferred revenue | 27,386 | 13,531 |
| Decrease in other receivables | — | 89,192 |
| Decrease/(increase) in prepaid expenses and rent | 20,112 | (37,517) |
| Decrease/(increase) in inventory and deferred contract costs | 143,731 | (291,634) |
| (Decrease)/increase in accounts payable | (270,294) | 36,978 |
| (Decrease)/increase in customer deposits | 7,493 | (141,007) |
| Decrease in accrued expenses | (164,021) | (43,184) |
| (Decrease)/increase in other liabilities | (29,523) | 33,948 |
| Net cash used in operating activities | (1,929,932) | (2,131,217) |
| Cash flows from investing activities: | | |
| Purchase of property, plant and equipment | (328,228) | (236,496) |
| Proceeds from disposal of property, plant and equipment | 36,000 | — |
| Investment in joint venture – RCDC | — | (1,000) |
| Net cash used in investing activities | (292,228) | (237,496) |
| Cash flows from financing activities: | | |
| Proceeds from sale of common stock - net of fees | 1,642,099 | 2,000,000 |
| Proceeds from exercise of stock options | 11,238 | — |
| Proceeds from notes payable | — | 2,653,615 |
| Payment on capital lease obligations | (5,511) | — |
| Payments on notes payable | — | (1,565,675) |

Edgar Filing: Scio Diamond Technology Corp - Form 10-K

| | | |
|--|------------|-----------|
| Net cash provided by financing activities | 1,647,826 | 3,087,940 |
| Change in cash and cash equivalents | (574,334) | 719,227 |
| Cash and cash equivalents, beginning of period | 767,214 | 47,987 |
| Cash and cash equivalents, end of period | \$192,880 | \$767,214 |

The accompanying notes are an integral part of these financial statements.

(continued)

SCIO DIAMOND TECHNOLOGY CORPORATION

STATEMENTS OF CASH FLOW

For the years ended March 31, 2016 and 2015

(Continued)

| | Year Ended March 31, 2016 | Year Ended March 31, 2015 |
|--|------------------------------|------------------------------|
| Supplemental cash flow disclosures: | | |
| Cash paid during the year for: | | |
| Interest, includes capitalized interest of \$19,031 and \$0 | \$ 111,171 | \$ 84,165 |
| Income taxes | \$ — | \$ — |
| Non-cash investing and financing activities: | | |
| Payment of accounts payable and accrued expenses with common stock | \$ — | \$ 112,000 |
| Re-classification of debt to capital lease due to completion of sale leaseback transaction | \$ 200,000 | \$ — |

The accompanying notes are an integral part of these financial statements.

SCIO DIAMOND TECHNOLOGY CORPORATION

STATEMENTS OF SHAREHOLDERS' EQUITY

For the years ended March 31, 2016 and 2015

| | Common Stock Shares | Amount | Additional Paid in Capital | Treasury Stock Shares | Amount | Accumulated Deficit | Total |
|---|------------------------|----------|----------------------------------|--------------------------|-----------|------------------------|-------------|
| Balance, April 1, 2014 | 50,739,312 | \$50,739 | \$24,476,940 | (1,000,000) | \$(1,000) | \$(14,597,262) | \$9,929,417 |
| Common stock issued in exchange for operating expense and inventory | 558,856 | 559 | 177,299 | — | — | — | 177,858 |
| Common stock issued in exchange for past consulting services | 50,000 | 50 | 11,950 | — | — | — | 12,000 |
| Retirement of treasury stock | (1,000,000) | (1,000) | — | 1,000,000 | 1,000 | — | — |
| Common stock issued for cash @ \$0.30 per share | 6,666,664 | 6,667 | 1,993,333 | — | — | — | 2,000,000 |
| Common stock returned to Company and cancelled | (1,000,000) | (1,000) | 1,000 | — | — | — | — |
| Employee stock based compensation | 516,667 | 517 | 154,483 | — | — | — | 155,000 |
| Net loss for the fiscal year ended March 31, 2015 | — | — | — | — | — | (4,141,653) | (4,141,653) |
| Balance, March 31, 2015 | 56,531,499 | 56,532 | 26,815,005 | — | — | (18,738,915) | 8,132,622 |
| Common stock issued for cash @ \$0.30 per share, net of fees | 5,491,667 | 5,491 | 1,636,608 | — | — | — | 1,642,099 |
| Common stock issued upon exercise of stock options | 11,125 | 11 | 11,227 | — | — | — | 11,238 |
| Issuance of restricted stock to employees | 1,335,000 | — | — | — | — | — | — |
| Issuance of restricted stock to Renaissance Diamond Inc. | 750,000 | — | — | — | — | — | — |

Edgar Filing: Scio Diamond Technology Corp - Form 10-K

| | | | | | | |
|---|------------|----------|--------------|---|-----|----------------------------|
| Cancellation of non-vested restricted stock | (200,000) | — | — | — | — | — |
| Stock-based incentive compensation | — | 1,885 | 479,220 | — | — | 481,105 |
| Net loss for the fiscal year ended March 31, 2016 | — | — | — | — | — | (3,623,383) (3,623,383) |
| Balance, March 31, 2016 | 63,919,291 | \$63,919 | \$28,942,060 | — | \$— | \$(22,362,298) \$6,643,681 |

The accompanying notes are an integral part of these financial statements.

NOTE 1 — ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Business

Scio Diamond Technology Corporation (referred to herein as the “Company”, “we”, “us” or “our”) was incorporated under the laws of the State of Nevada as Krossbow Holding Corp. on September 17, 2009. The Company’s focus is on man-made diamond technology development and commercialization.

Going Concern

The Company has generated little revenue to date and consequently its operations are subject to all risks inherent in the establishment and commercial launch of a new business enterprise. The Company continues to develop its diamond technology while operating its factory to maximize revenue. The Company experienced a process water leak in our facility in mid-December 2015 causing damage to our diamond growers and a temporary interruption in production. The shutdown had a significant negative impact on revenue and delayed attainment of the Company’s near-term business objectives. While the Company’s insurance carrier provided it with \$350,000 to cover the cost of the business interruption, the Company anticipates there may be on-going negative impact on its business as it has returned to full production capacity.

These factors raise substantial doubt about the Company’s ability to continue as a going concern. Management has responded to these circumstances by implementing the following strategies and actions:

- Continuing efforts with insurance carrier to cover the costs of the business interruption and any future adverse financial effects of the shutdown;
- Continuing efforts to solicit investment in the Company in the form of private placements of common shares to accredited investors not to exceed the shares authorized;
- Continuing efforts to solicit investment in the Company in the form of secured and unsecured debt;
- Continue to optimize production of recently expanded existing manufacturing capabilities to increase product revenues;
- Continuing to focus efforts on new business development opportunities to generate revenues and expand and diversify the customer base;
- Continuing development of white gemstone material to expand our product offerings and enhance our product marketability; and
- Continuing to explore strategic joint ventures and technology licensing agreements to expand Company revenue and cash flow.

Historically, these actions have been sufficient to provide the Company with the liquidity it needs to meet its obligations and continue as a going concern. There can be no assurance, however, that the Company will successfully implement these plans on a going forward basis. If necessary, the Company will pursue further issuances of equity securities, and future credit facilities or corporate borrowings. Additional issuances of equity or convertible debt securities will result in dilution to our current stockholders. The financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

Accounting Basis

The financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”).

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. On an ongoing basis, the Company evaluates its estimates, including those related to revenue recognition, provision for doubtful accounts, sales returns, provision for inventory obsolescence, fair value of acquired intangible assets, useful lives of intangible assets and property and equipment, employee stock options, and contingencies and litigation, among others. The Company generally bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual amounts recorded could differ materially from those estimates

In accordance with Accounting Standards Codification (“ASC”) 323, *Investments—Equity Method and Joint Ventures*, the Company uses the equity method of accounting for investments in corporate joint ventures for which the Company has the ability to exercise significant influence but does not control and is not the primary beneficiary. Significant influence typically exists if the Company has a 20% to 50% ownership interest in the venture unless predominant evidence to the contrary exists. Under this method of accounting, the Company records its proportionate share of the net earnings or losses of equity method investees and a corresponding increase or decrease to the investment balances. Cash payments to equity method investees such as additional investments, loans and advances and expenses incurred on behalf of investees, as well as payments from equity method investees such as dividends, distributions and repayments of loans and advances are recorded as adjustments to investment balances. When the Company’s carrying value in an equity method investee is reduced to zero, no further losses are recorded in the Company’s financial statements unless the Company guaranteed obligations of the equity method investee or has committed additional funding. When the equity method investee subsequently reports income, the Company will not record its share of such income until it equals the amount of its share of losses not previously recognized. The Company evaluates its equity method investments for impairment whenever events or changes in circumstances indicate that the carrying amounts of such investments may not be recoverable.

Fair Value of Financial Instruments

The carrying value of cash and cash equivalents, accounts receivable, accounts payable and notes payable approximate their fair value due to the short-term nature of these instruments.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Company considers highly liquid financial instruments purchased with an original maturity of three months or less when purchased to be cash equivalents. At March 31, 2016 and 2015, the Company held no cash equivalents.

Basic and Diluted Net Loss per Share

Net loss per share is presented under two formats: basic net loss per common share, which is computed using the weighted average number of common shares outstanding excluding non-vested restricted stock, during the period, and diluted net loss per common share, which is computed using the weighted average number of common shares outstanding, and the weighted average dilutive potential common shares outstanding, computed using the treasury stock method. Currently, for all periods presented, diluted net loss per share is the same as basic net loss per share as the inclusion of weighted average shares of non-vested restricted stock and common stock issuable upon the exercise

of options and warrants would be anti-dilutive.

The following table summarizes the number of securities outstanding at each of the periods presented, which were not included in the calculation of diluted net loss per share as their inclusion would be anti-dilutive:

| | March 31, 2016 | March 31, 2015 |
|-----------------------------------|----------------|----------------|
| Common stock options | 1,027,708 | 232,500 |
| Warrants to purchase common stock | 957,295 | 5,566,795 |
| Non-vested restricted stock | 1,885,000 | — |

Allowance for Doubtful Accounts

An allowance for uncollectible accounts receivable is maintained for estimated losses from customers' failure to make payment on accounts receivable due to the Company. Management determines the estimate of the allowance for uncollectible accounts receivable by considering a number of factors, including: (1) historical experience, (2) aging of accounts receivable and (3) specific information obtained by the Company on the financial condition and the current credit worthiness of its customers. The Company also maintains a provision for estimated returns and allowances based upon historical experience. The Company has determined that an allowance was not necessary at March 31, 2016 and 2015.

Inventories

Inventories are stated at the lower of average cost or market. The carrying value of inventory is reviewed and adjusted based upon slow moving, obsolete items and management's assessment of current market conditions. Inventory costs include material, labor, and manufacturing overhead including depreciation and are determined by the "first-in, first-out" (FIFO) method. The components of inventories are as follows:

| | March 31, 2016 | March 31, 2015 |
|----------------------------|----------------|----------------|
| Raw materials and supplies | \$ 24,179 | \$ 58,390 |
| Work in process | 19,514 | 31,371 |
| Finished goods | 174,809 | 205,999 |
| Inventory reserve | (28,975) | — |
| | \$ 189,527 | \$ 295,760 |

At March 31, 2016, the Company maintains an inventory reserve for instances where finished good inventory may yield lower than expected results. The Company has determined that an inventory reserve was not necessary at March 31, 2015. During the fiscal year ended March 31, 2015, we experienced selling prices lower than cost and as a result we recorded a lower of cost or market write down of \$68,722 to the value of our inventory which was included in cost of goods sold. The estimation of the total write-down involved management judgments and assumptions including assumptions regarding future selling price forecasts, the estimated costs to complete, disposal costs and a normal profit margin.

Property, Plant and Equipment

Depreciation of property, plant and equipment is on a straight line basis beginning at the time it is placed in service, based on the following estimated useful lives:

| | Years |
|-------------------------|--------------|
| Machinery and equipment | 3–15 |
| Furniture and fixtures | 3–10 |
| Engineering equipment | 5–12 |

Leasehold improvements which are included in facility fixed assets on the balance sheet are depreciated over the lesser of the remaining term of the lease or the life of the asset (generally three to seven years).

Expenditures for major renewals and betterments that extend the useful lives of property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred. Manufacturing equipment was placed into service beginning July 1, 2012. The Company incurred total depreciation expense of \$623,984 and \$619,656 for the years ended March 31, 2016 and 2015, respectively. During the fiscal year ended March 31, 2016, \$612,591 of depreciation expense was recorded in cost of goods sold and \$11,393 was recorded as general and administrative expense. During the fiscal year ended March 31, 2015, \$603,604 of depreciation expense was recorded in cost of goods sold and \$16,052 was recorded as general and administrative expense.

During the fiscal year ended March 31, 2016, the Company evaluated its fixed assets including those acquired from ADI and those damaged in the December 2015 production shutdown and disposed of obsolete equipment with a book value of \$41,406. The Company made a similar evaluation in the fiscal year ended March 31, 2015 that resulted in a loss on disposal of fixed assets of \$182,609.

Intangible Assets

Intangible assets, such as acquired in-process research and development costs, are considered to have an indefinite useful life until such time as they are put into service at which time they will be amortized on a straight-line basis over the shorter of their economic or legal useful life. Management evaluates indefinite life intangible assets for impairment on an annual basis and on an interim basis if events or changes in circumstances between annual impairment tests indicate that the asset might be impaired. The ongoing evaluation for impairment of its indefinite life intangible assets requires significant management estimates and judgment. Management reviews definite life intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. There were no impairment charges during the fiscal year ended March 31, 2016. During the fiscal year ended March 31, 2015, management evaluated assets included in IPRD and determined that certain projects will no longer be pursued for further development resulting in an impairment charge of \$418,065 being recognized during the fiscal year.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred income taxes reflect the tax consequences on future years of differences between the tax bases of assets and liabilities and their financial reporting amounts. Valuation allowances are provided against deferred tax assets when it is more likely than not that an asset will not be realized in accordance with ASC 740, Accounting for Income Taxes.

Management has evaluated the potential impact in accounting for uncertainties in income taxes and has determined that it has no significant uncertain income tax positions as of March 31, 2016 or 2015. Income tax returns subject to review by taxing authorities include March 31, 2013 through March 31, 2016.

Stock-based Compensation

Stock-based compensation for the value of stock options is estimated on the date of the grant using the Black-Scholes option-pricing model. The Black-Scholes model takes into account implied volatility in the price of the Company's stock, the risk-free interest rate, the estimated life of the equity-based award, the closing market price of the Company's stock on the grant date and the exercise price. The estimates utilized in the Black-Scholes calculation involve inherent uncertainties and the application of management judgment.

Concentration of Credit Risk

During the year ended March 31, 2016 the Company had 35 different customers and three customers that each accounted for more than 10% of our total revenues. One of these substantial customers was the RCDC joint venture. At March 31, 2016, the Company had a receivable from RCDC \$174,413. The Company expects concentration of sales to key customers to continue in the future.

Revenue Recognition

We recognize product revenue when persuasive evidence of an arrangement exists, delivery of products has occurred, the sales price is fixed or determinable, and collectability is reasonably assured. For our Company, this generally means that we recognize revenue when we or our fabrication vendor has shipped finished product to the customer. Our sales terms do not allow for a right of return except for matters related to any manufacturing defects on our part.

For product sales to our joint venture partners for further processing and finishing, we currently defer all revenues when products are shipped. We currently recognize revenue when the joint venture partner sells the finished goods manufactured from our materials. Licensing and development revenues are recognized in the month as detailed in appropriate licensing and development contracts. In the event that licensing funds are received prior to the contractual commitment, the Company will recognize deferred revenue (liability) for the amount received.

Recent Accounting Pronouncements

On May 28, 2014, the Financial Accounting Standards Board (“FASB”) issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)," which affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards. The guidance supersedes the revenue recognition guidance in Topic 605, "Revenue Recognition", and most industry-specific guidance throughout the Industry Topics of the Codification. The guidance also supersedes some cost guidance included in Subtopic 605-35, "Revenue Recognition- Contract-Type and Production-Type Contracts". On July 9, 2015, the FASB voted to defer the effective date of the pronouncement by one year. ASU 2014-9, as amended, is effective for annual periods, and interim periods within those years, beginning after December 31, 2017. An entity is required to apply the amendments using one of the following two methods: i) retrospectively to each prior period presented with three possible expedients: a) for completed contracts that begin and end in the same reporting period no restatement is required, b) for completed contract with variable consideration an entity may use the transaction price at completion rather than restating estimated variable consideration amounts in comparable reporting periods and c) for comparable reporting periods before date of initial application reduced disclosure requirements related to transaction price; ii) retrospectively with the cumulative effect of initially applying the amendment recognized at the date of initial application with additional disclosures for the differences of the prior guidance to the reporting periods compared to the new guidance and an explanation of the reasons for significant changes. We are required to adopt ASU 2014-09, as amended, in the first quarter of fiscal 2019, and we are currently assessing the impact of this pronouncement on our financial statements.

In August 2014, the FASB issued ASU No. 2014-15, “Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern,” which requires management to assess, at each annual and interim reporting period, the entity's ability to continue as a going concern within one year after the date that the financial statements are issued and provide related disclosures. The ASU is effective for the year ended March 31, 2017, with early adoption permitted. The Company has assessed the impact of this standard and does not believe that it will have a material impact on the Company’s financial statements or disclosures.

In March 2016, the FASB issued ASU No. 2016-09, “Compensation-Stock Compensation”. This guidance changes several aspects of the accounting for share-based payment award transactions, including: (1) Accounting and Cash Flow Classification for Excess Tax Benefits and Deficiencies, (2) Forfeitures, and (3) Tax Withholding Requirements and Cash Flow Classification. This ASU is effective for fiscal years and interim periods within those years beginning after December 15, 2016. Early application is permitted. We are currently in the process of assessing the impact the adoption of this guidance will have on our financial statements.

In February 2016, the FASB issued ASU No. 2016-02, "Leases". The ASU requires lessees to recognize a right-of-use asset and a lease liability for virtually all of their leases (other than short-term leases). The guidance is to be applied using a modified retrospective approach at the beginning of the earliest comparative period in the financial statements. This ASU is effective for fiscal years and interim periods within those years beginning after December 15, 2018. Early application is permitted. We are currently in the process of assessing the impact the adoption of this guidance will have on our financial statements.

In July 2015, the FASB issued ASU No. 2015-11, "Simplifying the Measurement of Inventory", ("ASU 2015-11"). This new guidance requires an entity to measure inventory at the lower of cost and net realizable value. Currently, entities measure inventory at the lower of cost and market. ASU 2015-11 replaces market with net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. Subsequent measurement is unchanged for inventory measured under last-in, first-out or the retail inventory method. ASU 2015-11 requires prospective adoption for inventory measurements for fiscal years beginning after December 15, 2016, and interim periods within those years for public business entities. Early application is permitted. ASU 2015-11 is therefore effective in our fiscal year beginning April 1, 2017. We are evaluating the effect that ASU 2015-11 will have on our financial statements and related disclosures.

There are currently no other accounting standards that have been issued but not yet adopted by the Company that will have a significant impact on the Company's financial position, results of operations or cash flows upon adoption.

NOTE 2 — BUSINESS INTERRUPTION

The Company experienced a water leak in our production facility in mid-December 2015 that caused damage to our diamond growers and temporarily halted production. Product that was growing at the time of the shutdown terminated early and was not marketable.

The Company received \$438,754 in payments from our insurance company of which \$88,754 was for lost property and \$350,000 was for business interruption as a result of the production shutdown that were used to reduce our cost of goods sold during the fiscal year ended March 31, 2016. An additional \$36,000 of proceeds from our insurance carrier related to the production shutdown that was used to purchase replacement equipment.

The Company continues to work with our insurance carrier for reimbursement to offset the financial impact of this business interruption.

NOTE 3 — INTANGIBLE ASSETS

The assigned values of all patents considered in service by the Company are being amortized on a straight-line basis over the remaining effective lives of the patents.

Intangible assets, such as acquired in-process research and development costs (“IPRD”), are considered to have an indefinite useful life until such time as they are put into service at which time they will be amortized on a straight-line basis over the shorter of their economic or legal useful life. During the fiscal year ended March 31, 2016, IPRD of \$1,832,370 was placed in service and is being amortized over its remaining legal useful life.

Intangible assets consist of the following:

| | Life | March 31, 2016 | March 31, 2015 |
|-------------------------------------|--------------|-------------------|-------------------|
| Patents, gross | 6.75 – 19.46 | \$9,967,433 | \$8,135,063 |
| In-process research and development | Indefinite | — | 1,832,370 |
| | | 9,967,433 | 9,967,433 |
| Accumulated amortization | | (2,741,987) | (1,919,485) |
| Net intangible assets | | \$7,225,446 | \$8,047,948 |

Total amortization expense during the years ended March 31, 2016 and 2015 was \$822,502 and \$774,627, respectively.

Total annual amortization expense of finite lived intangible assets is estimated to be as follows:

| Fiscal Year Ending | |
|--------------------|-------------|
| March 31, 2017 | \$965,490 |
| March 31, 2018 | 965,490 |
| March 31, 2019 | 965,490 |
| March 31, 2020 | 785,809 |
| March 31, 2021 | 740,592 |
| Thereafter | 2,802,575 |
| Total | \$7,225,446 |

NOTE 4 — NOTES PAYABLE

On December 16, 2014 the Company entered into a Loan Agreement (the “HGI Loan Agreement”) and a Security Agreement (the “HGI Security Agreement”) with Heritage Gemstone Investors, LLC (“HGI”) providing for a \$2,000,000 secured non-revolving line of credit (the “HGI Loan”). The HGI Loan, which is represented by a Promissory Note dated as of December 15, 2014 (the “HGI Note”), matures on December 15, 2017. Borrowings accrue interest at the rate of 7.25% per annum and the Company intends to make monthly interest payments. On December 18, 2014, \$2,000,000 was drawn on the HGI Loan. The Company utilized funds drawn on the HGI Loan to repay its existing indebtedness and to continue to fund its ongoing operations. The HGI Loan Agreement contains a number of restrictions on the Company’s business, including restrictions on its ability to merge, sell assets, create or incur liens on assets, make distributions to its stockholders and sell, purchase or lease real or personal property or other assets or equipment. The HGI Loan Agreement contains standard provisions relating to a default and acceleration of the Company’s payment obligations thereunder upon the occurrence of an event of default, which includes, among other things, the failure to pay principal, interest, fees or other amounts payable under the agreement when due; failure to comply with specified agreements, covenants or obligations; cross-default with other indebtedness; the making of any material false representation or warranty; commencement of bankruptcy or other insolvency proceedings by or against the Company; and failure by the Company to maintain a book net worth of at least \$4,000,000 at all times. The Company’s obligations under the HGI Loan Agreement are not guaranteed by any other party. The Company may prepay borrowings without premium or penalty upon notice to HGI as provided in the HGI Loan Agreement. The HGI Loan Agreement requires the Company to enter into the HGI Security Agreement. Under the HGI Security Agreement, the Company grants HGI a first priority security interest in the Company’s inventory, equipment, accounts and other rights to payments and intangibles as security for the HGI Loan.

During the fiscal year ended March 31, 2016, the Company paid \$0 in principal on the HGI Note and recognized \$128,526 in interest expense, net of \$19,031 of capitalized interest. The Company recognized \$228,056 in interest expense during the fiscal year ended March 31, 2015.

Also on December 16, 2014, the Company entered into an agreement for the sale and lease of diamond growing equipment (the “Grower Sale-Lease Agreement”) with HGI to allow for the expansion of current growers and the purchase of new growers. Pursuant to the Grower Sale-Lease Agreement, the Company agreed to a sale-leaseback arrangement for certain diamond growers produced by the Company during the term of the Grower Sale-Leaseback Agreement by which the Company will sell diamond growers to HGI and then lease the growers back from HGI. The term of the Grower Sale-Leaseback Agreement is ten years. For the new and upgraded growers, the direct profit margin generated from the growers as defined in the Grower Sale-Lease Agreement will be split between the Company and HGI in accordance with the Grower Sale-Lease Agreement. The Grower Sale-Lease Agreement requires the Company to operate and service the growers, and requires HGI to up-fit certain existing growers and to make capital improvements to the new growers under certain circumstances. At the end of the Grower Sale-Leaseback Agreement, the Company takes ownership of the leased equipment. The Company will also have the right to repurchase the leased growers upon the occurrence of certain events prior to the expiration of the Grower Sale-Leaseback Agreement.

As of March 31, 2016, HGI has advanced the Company \$300,000 that funded improvements to our current growers that expanded manufacturing capacity in our production facility and the Company considers this advance as notes payable. The Company has completed the grower expansion and the assets have been placed in service.

Payments to HGI for the portion of notes payable that funded capital improvements are contingent on the direct profit margin generated by the upgraded equipment and are expected to continue through August 2018. The Company has estimated our expected payments to HGI for the direct profit sharing related to these borrowings and determined that the current portion of this note payable is \$98,999 at March 31, 2016, which is considered a current liability. During the fiscal year ended March 31, 2016, the Company paid \$0 in principal on the HGI notes payable and recognized \$21,541 in interest expense.

NOTE 5 – CAPITAL LEASES

As discussed in Note 4, the Company entered in the Grower Sale-Lease Agreement with HGI on December 16, 2014. HGI has advanced the Company \$200,000 for the purchase of new grower equipment under the Sale-Leaseback Agreement. The Company considered this advance as a notes payable at March 31, 2015. The sale and leaseback transaction occurred during the fiscal year ended March 31, 2016, and the Company has put the assets into service. Since the sale and leaseback has occurred, the Company has reclassified the \$200,000 from notes payable to capital lease obligations. The value of the assets sold and leased back was \$200,000 and the Company did not recognize any gain or loss on the sale and lease back transaction.

Payments to HGI under the capital lease are contingent on the direct profit margin generated by the equipment as defined in the Grower Sale-Lease Agreement and will continue until the lease obligation is satisfied at which time the Company will expenses the sharing obligation until the ten year term of the agreement expires. The Company has estimated our expected payments to HGI for the direct profit margin sharing related to the equipment under capital lease and determined that the current portion of this capital lease obligation is \$122,495 at March 31, 2016, which is considered a current liability. During the fiscal year ended March 31, 2016, the Company paid \$5,511 in capital lease obligation and incurred \$8,849 in interest expense.

NOTE 6 — CAPITAL STOCK

The authorized capital of the Company is 75,000,000 common shares with a par value of \$ 0.001 per share.

In September 2015, the Company sold and issued 5,216,667 shares of common stock at a price of \$0.30 to accredited investors. The Company raised \$1,565,000 in this offering and did not incur any material expenses related to the offering.

In March 2016, the Company sold and issued 275,000 units at a price of \$0.30 per unit with each unit consisting of a common share and warrant to purchase one addition share of common stock at an exercise price of \$0.15.

The Company raised \$77,099 from this offering net of broker fees and commissions of \$5,400. As part of the broker fee for this offering, the Company issued 6,750 warrants at an exercise price of \$0.30. The Company valued these warrants using the Black-Scholes option pricing model and management has estimated these warrants had a value of \$0.26 per warrant on the date of the grant. The Black-Scholes model assumptions used were: Expected dividend yield, 0.00%; Risk-free interest rate, 0.94%; Expected life in years, 3.0; and Expected volatility, 145.5%.

The Company had 63,919,291 shares of common stock issued and outstanding as of March 31, 2016.

The following sets forth the warrants to purchase shares of the Company's stock issued and outstanding as of March 31, 2016:

| | Warrants | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Term |
|-------------------------------------|-------------|---------------------------------|---|
| Warrants Outstanding April 1, 2014 | 5,566,795 | \$ 1.53 | 1.55 |
| Issued | — | — | — |
| Exercised | — | — | — |
| Expired | — | — | — |
| Warrants Outstanding March 31, 2015 | 5,566,795 | \$ 1.53 | 0.55 |
| Issued | 281,750 | 0.15 | 0.79 |
| Exercised | — | — | — |
| Expired | (4,891,250) | 1.60 | — |

| | | | | |
|-------------------------------------|---------|----|------|------|
| Warrants Outstanding March 31, 2016 | 957,295 | \$ | 0.71 | 1.38 |
|-------------------------------------|---------|----|------|------|

During our next fiscal year ending March 31, 2017, 275,000 warrants with an exercise price of \$0.15 will expire if not exercised.

NOTE 7 — SHARE-BASED COMPENSATION

The Company currently has one equity-based compensation plan under which stock-based compensation awards can be granted to directors, officers, employees and consultants providing bona fide services to or for the Company. The Company's 2012 Share Incentive Plan was adopted on May 7, 2012 (the "2012 Share Incentive Plan" or "Plan") and allows the Company to issue up to 5,000,000 shares of its common stock pursuant to awards granted under the 2012 Share Incentive Plan. The Plan permits the granting of stock options, stock appreciation rights, restricted or unrestricted stock awards, phantom stock, performance awards, other stock-based awards, or any combination of the foregoing. The only awards that have been issued under the Plan are stock options and restricted stock. Because the Plan has not been approved by our shareholders, all issued stock option awards are non-qualified stock options.

On May 7, 2015, the Board of Directors of the Company approved restricted stock awards for Mr. Gerald McGuire, the Company President and Chief Executive Officer and Mr. Jonathan Pfohl, the Company Chief Financial Officer. Mssrs. McGuire and Pfohl were granted 400,000 and 385,000 restricted shares of stock, respectively, that will vest on July 1, 2018. The restricted shares are valued at \$1.03, the closing price of the Company's stock on May 7, 2015.

Also on May 7, 2015, the Board of Directors granted Renaissance Diamond Inc. a restricted stock award of 200,000 shares. On July 1, 2015, an additional restricted stock award of 550,000 shares was granted to Renaissance Diamond Inc. These stock awards only vest based on the attainment of specific future performance criteria and awards for 200,000 shares were cancelled in December 2015 due to the performance criteria not being met.

On August 14, 2015, the Board of Directors of the Company approved restricted stock awards for Mr. McGuire and Mr. Pfohl. Messrs. McGuire and Pfohl were granted 400,000 and 150,000 restricted shares of stock, respectively, that will vest on July 1, 2018. The restricted shares are valued at \$0.85, the closing price of the Company's stock on August 14, 2015.

The Company recognizes compensation expense for the restricted stock awards to Company executives on a straight line basis over the vesting period. The Company recognized \$340,912 in compensation expenses for these awards during the fiscal year ended March 31, 2016. For the restricted stock awards to Renaissance Diamond, Inc., the Company does not anticipate recognizing any financial impact for these restricted stock awards until it is deemed likely that the performance criteria will be met.

The following sets forth the restricted stock outstanding as of March 31, 2016:

| Restricted Stock | Shares |
|---|---------------|
| Restricted stock outstanding March 31, 2015 | — |
| Granted | 2,085,000 |
| Vested | — |
| Expired/cancelled | (200,000) |
| Restricted stock outstanding March 31, 2016 | 1,885,000 |

On May 7, 2015, the Board of Directors granted Renaissance Diamond Inc. non-qualified stock options for 333,333 shares of common stock. These options will vest on June 29, 2016 if the RCDC joint venture attains specific performance criteria. The strike price of these options will be set at fifty percent of the market closing price upon vesting. The options will need to be exercised within 60 days of vesting. The Company does not anticipate recognizing any financial impact for these options and expects them to expire unvested.

In addition, on May 7, 2015, the Company granted seven non-executive employees options to purchase a total of 685,000 shares of the Company's stock. The vesting schedule for these options call for 33.3% to vest upon the first, second and third anniversaries of the grant date. The exercise price of \$1.03 per share is equal to the closing price of a share of the Company's common stock on the date of grant. Using the Black-Scholes option pricing model, management has estimated these options had a value of \$0.98 per option on the date of the grant. The Black-Scholes model assumptions used were: Expected dividend yield, 0.00%; Risk-free interest rate, 2.18%; Expected life in years, 10.0; and Expected volatility, 124.3%. None of these options were vested upon issuance and the Company recognized \$140,193 in compensation costs for these options during the fiscal year ended March 31, 2016.

Edgar Filing: Scio Diamond Technology Corp - Form 10-K

The following sets forth the employee options to purchase shares of the Company's stock issued and outstanding as of March 31, 2016 and does not include options granted to Renaissance Diamond Inc.:

The following sets forth the options to purchase shares of the Company's stock issued and outstanding as of March 31, 2016:

| Options | Shares | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Term |
|------------------------------------|-------------|---------------------------------|---|
| Options Outstanding April 1, 2014 | 4,342,500 | \$ 0.77 | 1.75 |
| Granted | — | — | — |
| Exercised | — | — | — |
| Expired/Cancelled | (4,110,000) | 0.79 | — |
| Options Outstanding March 31, 2015 | 232,500 | \$ 0.35 | 1.45 |
| Granted | 685,000 | 1.03 | 9.11 |
| Exercised | (11,125) | 0.51 | — |
| Expired/cancelled | (212,000) | 0.83 | — |
| Options Outstanding March 31, 2016 | 694,375 | \$ 0.87 | 7.13 |
| Exercisable at March 31, 2016 | 12,000 | \$ 0.33 | 0.48 |

The intrinsic value of options outstanding and exercisable at March 31, 2016 and 2015 was \$0 and \$0, respectively.

A summary of the status of non-vested shares as of March 31, 2016 and changes during the year ended March 31, 2016 is presented below.

| | | Weighted Average Grant-Date Fair Value |
|-------------------------------|-------------|--|
| Non-vested Shares | Shares | |
| Non-vested at April 1, 2014 | 2,414,792 | \$ 0.49 |
| Granted | — | — |
| Vested | (122,000) | 0.43 |
| Expired/cancelled: non-vested | (2,083,417) | 0.38 |
| Non-vested at March 31, 2015 | 209,375 | 0.21 |
| Granted | 685,000 | 0.98 |
| Vested | — | — |
| Expired/cancelled: non-vested | (212,000) | 0.76 |
| Non-vested at March 31, 2016 | 682,375 | \$ 0.81 |

The following table summarizes information about stock options outstanding by price range as of March 31, 2016:

| Exercise Price | Options Outstanding | | | Options Exercisable | |
|----------------|---------------------|---|---------------------------------|---------------------|---------------------------------|
| | Number Outstanding | Weighted Average Contractual Life (years) | Weighted Average Exercise Price | Number of Shares | Weighted Average Exercise Price |
| \$ 1.03 | 535,000 | 9.11 | \$ 1.03 | — | \$ — |
| \$ 0.33 | 159,375 | 0.48 | 0.33 | 12,000 | 0.33 |
| | 694,375 | 7.13 | \$ 0.87 | 12,000 | \$ 0.33 |

For the years ended March 31, 2016 and 2015, the Company recognized \$140,193 and \$0, respectively, as compensation cost for options issued, and recorded related deferred tax asset of \$0 for all periods.

At March 31, 2016, unrecognized compensation costs related to non-vested employee awards was \$415,056. Of this unrecognized compensation cost, \$30,949 is only expected to be recognized if certain performance criteria are attained over a weighted average period of 0.48 years.

NOTE 8 — OTHER INCOME AND EXPENSE

For the fiscal year ended March 31, 2016, the Company recognized \$18,230 as its proportional share of income from its joint venture with RCDC. In addition, the Company recognized \$158,916 in interest expense related to its notes payable that were outstanding during the fiscal year.

For the fiscal year ended March 31, 2015, the Company recognized \$29,041 as its proportional share of income from its joint venture with RCDC. In addition, the Company recognized \$228,056 in interest expense related to its notes payable that were outstanding during the fiscal year.

NOTE 9 — OPERATING LEASES

The Company leases office space at a location in Greenville, South Carolina. Under the terms of the lease, the Company is obligated to pay escalation rentals for certain operating expenses and real estate taxes. The Company's lease in Greenville, South Carolina expires in March 2019. The Company leases electrical equipment in its production facility in South Carolina with these leases expiring during the 2017 fiscal year.

The Company recognizes lease expense on a straight-line basis and recognized \$393,874 and \$398,590 in lease expense for the fiscal years ending March 31, 2016 and 2015, respectively. The Company has other liabilities consisting of deferred rent payable of \$88,569 and \$118,092 at March 31, 2016 and 2015, respectively. Minimum future rental payments under the leases are summarized as follows:

| | |
|---------------------|-----------|
| 2017 | \$361,660 |
| 2018 | 224,410 |
| 2019 | 224,410 |
| 2020 | — |
| 2021 | — |
| 2022 and thereafter | \$— |

NOTE 10 — RELATED PARTIES

On August 7, 2015, the Company reached an amendment to the separation, waiver and release agreement executed on December 4, 2012 with our former Chief Executive Officer Mr. Joseph Lancia. This amendment allowed for no further severance payments to Mr. Lancia and resulted in the Company reversing \$137,561 in previously accrued severance liabilities. The Company included this adjustment as a forgiveness of severance liability in statement of operations for the fiscal year ended March 31, 2016.

The Company recognized \$110,690 and \$10,801 of product revenue from Grace Rich during the fiscal years ended March 31, 2016 and 2015, respectively. The Company recognized \$0 and \$375,000 in licensing revenues from Grace Rich during the fiscal years ended March 31, 2016 and 2015, respectively. The Company incurred \$0 and \$96,776 of joint venture related expenses during the fiscal years ended March 31, 2016 and 2015, respectively that were reimbursed by the Grace Rich LTD. These reimbursements were offset against the Company's related operating expense. The Company had no outstanding receivables from or payables due Grace Rich LTD at March 31, 2016. Additional detail on the Grace Rich joint venture is provided in Item 8, Note 12.

During the fiscal years ended March 31, 2016 and 2015, the Company sold product to RCDC valued at \$142,800 and \$241,950, respectively. The Company defers recognition of revenues and expenses on these sales to RCDC until finished goods are sold by RCDC or RCDC pays the Company for its purchases. For the fiscal year ended March 31, 2016 and 2015, the Company recognized revenue for product sold to RCDC of \$183,895 and \$26,575, respectively. As of March 31, 2016, the Company has deferred \$174,280 of revenue and \$142,471 of expenses related to our sales to RCDC. In addition, at March 31, 2016, the Company had a receivable from RCDC of \$174,413. Additional detail on the RCDC joint venture is provided in Item 8, Note 13.

RCDC has periodically marketed finished gemstones to shareholders of Scio, Bernard McPheely, Scio's Chairman of the Board, made a one-time purchase of gemstones for \$16,365 under these marketing programs.

The Company recognized \$36,850 and \$23,044 of product revenue from Renaissance Diamond Inc. ("Renaissance"), our partner in the RCDC joint venture, during the fiscal years ended March 31, 2016 and 2015, respectively. The Company has granted Renaissance restricted stock awards totaling 750,000 shares that only vest based on the attainment of specific performance criteria. During the fiscal year ended March 31, 2016, 200,000 of the restricted shares were cancelled resulting in Renaissance holding 550,000 non-vested restricted shares at March 31, 2016. In addition, the Company has granted Renaissance non-qualified stock options for 333,333 shares of common stock. These options will vest on June 29, 2016 if the RCDC joint venture attains specific performance criteria. The strike price of these options will be set at fifty percent of the market closing price upon vesting. The options will need to be exercised within 60 days of vesting. The Company does not anticipate recognizing any financial impact for these options and expects them to expire unvested.

NOTE 11 — INCOME TAXES

There was no current or deferred tax expense (benefit) for the years ended March 31, 2016 and 2015.

Edgar Filing: Scio Diamond Technology Corp - Form 10-K

The deferred tax asset (liability) at March 31, 2016 and 2015 consists of the following types of temporary differences and their related tax effects:

| | At March 31, 2016 | At March 31, 2015 |
|--|----------------------|----------------------|
| Accrued expenses | \$ 163,671 | \$ 194,165 |
| Property and equipment | (236,460) | (185,992) |
| Impairment of fixed assets | 225,529 | 299,537 |
| Capitalized startup/acquisition costs | 423,811 | 461,636 |
| Federal and state net operating loss carry-forward | 6,678,551 | 5,344,982 |
| Intangible assets | 104,206 | 59,849 |
| | \$ 7,359,308 | \$ 6,174,177 |
| Valuation allowance | (7,359,308) | (6,174,177) |
| Total | \$ — | \$ — |

The Company recorded a valuation allowance against its net deferred tax asset at March 31, 2016 and March 31, 2015, as the Company believes that it is more likely than not that this asset will not be realized.

| | At March 31, 2016 | | At March 31, 2015 | |
|--|-------------------|---------|-------------------|---------|
| | Amount | % | Amount | % |
| Tax at statutory federal income tax rate | \$(1,231,950) | (34.0)% | \$(1,408,162) | (34.0)% |
| Increase (decrease) resulting from: | | | | |
| State income tax expense | — | 0.0 % | — | 0.0 % |
| Change in valuation allowance | 1,067,827 | 29.5 % | 1,406,400 | 34.0 % |
| Incentive stock options | 163,576 | 4.5 % | — | 0.0 % |
| Other, net | 547 | 0.0 % | 1,762 | 0.0 % |
| Total | \$— | 0.0 % | \$— | 0.0 % |

The Company had federal and state net operating loss carry-forwards of \$17,888,714 and \$16,447,935 at March 31, 2016 and 2015 respectively. These carry-forwards start to expire in the year 2031.

NOTE 12 — INVESTMENT IN GRACE RICH JOINT VENTURE

On September 16, 2013, the Company entered into a series of agreements with SAAMABA, LLC (“SAAMABA”) and S21 Research Holdings (the “Grace Rich Agreements”) to form a joint venture with operations in the People’s Republic of China (“PRC”) to deploy a minimum of 100 Company designed diamond growing machines. Through the Grace Rich Agreements, the Company owns 30% of Grace Rich LTD, a corporation duly established pursuant to the laws of the Hong Kong Special Administrative Region of the PRC that is an investment and holding company for the factory and distribution center to be formed pursuant to the laws of the PRC as a wholly foreign owned enterprise.

Under the Grace Rich Agreements, the Company has agreed to license its proprietary technology for the manufacture of diamond gemstones of agreed upon specifications. In exchange for the license, the Company will receive licensing revenue and 30% ownership in the joint venture. In addition to the licensed technology, the Grace Rich Agreements include obligations for the Company to provide and be compensated for technology consulting services to the joint venture to support the start-up of operations.

The initial ownership interests in Grace Rich LTD are as follows: SAAMABA LLC- 60%; Scio Diamond Technology Corporation – 30% and S21 Holdings- 10%. The capital contributions required to finance Grace Rich LTD are requirements of SAAMABA, and the Company is not required to make any on-going funding contributions to the joint venture and its ownership stake cannot be reduced from 30%.

The Company is licensing a portion of its patented technology to Grace Rich LTD and is not directly contributing any of its intellectual property. Under the license agreement, the Company received \$250,000 in licensing fees and \$750,000 in development fees. Once operations of Grace Rich LTD have commenced, the Company will receive \$250 per machine per month in licensing fees with a minimum monthly payment of \$25,000 until the joint venture starts to distribute cash to its partners.

The Company has determined the fair value of the license agreement does not exceed the value of the expected returns from the joint venture and accordingly established an initial investment value of \$0 for its interests in the joint venture and has not recorded any gains related to its contribution to the joint venture. Grace Rich LTD was in its development stage through March 31, 2016 and did not have any revenues. Expenses incurred by the joint venture were for planning and startup expenses.

As of March 31, 2016, the Company has not guaranteed obligations of the joint venture nor has it committed to provide additional funding. Therefore, the Company’s share of the joint venture’s net loss for the years ended March 31, 2016 or 2015 were not recognized because the initial carrying value of the Company’s ownership interest in the joint

venture was zero.

The Company recognized \$0 and \$375,000 in licensing revenues from Grace Rich during the fiscal years ended March 31, 2016 and 2015, respectively. The Company recognized \$110,690 and \$10,801 of product revenue from Grace Rich during the fiscal years ended March 31, 2016 and 2015, respectively. The Company incurred \$0 and \$96,776 of joint venture related expenses during the fiscal years ended March 31, 2016 and 2015, respectively that were reimbursed by the Grace Rich LTD. These reimbursements were offset against the Company's related operating expense. The Company had no outstanding receivables from or payables due Grace Rich LTD at March 31, 2016.

NOTE 13 — INVESTMENT IN RCDC JOINT VENTURE

On December 18, 2014 the Company entered into an arrangement with Renaissance through the execution of a limited liability company agreement (the "LLC Agreement") of Renaissance Created Diamond Company, LLC, a Florida limited liability company ("RCDC"), pursuant to which the Company and Renaissance are each 50% members of RCDC.

The LLC Agreement provides that RCDC is a manager-managed limited liability company, and each of the Company and Renaissance will appoint one manager, with both such managers appointing a third manager. The managers will manage the day-to-day operations of RCDC, subject to certain customary limitations on managerial actions that require the consent of the Company and Renaissance, including but not limited to making or guaranteeing loans, distributing cash or other property to the members of RCDC, entering into affiliate transactions, amending or modifying limited liability company organizational documents, and entering into major corporate events, such as a merger, acquisition or asset sale.

The arrangement was entered into in order to facilitate the development of procedures and recipes for, and to market and sell, lab-grown fancy-colored diamonds. Pursuant to the LLC Agreement, the arrangement will last three years, unless terminated earlier, with the option to automatically renew for additional two-year periods.

The Company made an initial \$1,000 investment in RCDC and was granted a 50% equity stake. RCDC has the right of first refusal to purchase diamond gemstones from the Company, including rough diamond preforms or processed stones. Renaissance may sell seed stock to RCDC for production by the Company. RCDC purchase rough diamond material produced by the Company, finishes the rough gemstones and, in turn, sells the finished stones to various retailers and other participants in the market for gemstones. Profits generated by RCDC's operations will be distributed between the Company and Renaissance according to the terms of the LLC Agreement.

Through March 31, 2016 the operations of RCDC have been focused on the development and processing of diamond material into finished gemstone material and establishing sales and distribution channels for the finished goods. During the fiscal years ended March 31, 2016 and 2015, the Company sold product to RCDC valued at \$142,800 and \$241,950, respectively. The Company defers recognition of revenues and expenses on these sales to RCDC until finished goods are sold by RCDC or RCDC pays the Company for its purchases. For the fiscal year ended March 31, 2016 and 2015, the Company recognized revenue for product sold to RCDC of \$183,895 and \$26,575, respectively. As of March 31, 2016, the Company has deferred \$174,280 of revenue and \$142,471 of expenses related to our sales to RCDC. The Company anticipates recognizing this deferred revenue and expense at the earlier date of RCDC selling through its inventory or the Company collects its receivables from RCDC.

The Company utilizes the equity method of accounting for its investment in RCDC. As such, the Company recognized \$18,230 and \$29,041 as its proportional shares of RCDC's net income during the fiscal years ended March 31, 2016 and 2015, respectively.

Rollforward of the Company's ownership interest in the joint venture for the year ended March 31, 2016:

| | | |
|---|----|--------|
| Balance of ownership interest in joint venture at December 18, 2014 | \$ | 1,000 |
| Aggregate fiscal 2015 equity gain – share of joint venture income | | 29,041 |
| Balance of ownership interest in joint venture at March 31, 2015 | \$ | 30,041 |
| Aggregate fiscal 2016 equity gain – share of joint venture income | | 18,230 |
| Balance of ownership interest in joint venture at March 31, 2016 | \$ | 48,271 |
| Cumulative recognized income on ownership | \$ | 47,271 |

interest in joint venture at
March 31, 2016

Selected financial results for RCDC for the fiscal year ended March 31, 2016 are as follows:

| | |
|---------------------------------------|-----------|
| Revenues | \$540,163 |
| Expenses | 503,704 |
| Net Income | \$36,459 |
| | |
| Total Assets | \$503,759 |
| | |
| Total Liabilities | \$407,217 |
| Total Partners Capital | 96,542 |
| Total Liabilities and Partner Capital | \$503,759 |

NOTE 14 — LITIGATION

We are subject, from time to time, to various claims, lawsuits or actions that arise in the ordinary course of business. As of March 31, 2016 there were no material outstanding claims by the Company or against the Company. On May 16, 2014 the Company received a subpoena issued by the SEC ordering the provision of documents and related information concerning various corporate transactions between the Company and its predecessors and other persons and entities. The Company continues to cooperate with this inquiry.

During the fiscal year ended March 31, 2016, the Company revised its estimates of legal liabilities related to litigation settled in 2014 and reversed \$192,576 of legal accounts payable.

NOTE 15 – SUBSEQUENT EVENTS

In May 2016, the Company initiated an offering of up to 7,000,000 shares of common stock at a price of \$0.22 per share to accredited investors. Through July 8, 2016, the Company has sold 1,179,000 shares and raised \$241,223 net of broker commission of \$18,157.

On June 27, 2016, James Korn resigned from the Company's Board of Directors. The Board has appointed a Special Investigation Committee comprised of independent directors to investigate and determine an appropriate response for the allegations set forth in the resignation letter of James Korn. Following a review of relevant documents and interviews of key parties involved, the Special Investigation Committee has concluded there is no basis for any of the allegations described in the resignation letter of James Korn.

END NOTES TO FINANCIALS

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS AND FINANCIAL DISCLOSURE.

None.

ITEM 9A. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures refer to controls and other procedures designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. As of March 31, 2016, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as defined in Exchange Act Rule 13a-15. We applied our judgment in the process of reviewing these controls and procedures, which, by their nature, can provide only reasonable assurance regarding our control objectives. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of March 31, 2016.

Management's Annual Report on Internal Control over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) promulgated under the Exchange Act. The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The Company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and the dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of the management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on its financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of our internal control over financial reporting as of March 31, 2016. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission, or COSO, in Internal Control—Integrated Framework (2013). Based on its assessment, management concluded that the Company's internal control over financial reporting was effective as of March 31, 2016.

When management conducted this assessment at March 31, 2015, management identified a significant deficiency in our internal control over financial reporting which is common in small companies. This deficiency identified was that we had limited segregation of duties in certain areas of our financial reporting and other accounting processes and procedures. During the fiscal year ended March 31, 2016, the Company worked with its outsourced accounting vendor to provide enhanced separation of duties amongst personnel participating in our accounting function such that Management believes we have successfully remediated this deficiency.

This annual report does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our independent registered public accounting firm pursuant to an exemption for non-accelerated filers set forth in Section 989G of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

Changes in Internal Controls

Other than described above, there were no significant changes in our internal controls over financial reporting that occurred during our fiscal year ended March 31, 2016, that materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

ITEM 9B. OTHER INFORMATION.

NONE

48

PART III**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE.***Directors and Executive Officers*

The following table sets forth the names and ages of our directors and executive officers as of July 8, 2016.

| Name | Age | Position with the Company | Since |
|--|------------|----------------------------------|---------------|
| <i>Directors</i> | | | |
| Bernard McPheely | 64 | Chairman | June 23, 2014 |
| Bruce Likly | 53 | Vice-Chairman | June 23, 2014 |
| Karl Leaverton | 60 | Director | June 23, 2014 |
| Gerald McGuire | 55 | CEO, President & Director | July 11, 2014 |
| Lewis Smoak | 72 | Director | June 23, 2014 |
| Ben Wolkowitz | 71 | Director | June 23, 2014 |
| <i>Non-Director Executive Officers</i> | | | |
| Jonathan Pfohl | 49 | Chief Financial Officer | March 4, 2013 |

Our bylaws provide that each director is to be elected at our annual meeting by the stockholders and serve until his or her successor is elected and qualified at the next annual meeting, unless he or she resigns or is removed earlier. All directors were elected at our annual meeting on December 2, 2015. Directors serve until his or her successor is duly elected and qualified, or until he or she is earlier removed from office or resigns.

Set forth below is certain information about our directors and executive officers, including information regarding their business experience for at least the past five years, the names of other publicly-held companies where they currently serve as a director or served as a director during the past five years, and additional information about the specific experience, qualifications, attributes, or skills that led to the Board's conclusion that such person should serve as a director for the Company.

BERNARD MCPHEELY. Bern McPheely serves as non-executive chairman of the Board. Mr. McPheely recently retired in December 2012 as President of Hartness International after more than 35 years of service. A leader in total solutions to the packaging industry, Hartness provides equipment globally to more than 100 countries. From startup

and under Bern's guidance, Hartness was profitable every quarter since 1982. He spearheaded short and long term strategic planning, including four major company-wide transformations to reposition the Hartness value proposition, product portfolio and go-to-market strategy. Bern negotiated and executed the sale of Hartness to ITW (Illinois Tool Works) and was responsible for shepherding the transition from a family owned business to a public company. He has also been responsible for successful synergistic acquisitions. From 2000-2002 Bern was chairman of the PMMI (\$6 billion member packaging association) and currently is on the Board of Directors of Dorner Manufacturing Corp. in Hartland Wisconsin. Bern was honored by Start Magazine as one of the top ten "CEO Visionaries Who Ignite Technology" and has briefed President Clinton and cabinet members on the state of US business. Bern previously worked with the US Department of Commerce. A graduate of The Thunderbird Graduate School of International Management, Bern also received his undergraduate degree from Albion College in Albion, Michigan. Mr. McPheely was a member of the Board from August 13, 2012 until Mr. McPheely resigned from the Board on May 13, 2013. Mr. McPheely's business experience qualifies him to serve as a director.

BRUCE LIKLY. Bruce Likly serves as non-executive vice-chairman of the Board. Mr. Likly brings more than 25 years of technology, communications and management experience to Scio. Having begun his career at IBM and worked to help grow Sun Microsystems from \$1 Billion in sales to more than \$10 Billion, Mr. Likly has spent the last decade as Principal at Kovak-Likly Communications where his team helps companies develop and implement strategic sales, marketing and communications plans. This work previously included assisting Apollo Diamond, the company whose assets Scio Diamond Technology Corporation acquired in 2011. Mr. Likly's marketing and business experience qualifies him to serve as a director.

KARL LEAVERTON. Karl Leaverton is a non-executive director of the Company. Most recently, from April 2012 to July 12, 2013 when it was sold, Mr. Leaverton was the President/Chief Executive Officer and a director of Seattle Northwest Securities Corporation, a broker-dealer specializing in public finance investment banking, sales and trading of fixed income and asset management (acquired by Piper Jaffray in July, 2013). Karl has been the Chairman of SNW Asset Management Corporation since July 2012, a fixed income portfolio manager with about \$2.5 billion in assets under management. He has also been the principal of Blakely Management Company LLC from 1993 to present, providing business and management consulting for various companies and disciplines. Mr. Leaverton is the former President of the Private Client Group of RBC Wealth Management (January 2006 to April 2009), with management responsibility for more than 2,300 advisors and assets under administration in excess of \$200 billion in assets. Mr. Leaverton has more than 30 years of financial services experience. He earned a BS in Chemical Environmental Science from the University of Puget Sound and completed the course work for a BA in Economics. He earned a Master of Science degree in Infrastructure Management from Stanford University. Mr. Leaverton's business acumen and experience in finance led us to the conclusion that he should serve as a director of the Company.

GERALD McGUIRE. Gerald McGuire is the President, Chief Executive Officer and a director of the Company. Mr. McGuire brings over 25 years of semiconductor industry experience to Scio. The semi-conductor industry is expected to be a strong growth area for Scio in the years ahead. Mr. McGuire was most recently a Senior Vice President and General Manager of the Low-Voltage and Mid Power Analog Business at Fairchild Semiconductor. Prior to Fairchild Semiconductor, Mr. McGuire was the VP/GM of the Digital Signal Processing business at Analog Devices. He spent 23 years at Analog Devices in various technical, marketing and business roles. His specialties include: product marketing and branding, product development and strategy. Mr. McGuire has spent his career determining what global customers want and how to deliver it. From 2007 to 2010, Mr. McGuire served as Vice President of the Digital Signal Processing Division of Analog Devices, a global DSP and embedded processor business. From 2010 to 2013, Mr. McGuire was Senior VP of the Low Voltage and Mid Power Analog Business Unit of Fairchild Semiconductor, a global power semiconductor business.

LEWIS SMOAK. Lewis Smoak is a non-executive director of the Company. Mr. Smoak is a founding partner of Ogletree, Deakins, Nash, Smoak & Stewart, which he helped establish in 1977. He has served on the law firm's Board and Compensation and Pension Committees for more than 45 years during which time the firm grew from 16 to more than 700 attorneys and two offices to 46. He has extensive experience in the development and implementation of positive labor relations programs for clients in all regions of the country, including compliance with employment, labor, safety, and environmental laws. He is among the one percent of U.S. lawyers listed in The Best Lawyers in America, and has also been selected by his peers for inclusion in the ABA's College of Labor and Employment Lawyers, and Chambers USA Leading Lawyers in America. Mr. Smoak is the author of three comprehensive nationwide labor relations studies in the construction industry. He has served on the Greenville (president) and South Carolina State Chambers of Commerce Board of Directors. He served from 2002 through 2014 as a member of South Carolina BIPEC's Board and on its Executive Committee since 2004. He served as Chairman of the Board of Supermarket Radio Network and negotiated its sale to Pop Radio and Heritage Media. He served as chairman of the board of Zumur, LLC, a start-up internet search engine for consumer products as well as chairman of Consumer Transparency, LLC. He focuses community efforts on early childhood education issues, including service on United Way's Success by Six Board, and chairing both Greenville County (2001-2003) and the State of South Carolina's First Steps for School Readiness Board of Trustees (2003-2014). For his work in early childhood education, he was recognized and received the 2006 Ellis Island Medal of Honor and the State of South Carolina's highest honor, the

Order of the Palmetto. Mr. Smoak's legal expertise as a practicing attorney qualifies him to serve as a director.

BENJAMIN WOLKOWITZ. Ben Wolkowitz is a non-executive director of the Company. Mr. Wolkowitz has had an extensive career in finance and economics. Most recently he headed Madison Financial Technology Partners, a consulting firm that advised technology companies on how to position their products for the financial services industry. Previously he was a Managing Director at Morgan Stanley where he had several assignments in the Fixed Income Division over a sixteen-year career including running their financial futures brokerage operation, and a significant portion of the Fixed Income sales force. He also was the head of Fixed Income Research and prior to retiring, he managed a portfolio of Morgan Stanley invested technology companies. Before the New York phase of his career Mr. Wolkowitz was with the Board of Governors of the Federal Reserve System where he was in charge of Financial Studies, a department in the Division of Research and Statistics responsible for analyzing and advising Governors of the Board on financial markets and financial institutions. Mr. Wolkowitz had previously taught at Tulane University in the economics department and he was also a consultant to the Urban Institute in Washington, D.C. He has written and lectured extensively on both theoretical and applied topics in economics and finance in addition to co-authoring a book, Bank Capital. Mr. Wolkowitz has a BA cum laude from Queens College and a PhD in economics from Brown University. Currently he is a Town Council Member, Madison N.J. and a member of the Advisory Board of the Great Swamp Watershed Association. Mr. Wolkowitz's financial experience qualifies him to serve as a director.

JONATHAN PFOHL. Jonathan Pfohl served as Chief Financial Officer from March 4, 2013 to June 12, 2014 when he was terminated without cause by the then Board of Directors. Mr. Pfohl returned to the Company as Chief Financial Officer on June 25, 2014. Mr. Pfohl served as Interim Chief Financial Officer of the Company from January 16, 2013 to March 3, 2013 and before then he served since December 19, 2012 as an independent contractor providing accounting, finance and related services to the Company through his consulting company Rose Creek Associates LLC. Mr. Pfohl has more than 25 years of financial and management experience with start-up and fast growing organizations. Before joining the Company, he served as CEO of Wireless Express LLC, one of Sprint's largest independent distribution partners, from December 2009 to October 2013. Prior to Wireless Express, Mr. Pfohl was CFO of Main Street Broadband LLC, a privately held wireless broadband service provider, from June 2009 to December 2009; CFO of Movida Cellular LLC, a mobile virtual network provider, from April 2007 to March 2008; and a Vice President with AirGate PCS, Inc., a publicly-traded regional provider of wireless communications services, from 1999 to 2005. Mr. Pfohl has a BS-Management and an MBA-Finance from the State University of New York at Buffalo.

Family Relationships. There are no familial relationships amongst our directors and officers.

Compliance with Section 16(a) of the Securities Exchange Act of 1934

The rules of the SEC require our directors, executive officers and holders of more than 10 percent of our common stock to file reports of stock ownership and changes in ownership with the SEC. Based on the Section 16 reports filed by our directors, executive officers and greater than 10 percent beneficial owners, and written representations of our directors and executive officers, we believe there were no late or inaccurate filings for transactions occurring during the fiscal year ended March 31, 2016 except as follows:

| Name | Number of Late Reports | Number of Late Transactions | Number of Missed Reports | Number of Missed Transactions |
|------------------|------------------------|-----------------------------|--------------------------|-------------------------------|
| James Korn | 0 | 0 | 0 | 0 |
| Karl Leaverton | 0 | 0 | 0 | 0 |
| Bruce Likly | 0 | 0 | 0 | 0 |
| Gerald McGuire | 0 | 0 | 0 | 0 |
| Bernard McPheely | 1 | 2 | 0 | 0 |
| Jonathan Pfohl | 0 | 0 | 0 | 0 |
| Lewis Smoak | 0 | 0 | 0 | 0 |
| Ben Wolkowitz | 0 | 0 | 0 | 0 |

Code of Ethics and Business Conduct

We have adopted a Code of Ethics and Business Conduct that is applicable to our executive officers, including our principal executive officer and our principal financial officer. A copy of this Code of Ethics and Business Conduct is available without charge to shareholders upon request to the Company at 411 University Ridge, Suite D, Greenville, SC 29601. We will disclose any future amendments to, or waivers from, provisions of Code of Ethics on our website as promptly as practicable, as and to the extent required under and applicable stock market standards and applicable SEC rules.

Audit Committee and Audit Committee Financial Expert

The members of the Audit Committee are Ben Wolkowitz and Bruce Likly. Mr. Wolkowitz serves as chair of the committee. The Company believes Mr. Wolkowitz qualifies as an audit committee financial expert (as defined in Item 407 of Regulation S-K).

ITEM 11. EXECUTIVE COMPENSATION.

The following table shows the compensation awarded to, earned by or paid to each individual who served as our chief executive officer during the fiscal year ended March 31, 2016. We had no executive officers serving as of March 31, 2016 other than our Chief Executive Officer and our Chief Financial Officer.

Summary Compensation Table

| Name and Principal Position | Fiscal Year Ended March 31, | Salary | Bonus | Option Awards | All Other Compensation | Total |
|--|-----------------------------|-----------|-------|---------------|------------------------|---------------|
| Gerald McGuire (1) Chief Executive Officer | 2016 | \$200,000 | \$ — | \$ — | \$ 123,659 | (3) \$323,659 |
| | 2015 | 130,769 | — | — | 56,540 | (4) 187,309 |
| Michael McMahon(2) Former Chief Executive Officer | 2016 | \$— | \$ — | \$ — | \$ — | \$— |
| | 2015 | 60,577 | — | — | 319,308 | (5) 379,885 |
| Jonathan Pfohl Chief Financial Officer | 2016 | \$200,000 | \$ — | \$ — | \$ 36,000 | (6) \$236,000 |
| | 2015 | 200,000 | — | — | 36,000 | (6) 236,000 |

(1) Mr. McGuire was appointed President and Chief Executive Officer on July 11, 2015.

(2) Mr. McMahon was terminated by the then Board of Directors without cause on June 12, 2014. The Company executed a severance agreement with Mr. McMahon on September 25, 2014.

Mr. McGuire was paid \$17,495 in temporary living expenses and \$18,665 in relocation expenses. The Company (3) owes Mr. McGuire an additional \$87,499 in relocation expenses that are included in our current liabilities at March 31, 2016.

(4) Mr. McGuire was paid \$20,000 for consulting services to the Company prior to his hiring on July 11, 2014. He was also provided \$36,540 in temporary living expenses.

(5) Includes cash and stock based compensation Mr. McMahon received under the severance agreement between the Company and Mr. McMahon dated September 25, 2014.

(6) Includes \$36,000 paid for temporary living expenses paid to Mr. Pfohl.

Narrative Disclosure to Summary Compensation Table**Current Executive Officers**

Gerald McGuire. Gerald McGuire was appointed President, Chief Executive Officer and a director of the Company on July 11, 2014. Mr. McGuire also serves as a director of the Company.

On March 31, 2015, the Company entered into an employment agreement with Mr. McGuire (the "McGuire Employment Agreement"). The terms of the McGuire Employment Agreement are summarized below.

The McGuire Employment Agreement provides that, subject to earlier termination as provided in the agreements, Mr. McGuire's employment as President and Chief Executive Officer will be for a term of three years, expiring on March 31, 2018. Upon expiration of the initial term, and subject to earlier termination as provided in the agreement, the McGuire Employment Agreement will be automatically extended for successive one year renewal periods.

The McGuire Employment Agreement provides that Mr. McGuire will receive an annual base salary of \$200,000, subject to periodic review and increase by the Compensation Committee of the Company's Board of Directors, in its discretion. In addition, Mr. McGuire will receive a performance-based cash bonus under the Company's then-existing incentive bonus plan, the performance and other criteria applicable to which will be established and determined in accordance with such plan. In order to receive his bonus, Mr. McGuire must be employed at the time the bonus is paid.

The McGuire Employment Agreement also provides Mr. McGuire with certain other compensation and benefits, including eligibility to participate in all employee benefit plans and programs made available from time to time to the Company's executive and management employees, paid time off, and reimbursement of reasonable and necessary out-of-pocket business, travel and entertainment expenses.

Under the McGuire Employment Agreement, Mr. McGuire is entitled to receive severance benefits if his employment is terminated under certain circumstances. In this regard, if Mr. McGuire's employment is terminated by the Company without "Cause" (as defined in the McGuire Employment Agreement), by Mr. McGuire for "Good Reason" (as defined in the McGuire Employment Agreement), other than for Cause in the 12 months following a "Change in Control" (as defined in the McGuire Employment Agreement), he will be entitled to the following severance benefits: (i) a cash payment equal to 1.0x base salary if Mr. McGuire has been employed for 24 months, but only .5x base salary if employed for less than 24 months, payable in a lump sum or ratably on a monthly basis over the 12-month period following termination; (ii) a pro rata portion, in cash, of the annual performance bonus Mr. McGuire would have earned for the fiscal year in which termination occurs if his employment had not ceased; and (iii) payment of accrued vacation time pursuant to Company policy and reimbursement for expenses incurred through the date of termination, and accrued benefits through the Company's benefit plans and programs.

If Mr. McGuire's employment is terminated by the Company for Cause or if Mr. McGuire voluntarily terminates his employment, he will be entitled to continue to participate in the Company's medical benefit plans to the extent required by law, and the Company will promptly pay Mr. McGuire his accrued salary and vacation pay, reimbursement for expenses incurred through the date of termination, and accrued benefits through the Company's benefit plans and programs.

If Mr. McGuire's employment is terminated by reason of death or disability, he or his estate will be entitled to continue to participate in the Company's medical benefit plans to the extent required by law, and the Company will promptly pay Mr. McGuire or his estate his accrued salary and vacation pay, reimbursement for expenses incurred through the date of termination, and accrued benefits through the Company's benefit plans and programs. In the case of disability, Mr. McGuire will also be entitled to a pro rata portion, in cash, of the annual performance bonus he would have earned for the fiscal year in which termination occurs if his employment had not ceased.

Mr. McGuire is bound by noncompetition provisions that restrict him from competing with the Company (with certain exceptions) for 12 months following the termination of his employment with the Company. Mr. McGuire is also subject to non-solicitation restrictions with respect to Company customers and employees for a 24-month period. Finally, Mr. McGuire is subject to confidentiality provisions protecting the Company's confidential business information from unauthorized disclosure. The McGuire Employment Agreement did not include any stock based compensation for Mr. McGuire.

Jonathan Pfohl. Mr. Pfohl was appointed as our Chief Financial Officer on March 4, 2013. On June 12, 2014, Mr. Pfohl was terminated without cause by the then Board. Mr. Pfohl returned to the Company on June 25, 2014 as Chief Financial Officer.

On March 31, 2015, the Company entered into an employment agreement with Mr. Pfohl (the "Pfohl Employment Agreement"). The terms of the Pfohl Employment Agreement are summarized below.

The Pfohl Employment Agreement provides that, subject to earlier termination as provided in the agreements, Mr. Pfohl's employment as President and Chief Executive Officer will be for a term of three years, expiring on March 31, 2018. Upon expiration of the initial term, and subject to earlier termination as provided in the agreement, the Pfohl Employment Agreement will be automatically extended for successive one year renewal periods.

The Pfohl Employment Agreement provides that Mr. Pfohl will receive an annual base salary of \$200,000, subject to periodic review and increase by the Compensation Committee of the Company's Board of Directors, in its discretion. In addition, Mr. Pfohl will receive a performance-based cash bonus under the Company's then-existing incentive

bonus plan, the performance and other criteria applicable to which will be established and determined in accordance with such plan. In order to receive his bonus, Mr. Pfohl must be employed at the time the bonus is paid.

The Pfohl Employment Agreement also provides Mr. Pfohl with certain other compensation and benefits, including eligibility to participate in all employee benefit plans and programs made available from time to time to the Company's executive and management employees, paid time off, and reimbursement of reasonable and necessary out-of-pocket business, travel and entertainment expenses.

Under the Pfohl Employment Agreement, Mr. Pfohl is entitled to receive severance benefits if his employment is terminated under certain circumstances. In this regard, if Mr. Pfohl's employment is terminated by the Company without "Cause" (as defined in the Pfohl Employment Agreement), by Mr. Pfohl for "Good Reason" (as defined in the Pfohl Employment Agreement), other than for Cause in the 12 months following a "Change in Control" (as defined in the Pfohl Employment Agreement), he will be entitled to the following severance benefits: (i) a cash payment equal to 1.0x base salary if Mr. Pfohl has been employed for 24 months, but only .5x base salary if employed for less than 24 months, payable in a lump sum or ratably on a monthly basis over the 12-month period following termination; (ii) a pro rata portion, in cash, of the annual performance bonus Mr. Pfohl would have earned for the fiscal year in which termination occurs if his employment had not ceased; and (iii) payment of accrued vacation time pursuant to Company policy and reimbursement for expenses incurred through the date of termination, and accrued benefits through the Company's benefit plans and programs.

If Mr. Pfohl's employment is terminated by the Company for Cause or if Mr. Pfohl voluntarily terminates his employment, he will be entitled to continue to participate in the Company's medical benefit plans to the extent required by law, and the Company will promptly pay Mr. Pfohl his accrued salary and vacation pay, reimbursement for expenses incurred through the date of termination, and accrued benefits through the Company's benefit plans and programs.

If Mr. Pfohl's employment is terminated by reason of death or disability, he or his estate will be entitled to continue to participate in the Company's medical benefit plans to the extent required by law, and the Company will promptly pay Mr. Pfohl or his estate his accrued salary and vacation pay, reimbursement for expenses incurred through the date of termination, and accrued benefits through the Company's benefit plans and programs. In the case of disability, Mr. Pfohl will also be entitled to a pro rata portion, in cash, of the annual performance bonus he would have earned for the fiscal year in which termination occurs if his employment had not ceased.

Mr. Pfohl is bound by noncompetition provisions that restrict him from competing with the Company (with certain exceptions) for 12 months following the termination of his employment with the Company. Mr. Pfohl is also subject to non-solicitation restrictions with respect to Company customers and employees for a 24-month period. Finally, Mr. Pfohl is subject to confidentiality provisions protecting the Company's confidential business information from unauthorized disclosure.

The Pfohl Employment Agreement did not include any stock based compensation for Mr. Pfohl.

Outstanding Equity Awards at Fiscal Year-End

The following table summarizes the outstanding equity award holdings held by our named executive officers at March 31, 2016. At March 31, 2016, there were no outstanding equity awards to any either of our named executive officers.

Outstanding Equity Awards at 2016 Fiscal Year-End

| Name | Option awards | | Option Exercise Price (\$) | Option Expiration Date |
|-------------------|---|---|-------------------------------------|------------------------------|
| | Number of Securities Underlying Unexercised Options (#) Exercisable | Number of Securities Underlying Unexercised Options (#) Not Exercisable | | |
| Gerald McGuire | — | — | \$ — | — |
| Jonathan M. Pfohl | — | — | \$ — | — |

Director Compensation

The following table shows the compensation paid to individuals who served on our Board of Directors, none of whom are named executive officers, during the fiscal year ended March 31, 2016.

| Name | Fees Earned or Paid in Cash (\$)(1) | Option Awards (\$)(2) | All Other Compensation (\$) | Total (\$) |
|---------------------|---|-----------------------------|-----------------------------------|------------|
| James Korn (3) | — | — | — | — |
| Karl Leaverton | — | — | — | — |
| Bruce Likly | — | — | — | — |
| Bernard M. McPheely | — | — | — | — |
| Lewis Smoak | — | — | — | — |
| Ben Wolkowitz | — | — | — | — |

- (1) Includes board meeting and executive committee fees.
- (2) There were no option awards outstanding to any of directors at March 31, 2016.
- (3) James Korn resigned from the Board of Director's on June 27, 2016.

Our directors did not receive any compensation for serving on the board during the fiscal year ended March 31, 2016.

Compensation Committee

The Company established a Compensation Committee during the fiscal year to provide oversight and direction with respect to compensation of management. The members of the Compensation Committee are Lewis Smoak, Karl Leaverton and James Korn. Mr. Smoak serves as the Chair of the Compensation Committee.

Compensation Committee Interlocks and Insider Participation

During the fiscal year ended March 31, 2016, the following individuals served on our Board of Directors: Bruce Likly, James Korn, Karl Leaverton, Gerald McGuire, Bernard M. McPheely, Lewis Smoak, and Ben Wolkowitz. James Korn resigned from the Board of Director's on June 27, 2016.

Mr. McPheely joined the Board on June 23, 2014 and previously served on the Board from August 13, 2012 until he resigned on May 13, 2013. In addition to serving on the Board of Directors, Mr. McGuire serves as the President and Chief Executive officer of the Company. No other director who served on our Board during the fiscal year ended March 31, 2016 is a former or current officer of the Company, or has other interlocking relationships, as defined by the SEC.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

Security Ownership of Certain Beneficial Owners and Management

The following table sets forth, as of March 31, 2016, the beneficial ownership of the outstanding common stock by: (i) the persons or groups known to us to be the beneficial owners of more than five (5%) percent of the shares of our outstanding common stock; (ii) each of our named executive officers and current directors; and (iii) our directors and executive officers as a group. Unless otherwise indicated, each of the stockholders named in the table below has sole voting and dispositive power with respect to such shares of common stock.

| Name and Address of Beneficial Owner | Amount and Nature of Beneficial Ownership(1)(2) | Percentage of Beneficial Ownership | |
|---|---|------------------------------------|---|
| Directors and Named Executive Officers | | | |
| James Korn (5) 411 University Ridge, Suite D, Greenville, SC 29601 | — | — | % |
| Karl Leaverton 411 University Ridge, Suite D, Greenville, SC 29601 | 333,333 | 0.5 | % |
| Bruce Likly 411 University Ridge, Suite D, Greenville, SC 29601 | 800,500 | 1.3 | % |
| Gerald McGuire 411 University Ridge, Suite D, Greenville, SC 29601 | 800,000 | (3) 1.3 | % |
| Bernard McPheely 411 University Ridge, Suite D, Greenville, SC 29601 | 832,935 | (4) 1.3 | % |
| | 535,000 | (3) 0.8 | % |

Edgar Filing: Scio Diamond Technology Corp - Form 10-K

Jonathan Pfohl

411 University Ridge, Suite D, Greenville, SC 29601

Lewis Smoak

411 University Ridge, Suite D, Greenville, SC 29601

1,026,666

1.6

%

Ben Wolkowitz

158,333

0.2

%

411 University Ridge, Suite D, Greenville, SC 29601

All directors and named executive officers as a group (8 persons)

4,486,767

7.0

%

Other 5% Stockholders

None

- (1) Includes shares for which the named person has sole voting and investment power, has shared voting and investment power, or holds in an IRA or other retirement plan and shares held by the named person's spouse. For purposes of this table, a person or group of persons is deemed to have "beneficial ownership" of any shares of common stock which that person has the right to acquire within 60 days following March 31, 2016. For purposes
- (2) of computing the percentage of outstanding shares of common stock held by each person or group of persons named above, any shares which that person or persons has or have the right to acquire within 60 days following March 31, 2016, is deemed to be outstanding, but is not deemed to be outstanding for the purpose of computing the percentage ownership of any other person.
- (3) Shares consist of restricted stock issued under 2012 Share Incentive Plan. Shares have full voting rights but will not vest until 7/1/2018.
- (4) Mr. McPheely owns 817,935 common shares issued through the Bernard M. McPheely Revocable Trust u/a DTD May 25, 2011. His spouse directly holds 15,000 shares.
- (5) Mr. Korn resigned from the Board of Directors on June 27, 2016.

Securities Authorized for Issuance under Equity Compensation Plans

The following table summarizes the sole equity compensation plan under which shares of the Company's common stock may be issued as of March 31, 2016.

| Plan Category | Number of securities to be issued upon exercise of outstanding options, warrants and rights | Weighted-average exercise price of outstanding options, warrants and rights | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in Column (a)) |
|---|---|---|---|
| Equity compensation plans approved by security holders | — | — | — |
| Equity compensation plans not approved by security holders: | | | |
| 2012 Share Incentive Plan | 694,375 | \$ 0.87 | 2,076,167 (1) |
| Total | 694,375 | \$ 0.87 | 2,076,167 |

The 2012 Share Incentive Plan provides for the issuance of any shares available under the plan in the form of (1) restricted or unrestricted stock awards, phantom stock, performance awards and other types of stock-based awards, in addition to the granting of options or stock appreciation rights.

The Scio Diamond Technology Corp. 2012 Share Incentive Plan (the "2012 Share Incentive Plan") was adopted by the Company's Board of Directors on May 7, 2012. The 2012 Share Incentive Plan permits the granting of stock options, stock appreciation rights, restricted or unrestricted stock awards, phantom stock, performance awards, other stock-based awards, or any combination of the foregoing. Up to 5,000,000 shares of the Company's common stock are authorized for issuance pursuant to awards granted under the 2012 Share Incentive Plan to the Company's directors, officers, employees and consultants providing bona fide services to or for the Company.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE.

Related Party Transactions

There were no related party transactions with any director during the fiscal year ended March 31, 2016.

Director Independence

Our Board has determined that Messrs. McPheely, Korn, Leaverton, Likly, Smoak and Wolkowitz are “independent” directors, based upon the independence criteria set forth in the corporate governance listing standards of The NASDAQ Stock Market, the exchange that the Board selected in order to determine whether our directors and committee members meet the independence criteria of a national securities exchange, as required by Item 407(a) of Regulation S-K. Our Board has determined that Mr. McGuire is not independent based on these criteria.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.

On March 22, 2012, the Board of Directors engaged Cherry Bekaert LLP to serve as the Company’s independent auditor for the fiscal year ended March 31, 2012. Cherry Bekaert LLP has been out auditor for all subsequent fiscal years.

The following table shows the expenses that we incurred for services performed in fiscal years ended March 31, 2016 and 2015:

| | Fiscal Year Ended March 31, | |
|--------------------|-----------------------------|------------|
| | 2016 | 2015 |
| Audit Fees | \$ 96,165 | \$ 112,204 |
| Audit-Related Fees | — | — |
| Tax Fees | 9,000 | 8,575 |
| All Other Fees | — | — |
| Total | \$ 105,165 | \$ 120,779 |

Audit Fees

This category includes the aggregate fees billed for professional services rendered by the independent auditors during the Company's 2016 and 2015 fiscal years for the audit of the Company's annual financial statements, quarterly reports on Form 10-Q, and SEC registration statement.

Audit Related Fees

This category includes the aggregate fees billed for professional services rendered by the independent auditors during the Company's 2016 and 2015 fiscal years for audit related services.

Tax Fees

This category includes aggregate fees billed for professional services rendered by the independent auditors during the Company's 2016 and 2015 fiscal years for preparation of tax returns and related advisory services.

All Other Fees

This category includes the aggregate fees billed for professional services rendered by the independent auditors during the Company's 2016 and 2015 fiscal years for employee compensation related advisory services and other advisory services.

Oversight of Accountants; Approval of Accounting Fees

The Company's Audit Committee approved the accounting services and fees reflected in the table for the fiscal year ended March 31, 2016 and 2015. None of the services were performed by individuals who were not employees.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a)(1) Financial Statements

The following financial statements are located in Item 8 of this Report:
Report of Independent Registered Public Accounting Firm
Balance Sheets as of March 31, 2016 and 2015
Statements of Operations for the years ended March 31, 2016 and 2015
Statements of Cash Flow for the years ended March 31, 2016 and 2015
Statements of Shareholders' Equity for the years ended March 31, 2016 and 2015
Notes to the Financial Statements

(3) Exhibits

The following exhibits are filed with this Report on Form 10-K as required by Item 601 of Regulation S-K:

- 3.1 Articles of Incorporation (incorporated by reference to Exhibit 3.1 to the Form S-1/A filed with the SEC on May 13, 2010).
- 3.2 Certificate of Amendment to Articles of Incorporation (incorporated by reference to Exhibit 3.1(a) to the Form 8-K filed with the SEC on August 11, 2011).
- 3.3 Amended and Restated bylaws (incorporated by reference to Exhibit 3.1 to the Form 8-K filed with the SEC Commission on June 26, 2014).
- 3.4 Second Amended and Restated Bylaws (incorporated by reference to Exhibit 3.1 to the Form 8-K filed with the SEC on November 4, 2014).
- 4.1 Loan Agreement dated as of June 21, 2013 between Scio Diamond Technology Corporation and Platinum Capital Partners, LP (incorporated by reference to Exhibit 4.1 to the Form 8-K filed with the SEC on September 20, 2013).
- 4.2 Security Agreement dated as of June 21, 2013 between Scio Diamond Technology Corporation and Platinum Capital Partners, LP (incorporated by reference to Exhibit 4.2 to the Form 8-K filed with the SEC on September 20, 2013).
- 4.3 Promissory Note dated as of June 21, 2013 made by Scio Diamond Technology Corporation in favor of Platinum Capital Partners, LP (incorporated by reference to Exhibit 4.3 to the Form 8-K filed with the SEC on September 20, 2013).
- 4.4

Edgar Filing: Scio Diamond Technology Corp - Form 10-K

First Amendment to Loan Agreement dated October 11, 2013 between Scio Diamond Technology Corporation and Platinum Capital Partners, LP (incorporated by reference to Exhibit 4.1 to the Form 8-K filed with the SEC on October 18, 2013).

4.5 Promissory Note dated October 11, 2013 made by Scio Diamond Technology Corporation in favor of Platinum Capital Partners, LP (incorporated by reference to Exhibit 4.2 to the Form 8-K filed with the SEC on October 18, 2013).

4.6 Second Amendment to Loan Agreement, dated as of October 16, 2014, by and between the Company and Platinum Capital Partners, LP (incorporated by reference to Exhibit 10.1 to the Form 8-K filed with the SEC on October 22, 2014).

4.7 Loan Agreement dated as of December 16, 2014, between the Company and Heritage Gemstone Investors, LLC (incorporated by reference to Exhibit 10.1 to the Form 8-K filed with the SEC on December 22, 2014).

4.8 Security Agreement dated as of December 16, 2014, between the Company and Heritage Gemstone Investors, LLC (incorporated by reference to Exhibit 10.2 to the Form 8-K filed with the SEC on December 22, 2014).

10.1 Asset Purchase Agreement by and among Krossbow Holding Corporation and Scio Diamond Technology Corporation (incorporated by reference to Exhibit 10.1 to the Form 8-K/A filed with the SEC on August 15, 2011).

10.2 Schedule 1.1(a) "Acquired Assets" of the Asset Purchase Agreement by and among Krossbow Holding Corporation and Scio Diamond Technology Corporation (incorporated by reference to Exhibit 10.1 to the Form 8-K/A filed with the SEC on August 15, 2011).

- 10.3 Asset Purchase Agreement by and among Scio Diamond Technology Corporation and Apollo Diamond, Inc. (incorporated by reference to Exhibit 10.3 to the Form 10-Q/A for the fiscal quarter ended September 30, 2011 filed with the SEC on August 16, 2012).
- 10.4 Asset Purchase Agreement by and among Scio Diamond Technology Corporation and Apollo Diamond Gemstone Corporation (incorporated by reference to Exhibit 10.3 to the Form 10-K for the fiscal year ended March 31, 2012 filed with the SEC on August 16, 2012).
- 10.5 Amended and Restated Employment Agreement by and between Scio Diamond Technology Corporation and Joseph D. Lancia (incorporated by reference to Exhibit 10.1 to the Form 8-K filed with the SEC on August 8, 2012). (1)
- 10.5A Change in Control Agreement by and between Scio Diamond Technology Corporation and Joseph D. Lancia (incorporated by reference to the Exhibit 10.4 to Form 8-K filed with the SEC on August 8, 2012). (1)
- 10.5B Agreement of Separation, Waiver, and Release of Joseph D. Lancia (incorporated by reference to Exhibit 10.1 to the Form 8-K filed with the SEC on December 7, 2012). (1)
- 10.5C First Amendment to Agreement of Separation, Waiver, and Release of Joseph D. Lancia executed December 4, 2012. (incorporated by reference to Exhibit 99.1 to the Form 8-K filed with the SEC on August 13, 2015). (1)
- 10.6 Amended and Restated Employment Agreement by and between Scio Diamond Technology Corporation and Charles G. Nichols (incorporated by reference to Exhibit 10.3 to the Form 8-K filed with the SEC on August 8, 2012). (1)
- 10.6A Change in Control Agreement by and between Scio Diamond Technology Corporation and Charles G. Nichols (incorporated by reference to Exhibit 10.6 to the Form 8-K filed with the SEC on August 8, 2012). (1)
- 10.6B Agreement of Separation, Waiver, and Mutual Release of Charles G. Nichols (incorporated by reference to Exhibit 10.2 to the Form 8-K filed with the SEC on December 7, 2012). (1)
- 10.7 Amended and Restated Employment Agreement by and between Scio Diamond Technology Corporation and Michael W. McMahon (incorporated by reference to Exhibit 10.2 to the Form 8-K filed with the SEC on August 8, 2012). (1)
- 10.7A Employment Letter with Michael McMahon (incorporated by reference to Exhibit 10.1 to the Form 8-K filed with the SEC on February 4, 2012). (1)
- 10.7B Change in Control Agreement by and between Scio Diamond Technology Corporation and Michael W. McMahon (incorporated by reference to Exhibit 10.5 to the Form 8-K filed with the SEC on August 8, 2012). (1)
- 10.7C Severance Agreement and General Release, effective September 25, 2014, between the Company and Michael W. McMahon (incorporated by reference to Exhibit 10.1 to the Form 8-K filed with the SEC on October 1, 2014).(1)

Edgar Filing: Scio Diamond Technology Corp - Form 10-K

- 10.8 Subscription Agreement dated May 4, 2012 (incorporated by reference to Exhibit 10.11 to the Form 10-K for the fiscal year ended March 31, 2012 filed with the SEC on August 16, 2012).
- 10.9 Form of Warrant by and between Scio Diamond Technology Corporation and certain Investors (incorporated by reference to Exhibit 10.1 to the Form 8-K filed with the SEC on May 10, 2012).
- 10.10 Scio Diamond Technology Corp. 2012 Share Incentive Plan (incorporated by reference to Exhibit 10.2 to the Form 8-K filed with the SEC on February 4, 2012). (1)
- 10.10A Scio Diamond Technology Corp. Amended and Restated 2012 Share Incentive Plan (incorporated by reference to Exhibit 10.10A to the Form 10-K for the fiscal year ended March 31, 2016 filed with the SEC on June 29, 2015). (1)
- 10.10B Form of Qualified Stock Option Grant Agreement by and between Scio Diamond Technology Corporation and certain Executive Officers (incorporated by reference to Exhibit 10.7 to the Form 8-K filed with the SEC on August 8, 2012). (1)
- 10.10C Form of Stock Option Grant Agreement (Non-Qualified Stock Option) for Non-Employee Directors (incorporated by reference to Exhibit 10.6 to the Form 10-Q filed with the SEC on February 14, 2013). (1)
- 10.10D Form of Restricted Stock Agreement (incorporated by reference to Exhibit 10.10D to the Form 10-K for the fiscal year ended March 31, 2016 filed with the SEC on June 29, 2015). (1)
- 10.11 Lease with Innovation Center (incorporated by reference to Exhibit 10.01 to the Form 10-Q for the fiscal quarter year ended March 31, 2012 filed with the SEC on August 16, 2012).

- Supplemental Notice to Lease dated October 14, 2011, by and between Scio Diamond Technology Corporation and Innovation Center, LLC (incorporated by reference to Exhibit 10.14 to the Form 10-K for the fiscal year ended March 31, 2012 filed with the SEC on August 16, 2012).
- 10.11A
- 10.12 Employment Letter Agreement of Stephen D. Kelley (incorporated by reference to Exhibit 10.3 to the Form 8-K filed with the SEC on December 7, 2012). (1)
- Employment Letter Agreement dated March 4, 2013 between Scio Diamond Technology Corporation and Jonathan Pfohl (incorporated by reference to Exhibit 10.1 to the Form 8-K filed with the SEC on March 7, 2013). (1)
- 10.13
- 10.13B Employment Agreement dated March 31, 2016 between Scio Diamond Technology Corporation and Jonathan Pfohl (incorporated by reference to Exhibit 99.2 to Form 8-K filed with the SEC on April 6, 2015).(1)
- 10.14 Code of Ethics and Business Conduct (incorporated by reference to Exhibit 10.8 to the Form 8-K filed with the SEC on August 8, 2012).
- 10.14A Code of Conduct (incorporated by reference to Exhibit 10.14A to the Form 10-K for the fiscal year ended March 31, 2016 filed with the SEC on June 29, 2015).
- 10.14B Corporate Governance Guidelines (incorporated by reference to Exhibit 10.14B to the Form 10-K for the fiscal year ended March 31, 2016 filed with the SEC on June 29, 2015).
- Warrant dated March 25, 2013 by and between Scio Diamond Technology Corporation and Theodorus Strous (incorporated by reference to Exhibit 10.15 to the Form 10-K for the fiscal year ended March 31, 2015 filed with the SEC on June 27, 2013). (1)
- 10.15
- Warrant dated March 25, 2013 by and between Scio Diamond Technology Corporation and Filip De Weerd (incorporated by reference to Exhibit 10.16 to the Form 10-K for the fiscal year ended March 31, 2015 filed with the SEC on June 27, 2013).
- 10.16
- Consulting Agreement dated March 6, 2013 by and between Scio Diamond Technology Corporation and Theodorus Strous (incorporated by reference to Exhibit 10.17 to the Form 10-K for the fiscal year ended March 31, 2015 filed with the SEC on June 27, 2013). (1)
- 10.17
- Consulting Agreement dated March 6, 2013 by and between Scio Diamond Technology Corporation and Michael R. Monahan (incorporated by reference to Exhibit 10.18 to the Form 10-K for the fiscal year ended March 31, 2015 filed with the SEC on June 27, 2013). (1)
- 10.18
- Joint Venture Agreement, by and between Scio Diamond Technology Corporation, SAAMABA, LLC and S21 Research Holdings, dated September 16, 2013 (incorporated by reference to Exhibit 10.1 to the Form 10-Q filed with the SEC on November 14, 2013).
- 10.19
- Shareholders Agreement, by and between Scio Diamond Technology Corporation, SAAMABA, LLC and S21 Research Holdings, dated September 16, 2013 (incorporated by reference to Exhibit 10.2 to the Form 10-Q filed with the SEC on November 14, 2013).
- 10.20

Edgar Filing: Scio Diamond Technology Corp - Form 10-K

- 10.21 License Agreement, by and between Scio Diamond Technology Corporation and Grace Rich Limited, dated September 16, 2013 (incorporated by reference to Exhibit 10.3 to the Form 10-Q filed with the SEC on November 14, 2013).
- 10.22 Development Agreement, by and between Scio Diamond Technology Corporation and Grace Rich Limited, dated September 16, 2013 (incorporated by reference to Exhibit 10.5 to the Form 10-Q filed with the SEC on November 14, 2013).
- 10.23 Consulting Services Agreement, by and between Scio Diamond Technology Corporation and Grace Rich Limited, dated September 16, 2013 (incorporated by reference to Exhibit 10.4 to the Form 10-Q filed with the SEC on November 14, 2013).
- 10.24 Rights Agreement, dated as of April 15, 2014, between Scio Diamond Technology Corporation and Empire Stock Transfer Inc. which includes the Form of Rights Certificate as Exhibit A and Summary of Rights to purchase Common Stock as Exhibit B (incorporated by reference to Exhibit 4.1 to the Form 8-K filed with the SEC on April 16, 2014).
- 10.25 Amendment No. 1, dated June 22, 2014 to Rights Agreement, dated as of April 15, 2014, by and between Scio Diamond Technology Corporation and Empire Stock Transfer Inc. (incorporated by reference to Exhibit 4.1 to the Form 8-K filed with the SEC on June 26, 2014).

10.26 Settlement Agreement, dated as of June 23, 2014, by and among the Company, the Adams Group and the Save Scio Group (incorporated by reference to Exhibit 99.1 to the Form 8-K filed with the SEC on June 26, 2014).

10.27 Agreement for the Sale and Lease of Growers dated as of December 16, 2014, between the Company and Heritage Gemstone Investors, LLC (incorporated by reference to Exhibit 10.3 to the Form 8-K filed with the SEC on December 22, 2014).

10.28 Renaissance Created Diamond Company, LLC Limited Liability Company Agreement, dated as of December 18, 2014, between the Company and Renaissance Diamond Inc. (incorporated by reference to Exhibit 10.1 to the Form 8-K filed with the SEC on December 23, 2014).

10.29 Employment Agreement dated March 31, 2016 between Scio Diamond Technology Corporation and Gerald McGuire (incorporated by reference to Exhibit 99.1 to Form 8-K filed with the SEC on April 6, 2015).(1)

23 Consent of Cherry Bekaert LLP.*

24 Power of Attorney (contained herein as part of the signature pages).*

31.1 Rule 13a-14(a) Certification of the Chief Executive Officer.*

31.2 Rule 13a-14(a) Certification of the Chief Financial Officer.*

32 Section 1350 Certifications of the Chief Executive Officer and Chief Financial Officer.*

101 The following materials from the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2016, formatted in eXtensible Business Reporting Language (XBRL); (i) Balance Sheets as of March 31, 2016 and 2015; (ii) Statements of Operations for the years ended March 31, 2016 and 2015; (iii) Statements of Shareholders' Equity for the years ended March 31, 2016 and 2015; (iv) Statements of Cash Flow for the years ended March 31, 2016 and 2015; and (v) Notes to the Financial Statements*.

* Filed herewith.

(1) Management contract or compensatory plan or arrangement required to be filed as an Exhibit to this Annual Report on Form 10-K.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

Date: June 14, 2016 **SCIO DIAMOND TECHNOLOGY CORPORATION**

/s/ Gerald McGuire
Chief Executive Officer

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Gerald McGuire, his true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite or necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that attorney-in-fact and agent, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date: July 14, 2016 /s/ GERALD McGUIRE
Gerald McGUIRE
Chief Executive Officer
(Principal Executive Officer)

Date: July 14, 2016 /s/ JONATHAN PFOHL
Jonathan Pfohl
Chief Financial Officer
(Principal Accounting and Financial Officer)

Date: July 14, 2016 /s/ BERNARD McPHEELY
Bernard McPheely

Chairman and Director

Date: July 14, 2016 /s/ BRUCE LIKLY
Bruce Likly

Vice-Chairman and Director

Date: July 14, 2016 /s/ KARL LEAVERTON
Karl Leaverton
Director

Date: July 14, 2016 /s/ LEWIS SMOAK
Lewis Smoak
Director

Date: July 14, 2016 /s/ BEN WOLKOWITZ
Ben Wolkowitz
Director

EXHIBIT INDEX

- 23 Consent of Cherry Bekaert LLP.
- 24 Power of Attorney (contained herein as part of the signature pages).
- 31.1 Rule 13a-14(a) Certification of the Chief Executive Officer.
- 31.2 Rule 13a-14(a) Certification of the Chief Financial Officer.
- 32 Section 1350 Certifications of the Chief Executive Officer and Chief Financial Officer.