

Scio Diamond Technology Corp
Form 10-Q
February 12, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

**QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
X 1934**

For the quarterly period ended December 31, 2014

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE 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

45-3849662

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(State or other jurisdiction of incorporation or (I.R.S. Employer Identification No.) organization)

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)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

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. x Yes o No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). x Yes o No

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

Large Accelerated Filer o

Accelerated Filer o

Non-Accelerated Filer o

Smaller Reporting Company x

(Do not check if smaller reporting company)

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

The number of shares of common stock, \$0.001 par value, outstanding as of February 10, 2015 was 57,198,166

SCIO DIAMOND TECHNOLOGY CORPORATION

TABLE OF CONTENTS

	PAGE
PART I <u>FINANCIAL INFORMATION</u>	
ITEM 1. <u>UNAUDITED CONDENSED FINANCIAL STATEMENTS</u>	4
ITEM 2. <u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	17
ITEM 3. <u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	22
ITEM 4. <u>CONTROLS AND PROCEDURES</u>	22
PART II <u>OTHER INFORMATION</u>	
ITEM 1. <u>LEGAL PROCEEDINGS</u>	24
ITEM 1A. <u>RISK FACTORS</u>	24
ITEM 2. <u>UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	24
ITEM 3. <u>DEFAULTS UPON SENIOR SECURITIES</u>	24
ITEM 4. <u>MINE SAFETY DISCLOSURES</u>	24
ITEM 5. <u>OTHER INFORMATION</u>	24
ITEM 6. <u>EXHIBITS</u>	25

Special Note Regarding Forward-Looking Statements

Information included in this Quarterly Report on Form 10-Q contains forward-looking statements that reflect the views of the management of the Company with respect to certain future events. 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 (the "Exchange Act"). Words such as "expects," "should," "may," "will," "believes," "anticipates," "intends," "plans," "estimates" and similar expressions or variations of such words, and negatives thereof, are intended to identify forward-looking statements, but are not the exclusive means of identifying forward-looking statements in this report. These forward-looking statements are based on assumptions that management believes to be reasonable but which may be incorrect, and there can be no assurance that matters anticipated in our forward-looking statements will come to pass.

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 under Risk Factors set forth in Part I, Item 1A of our Form 10-K for the fiscal year ended March 31, 2014 filed on August 15, 2014.

You are cautioned not to place undue reliance on forward-looking statements. You are also urged to review and consider carefully the various disclosures made in the Company's other filings with the Securities and Exchange Commission ("SEC"), including amendments to those filings, if any. Except as may be required by applicable laws, the Company undertakes no obligation to update publicly any forward-looking statements for any reason, even if new information becomes available or other events occur in the future.

PART I - FINANCIAL INFORMATION**ITEM 1. UNAUDITED CONDENSED FINANCIAL STATEMENTS****Scio Diamond Technology Corporation****CONDENSED BALANCE SHEETS****As of December 31, 2014 and March 31, 2014**

	December 31, 2014 (Unaudited)	March 31, 2014
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 1,090,858	\$ 47,987
Accounts receivable, net	92,894	42,085
Other receivables	—	89,192
Inventory, net	215,202	152,817
Deferred contract costs	55,739	—
Prepaid expenses	43,569	79,078
Prepaid rent	23,050	23,050
Total current assets	1,521,312	434,209
Property, plant and equipment		
Facility	904,813	899,499
Manufacturing equipment	3,192,350	3,171,656
Other equipment	71,059	71,059
Total property, plant and equipment	4,168,222	4,142,214
Less accumulated depreciation	(1,493,818)	(1,029,212)
Net property, plant and equipment	2,674,404	3,113,002
Intangible assets, net		
Prepaid rent, non-current	8,241,654	9,240,640
Other assets	25,000	42,288
	21,000	20,000
TOTAL ASSETS	\$ 12,483,370	\$ 12,850,139

LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities:

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Notes payable	\$—	\$1,412,060
Accounts payable	567,341	671,782
Customer deposits	52,151	179,610
Deferred revenue	61,675	—
Accrued expenses	594,335	573,126
Total current liabilities	1,275,502	2,836,578
Notes payable, non-current	2,000,000	—
Other liabilities	109,605	84,144
TOTAL LIABILITIES	3,385,107	2,920,722
Common stock \$0.001 par value, 75,000,000 shares authorized; 57,198,166 and 50,739,312 shares issued and outstanding at December 31, 2014 and March 31, 2014, respectively	57,199	50,739
Additional paid-in capital	26,715,337	24,476,940
Accumulated deficit	(17,673,273)	(14,597,262)
Treasury stock, 1,000,000 shares at December 31, 2014 and March 31, 2014	(1,000)	(1,000)
Total shareholders' equity	9,098,263	9,929,417
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$12,483,370	\$12,850,139

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

Scio Diamond Technology Corporation

CONDENSED STATEMENTS OF OPERATIONS

For the Three and Nine Months ended December 31, 2014 and 2013

(Unaudited)

	Three Months Ended December 31, 2014	Three Months Ended December 31, 2013	Nine Months Ended December 31, 2014	Nine Months Ended December 31, 2013
Revenue				
Product revenue, net	\$ 109,358	\$ 93,915	\$ 292,672	\$ 589,129
Licensing revenue	—	250,000	375,000	250,000
Revenue, net	109,358	343,915	667,672	839,129
Cost of goods sold				
Cost of goods sold	495,410	513,145	1,277,178	1,740,932
Gross deficit	(386,052)	(169,230)	(609,506)	(901,803)
General and administrative expenses				
Professional and consulting fees	142,699	104,131	309,695	1,097,030
Salaries and benefits	127,668	186,967	688,368	612,405
Rent, equipment lease and facilities expense	36,772	37,101	108,803	112,349
Marketing costs	13,198	15,300	32,065	41,716
Depreciation and amortization	199,931	200,018	600,179	599,910
Corporate general and administrative	100,334	96,732	282,593	282,091
Forgiveness of legal accounts payable	(165,453)	—	(165,453)	—
Loss from impairment of in-process research and development	418,065	—	418,065	—
Loss from operations	(1,259,266)	(809,479)	(2,883,821)	(3,647,304)
Other expense				
Interest expense	(60,025)	(55,756)	(192,190)	(102,702)
Net loss	\$ (1,319,291)	\$ (865,235)	\$ (3,076,011)	\$ (3,750,006)
Loss per share				
Basic:				
Weighted average number of shares outstanding	53,701,988	50,264,312	51,705,910	49,303,267
Loss per share	\$ (0.02)	\$ (0.02)	\$ (0.06)	\$ (0.08)

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Fully diluted:

Weighted average number of shares outstanding	53,701,988	50,264,312	51,705,910	49,303,267	
Loss per share	\$ (0.02) \$ (0.02) \$ (0.06) \$ (0.08)

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

Scio Diamond Technology Corporation
CONDENSED STATEMENTS OF CASH FLOW
For the Nine Months Ended December 31, 2014 and 2013

(Unaudited)

	Nine Months Ended December 31, 2014	Nine Months Ended December 31, 2013
Cash flows from operating activities:		
Net loss	\$ (3,076,011) \$ (3,750,006)
Adjustments to reconcile net loss to net cash used in operating activities:		—
Depreciation and amortization	1,111,209	1,118,114
Loss on impairment of in-process research and development	418,065	—
Expense for warrants, stock and inventory issued in exchange for services and rent	34,200	389,731
Employee stock based compensation	155,000	193,150
Inventory write down	68,722	—
Changes in assets and liabilities:		
Decrease/(increase) in accounts receivable	(50,809) 36,459
Decrease in other receivables	89,192	—
Increase in deferred contract costs	(55,739) —
Decrease/(increase) in prepaid expenses and rent	(12,886) 63,211
Decrease/(increase) in inventory and other assets	(131,107) 139,918
Increase/(decrease) in accounts payable	(104,441) 392,817
Increase/(decrease) in customer deposits	(127,459) 127,222
Increase in accrued expenses	76,866	15,034
Increase in deferred revenues	61,675	125,000
Increase in other liabilities	25,461	25,461
Net cash used in operating activities	(1,518,062) (1,123,889)
Cash flows from investing activities:		
Purchase of property, plant and equipment	(26,007) (30,486)
Investment in joint venture	(1,000) —
Net cash used in investing activities	(27,007) (30,486)
Cash flows from financing activities:		
Proceeds from note payable	2,153,615	1,304,746
Payments of notes payable	(1,565,675) —
Finance charges paid on note payable	—	(214,746)
Proceeds from sale of common stock - net of fees	2,000,000	129
Net cash provided by financing activities	2,587,940	1,090,129

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Change in cash and cash equivalents	1,042,871	(64,246)
Cash and cash equivalents, beginning of period	47,987	223,257	
Cash and cash equivalents, end of period	\$ 1,090,858	\$ 159,011	

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

(continued)

6

Scio Diamond Technology Corporation
CONDENSED STATEMENTS OF CASH FLOW
For the Nine Months Ended December 31, 2014 and 2013 (Unaudited)
(Continued)

	Nine Months Ended December 31, 2014	Nine Months Ended December 31, 2013
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Supplemental cash flow disclosures:

Cash paid for:

Interest	\$ 48,000	\$ 18,874
Income taxes	\$ —	\$ —

Non-cash investing and financing activities:

Payment of accounts payable and accrued expenses with stock	\$ 55,657	\$ —
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The accompanying notes are an integral part of these unaudited condensed financial statements.

Scio Diamond Technology Corporation
CONDENSED STATEMENT OF SHAREHOLDERS' EQUITY
For the Nine Months Ended December 31, 2014

(Unaudited)

	Common Stock		Additional	Treasury Stock		Accumulated	Total
	Shares	Amount	Paid in Capital	Shares	Amount	Deficit	
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 expenses	225,523	226	77,631	—	—	—	77,857
Common stock issued in exchange for past consulting services	50,000	50	11,950	—	—	—	12,000
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	—	—	—	