

SCIO DIAMOND TECHNOLOGY CORP

FORM 8-K (Current report filing)

Filed 06/29/15 for the Period Ending 06/29/15

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| Address | 411 UNIVERSITY RIDGE, SUITE D GREENVILLE, SC 29601 |
| Telephone | 864.346.2733 |
| CIK | 0001488934 |
| Symbol | SCIO |
| SIC Code | 3290 - Abrasive, Asbestos, And Miscellaneous |
| Industry | Constr. - Supplies & Fixtures |
| Sector | Capital Goods |
| Fiscal Year | 03/31 |

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 2054 9

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): June 29, 2015

SCIO DIAMOND TECHNOLOGY CORPORATION

(Exact name of registrant as specified in its charter)

Nevada
(State or other jurisdiction of incorporation)

000-54529
(Commission File Number)

45-3849662
(IRS Employer Identification No.)

411 University Ridge Suite D
Greenville, SC
(Address of principal executive offices)

29601
(Zip Code)

Registrant's telephone number, including area code: **(864) 751-4880**

Not applicable

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (*see* General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 2.02 Results of Operations and Financial Condition.

On February 29, 2015, Scio Diamond Technology Corp. issued a press release announcing its financial results for the fiscal year ending March 31, 2015. The press release is attached hereto as Exhibit 99.1 and is incorporated herein by reference.

The information, including Exhibit 99.1, furnished in this report is not deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities of that section. Registration statements or other documents filed with the Securities and Exchange Commission shall not incorporate this information by reference, except as otherwise expressly stated in such filing.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits

| <u>Exhibit No.</u> | <u>Description</u> |
|--------------------|-------------------------------------|
| 99.1 | Press release issued June 29, 2015. |

SIGNATURES

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

SCIO DIAMOND TECHNOLOGY CORPORATION
(Registrant)

Date: June 29, 2015

By: /s/ Gerald McGuire
Gerald McGuire
President and Chief Executive Officer

EXHIBIT INDEX

| <u>Exhibit No.</u> | <u>Description</u> |
|--------------------|-------------------------------------|
| 99.1 | Press release issued June 29, 2015. |

Scio Diamond Completes First Year under New Management

Company made substantial progress in products, production, and sales channel development

GREENVILLE, SC, June 29, 2015 – Scio Diamond Technology Corporation (OTCBB: SCIO), which produces lab-grown diamonds, today said it has completed its first year under the direction of a new board of directors and new chief executive officer. As the company announced its results for fiscal 2015, which ended March 31, 2015, it highlighted noteworthy progress in business development, sales, manufacturing, productivity and finance.

“During the past twelve months, Scio Diamond developed a new business plan and product strategies that have been validated through early product sales. The company also established a new retail sales channel, doubled its manufacturing capacity and made significant strides in the size and quality of diamonds it grows,” explained Gerald McGuire, CEO.

Highlights of the year include:

- June 2014: named new board of directors
- July: hired new CEO
- October: established Renaissance Created Diamonds, a joint venture with Renaissance Diamonds, focused on retail sales channel development
- December: secured \$2.5 million in growth funding to double manufacturing capacity
- December: closed on \$2 million in equity financing, a direct private placement of common shares to accredited investors that began in July 2014
- December: reduced borrowing costs by more than 10 percent by refinancing \$1.5 million in debt
- February 2015: began delivering diamonds through new retail supply chain
- May: doubled production capacity through manufacturing expansion
- June: introduced first retail sales program, with Helzberg Diamonds, the fourth largest jewelry retailer in the US

During FY 2015, Scio Diamond, through Renaissance Created Diamonds, its joint venture, established an entirely new retail supply chain for its lab-grown diamonds, beginning by perfecting diamond chemistry and growing larger and higher quality stones, to selecting partners to cut, polish and finish the stones, and selling the finished stones to retailers and designers for use in finished jewelry.

“Setting up an end-to-end retail supply chain from manufacturing to consumer purchase, with multiple steps and partners, can take companies years to accomplish,” noted McGuire. “Scio Diamond’s ability to accomplish it in less than twelve months is a tribute to the strong leadership and dedicated focus of our board, employees and valued partners. We demonstrated the value of the product by achieving target average selling prices and model margins, albeit on a small scale. We have more work to do to increase revenues and grow the business.”

Year-over-year comparisons for the months of March 2015 and March 2014 include a 71 percent increase in the total number of carats produced and a 150 percent increase in total cored carats, which is the amount of diamond prepared for final polishing. During the year, the average crystal size more than doubled and production hours increased by 26 percent.

In addition, jewelers have been enthusiastic about the quality of the Scio Diamond stones, with several jewelers placing orders in addition to Helzberg Diamonds.

“The quality of the materials I use to create my jewelry designs is of paramount importance,” said Greenville-based jewelry designer Ilyn strong of Ilyn strong Fine Art Jewelry. “Scio Diamond’s fancy color stones meet my high standards and make my pieces very sought-after by my customers.”

“Scio Diamond invested heavily in its future in fiscal year 2015. Because of those decisions, we believe the company is well-positioned to manufacture and sell more high-quality diamonds in the future,” said McGuire.

“We knew this would be a challenging year, but we’ve met all of our milestones with one exception. We had planned on revenue from our retail channel development efforts to start materializing sooner than it did. Our customers needed more time to develop their own plans to market lab-grown diamonds. While we have started building a customer and revenue base, we have a ways to go and need to stay focused to build revenue momentum,” McGuire continued.

Fiscal Year Results

Total revenue in FY 2015 was \$726,193, versus \$1,418,341 in FY 2014. Scio Diamond generated product revenue of \$351,193 in FY 2015, versus \$793,341 in FY 2014. During FY 2015, Scio deferred recognizing \$215,375 in revenue related to shipments to its joint venture while no revenues were deferred in FY 2014. Licensing revenues in FY 2015 were \$375,000 versus \$625,000 during FY 2014.

Cost of goods sold decreased by 35.5%, from \$2,321,534 in FY 2014 to \$1,497,465 in FY 2015. The decrease was primarily due to cost efficiencies and the deferral of \$179,969 in costs related to deferred revenues from sales to the joint venture while no costs were deferred in FY 2014.

Combined operating expenses, consisting of professional and consulting, salaries and benefits, rent and facilities, marketing, and general and administrative expenses, decreased by 24.8%, from \$2,575,287 in FY 2014 to \$1,937,668 in FY 2015. The decrease was primarily due to reduced professional and consulting fees.

Depreciation and amortization expenses were \$798,477 in FY 2015, compared to \$799,928 in FY 2014.

FY 2015 included net one-time non-cash expenses of \$435,221 for forgiveness of legal accounts payable and losses on impairment of in-process research and development projects and the disposal of equipment. There were \$511,106 in one-time non-cash expenses for the loss on the impairment and disposal of fixed assets during FY 2014.

Losses from operations for FY 2015 were \$(3,942,638), an improvement of \$846,876 compared to a loss of \$(4,789,514) in FY 2014.

Cash and cash equivalents were \$767,214 as of March 31, 2015 versus \$47,987 as of March 31, 2014. This increase in cash was due to the company’s successful debt refinancing that provided for increased borrowing and lower interest rates and the completion of a recent equity offering during the fiscal year.

Scio Diamond has been a technology pioneer in lab-grown diamonds, with its patented chemical vapor deposition (CVD) process. Lab-grown diamonds and mined diamonds are chemically, physically and optically identical. The only difference is that lab-grown diamonds are created in weeks in a precisely controlled laboratory environment rather than deep in the earth for centuries.

About Scio Diamond

Scio Diamond creates high-quality, Type IIa single-crystal diamonds in a controlled laboratory setting. The company produces colorless, near colorless and fancy color lab-grown diamonds in size, color and quality combinations that are rare in earth-mined diamonds. Scio Diamond delivers gems for jewelry and diamond materials for advanced industrial applications. www.ScioDiamond.com

Cautionary Note Regarding Forward-Looking Statements

This press release contains forward-looking statements that may involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of Scio to be materially different from those expressed or implied. Forward-looking statements, which involve assumptions and describe future plans, strategies and expectations of the Company, are generally identifiable by use of the words “may,” “will,” “should,” “could,” “would,” “forecast,” “potential,” “continue,” “contemplate,” “expect,” “anticipate,” “estimate,” “believe,” “intend,” “or “project” or the negative of these words or other variations on these words or comparable terminology. These forward-looking statements are based on assumptions that may be incorrect, and there can be no assurance that projections included in these forward-looking statements will come to pass. Actual results of the Company could differ materially as a result of various factors. Except as required by applicable laws, the Company has no obligation to update publicly any forward-looking statements for any reason.

SCIO DIAMOND TECHNOLOGY CORPORATION
BALANCE SHEETS
As of March 31, 2015 and 2014

| | <u>March 31,</u> <u>2015</u> | <u>March 31,</u> <u>2014</u> |
|---|---------------------------------|---------------------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 767,214 | \$ 47,987 |
| Accounts receivable | 243,929 | 42,085 |
| Other receivables | — | 89,192 |
| Deferred contract costs | 179,969 | — |
| Inventory | 295,760 | 152,817 |
| Prepaid expenses | 57,012 | 79,078 |
| Prepaid rent | <u>23,050</u> | <u>23,050</u> |
| Total current assets | 1,566,934 | 434,209 |
| Property, plant and equipment | | |
| Facility | 904,813 | 899,499 |
| Manufacturing equipment | 2,927,761 | 3,171,656 |
| Other equipment | 71,059 | 71,059 |
| Construction in progress | <u>207,252</u> | <u>—</u> |
| Total property, plant and equipment | 4,110,885 | 4,142,214 |
| Less accumulated depreciation | <u>(1,543,652)</u> | <u>(1,029,212)</u> |
| Net property, plant and equipment | 2,567,233 | 3,113,002 |
| Intangible assets, net | 8,047,948 | 9,240,640 |
| Prepaid rent, noncurrent | 19,238 | 42,288 |
| Investment in joint venture – RCDC | 30,041 | — |
| Other assets | <u>—</u> | <u>20,000</u> |
| TOTAL ASSETS | <u>\$ 12,231,394</u> | <u>\$ 12,850,139</u> |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current Liabilities: | | |
| Notes payable | \$ — | \$ 1,412,060 |
| Accounts payable | 708,760 | 671,782 |
| Customer deposits | 38,603 | 179,610 |
| Deferred revenue | 215,375 | — |
| Accrued expenses | <u>517,942</u> | <u>573,126</u> |
| Total current liabilities | 1,480,680 | 2,836,578 |
| Notes payable, non-current | 2,500,000 | — |
| Other liabilities | <u>118,092</u> | <u>84,144</u> |
| TOTAL LIABILITIES | 4,098,772 | 2,920,722 |
| Common stock, \$0.001 par value, 75,000,000 shares authorized; 56,531,499 and 50,739,312 shares issued and outstanding at March 31, 2015 and 2014, respectively | 56,532 | 50,739 |
| Additional paid-in capital | 26,815,005 | 24,476,940 |
| Accumulated deficit | (18,738,915) | (14,597,262) |
| Treasury stock, no and 1,000,000 shares at March 31, 2015 and 2014, respectively | <u>—</u> | <u>(1,000)</u> |
| Total stockholders' equity | <u>8,132,622</u> | <u>9,929,417</u> |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | <u>\$ 12,231,394</u> | <u>\$ 12,850,139</u> |



SCIO DIAMOND TECHNOLOGY CORPORATION
STATEMENTS OF OPERATIONS
For the years ended March 31, 2015 and 2014

| | Year Ended March 31, 2015 | Year Ended March 31, 2014 |
|---|--------------------------------------|--------------------------------------|
| Revenue | | |
| Product revenue, net | \$ 351,193 | \$ 793,341 |
| Licensing revenue | 375,000 | 625,000 |
| Revenues, net | <u>726,193</u> | <u>1,418,341</u> |
| Cost of goods sold | | |
| Cost of goods sold | <u>1,497,465</u> | <u>2,321,534</u> |
| Gross margin (deficit) | <u>(771,272)</u> | <u>(903,193)</u> |
| General and administrative expenses | | |
| Professional and consulting fees | 566,154 | 1,272,212 |
| Salaries and benefits | 821,272 | 723,805 |
| Rent, equipment lease and facilities expense | 145,252 | 150,502 |
| Marketing costs | 59,727 | 49,216 |
| Depreciation and amortization | 798,477 | 799,928 |
| Corporate general and administrative | 345,263 | 379,552 |
| Forgiveness of legal accounts payable | (165,453) | — |
| Loss on impairment of in-process research and development | 418,065 | — |
| Loss on disposal of equipment | 182,609 | 129,308 |
| Loss on impairment of fixed assets | — | 381,798 |
| Total general and administrative expenses | <u>3,171,366</u> | <u>3,886,321</u> |
| Loss from operations | <u>(3,942,638)</u> | <u>(4,789,514)</u> |
| Other income (expense) | | |
| Income from joint venture – RCDC | 29,041 | — |
| Interest expense | <u>(228,056)</u> | <u>(161,439)</u> |
| Net loss | <u>\$ (4,141,653)</u> | <u>\$ (4,950,953)</u> |
| Loss per share | | |
| Basic: | | |
| Weighted average number of shares outstanding | <u>53,025,462</u> | <u>49,548,045</u> |
| Loss per share | <u>\$ (0.08)</u> | <u>\$ (0.10)</u> |
| Fully diluted: | | |
| Weighted average number of shares outstanding | <u>53,025,462</u> | <u>49,548,045</u> |
| Loss per share | <u>\$ (0.08)</u> | <u>\$ (0.10)</u> |

SCIO DIAMOND TECHNOLOGY CORPORATION
STATEMENTS OF CASH FLOW
For the years ended March 31, 2015 and 2014

| | Year Ended March 31, 2015 | Year Ended March 31, 2014 |
|---|---------------------------------|---------------------------------|
| Cash flows from operating activities: | | |
| Net loss | \$ (4,141,653) | \$ (4,950,953) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 1,476,916 | 1,574,418 |
| Loss on disposal of equipment | 182,609 | 129,308 |
| Loss on impairment of fixed assets | — | 381,798 |
| Loss on impairment of in-process research and development | 418,065 | — |
| Expense for stock and inventory issued in exchange for operating expenses | 77,858 | 421,496 |
| Income from joint venture – RCDC | (29,041) | — |
| Employee stock based compensation | 155,000 | 193,150 |
| Inventory write down | 68,722 | 100,557 |
| Changes in assets and liabilities: | | |
| Decrease in accounts receivable | 13,531 | 26,957 |
| Decrease/(increase) in other receivables | 89,192 | (89,192) |
| Decrease/(increase) in prepaid expenses, rent and other assets | (37,517) | 44,260 |
| Decrease/(increase) in inventory | (291,634) | 258,127 |
| Increase in accounts payable | 36,978 | 386,131 |
| (Decrease)/increase in customer deposits | (141,007) | 179,610 |
| Decrease in accrued expenses | (43,184) | (54,436) |
| Increase in other liabilities | 33,948 | 33,949 |
| Net cash used in operating activities | (2,131,217) | (1,364,820) |
| Cash flows from investing activities: | | |
| Purchase of property, plant and equipment | (236,496) | (71,889) |
| Investment in joint venture – RCDC | (1,000) | — |
| Net cash used in investing activities | (237,496) | (71,889) |
| Cash flows from financing activities: | | |
| Proceeds from sale of common stock - net of fees | 2,000,000 | 129 |
| Proceeds from notes payable | 2,653,615 | 1,412,060 |
| Finance charges paid on note payable | — | (150,750) |
| Payments on notes payable | (1,565,675) | — |
| Net cash provided by financing activities | 3,087,940 | 1,261,439 |
| Change in cash and cash equivalents | 719,227 | (175,270) |
| Cash and cash equivalents, beginning of period | 47,987 | 223,257 |
| Cash and cash equivalents, end of period | \$ 767,214 | \$ 47,987 |
| Supplemental cash flow disclosures: | | |
| Cash paid during the year for: | | |
| Interest | \$ 84,165 | \$ 18,874 |
| Income taxes | \$ — | \$ — |
| Non-cash investing and financing activities: | | |
| Payment of accounts payable and accrued expenses with common stock | \$ 112,000 | \$ 81,761 |
| Manufacturing equipment transferred to assets held for sale | \$ — | \$ 20,000 |