# SCIO DIAMOND TECHNOLOGY CORP

## FORM 10-Q
(Quarterly Report)

Filed 08/19/14 for the Period Ending 06/30/14

| | |
|---|---|
| Address | 411 UNIVERSITY RIDGE, SUITE D<br>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. 20549**

# FORM 10-Q

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

**For the quarterly period ended June 30, 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** |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification 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)

**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. ☒ 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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ☒ Yes ☐ 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 ☐ | Accelerated Filer ☐ |
| Non-Accelerated Filer ☐ (Do not check if smaller reporting company) | Smaller Reporting Company ☒ |

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

The number of shares of common stock, $0.001 par value, outstanding as of August 8, 2014 was 50,619,312

**SCIO DIAMOND TECHNOLOGY CORPORATION**

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## 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," "seeks," "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 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.

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## PART I - FINANCIAL INFORMATION

## ITEM 1. UNAUDITED CONDENSED FINANCIAL STATEMENTS

**Scio Diamond Technology Corporation**
**CONDENSED BALANCE SHEETS**
**As of June 30, 2014 and March 31, 2014**

| | June 30, 2014 (Unaudited) | March 31, 2014 |
|---|---|---|
| **ASSETS** | | |
| **Current Assets:** | | |
| Cash and cash equivalents | $ 2,046 | $ 47,987 |
| Accounts receivable, net | 38,796 | 42,085 |
| Other receivables | — | 89,192 |
| Inventory, net | 185,908 | 152,817 |
| Prepaid expenses | 27,611 | 79,078 |
| Prepaid rent | 23,050 | 23,050 |
| Total current assets | 277,411 | 434,209 |
| Property, plant and equipment | | |
| Facility | 899,499 | 899,499 |
| Manufacturing equipment | 3,184,809 | 3,171,656 |
| Other equipment | 71,059 | 71,059 |
| Total property, plant and equipment | 4,155,367 | 4,142,214 |
| Less accumulated depreciation | (1,184,252) | (1,029,212) |
| Net property, plant and equipment | 2,971,115 | 3,113,002 |
| Intangible assets, net | 9,047,139 | 9,240,640 |
| Prepaid rent, noncurrent | 36,525 | 42,288 |
| Other assets | 20,000 | 20,000 |
| **TOTAL ASSETS** | $ 12,352,190 | $ 12,850,139 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| **Current Liabilities:** | | |
| Notes payable | $ 1,473,345 | $ 1,412,060 |
| Accounts payable | 1,037,107 | 671,782 |
| Customer deposits | 149,775 | 179,610 |
| Accrued expenses | 639,942 | 573,126 |
| Total current liabilities | 3,300,169 | 2,836,578 |
| Other liabilities | 92,631 | 84,144 |
| **TOTAL LIABILITIES** | 3,392,800 | 2,920,722 |
| Common stock $0.001 par value, 75,000,000 shares authorized; 49,849,312 and 50,739,312 shares issued and outstanding at June 30, 2014 and March 31, 2014, respectively | 49,849 | 50,739 |
| Additional paid-in capital | 24,516,030 | 24,476,940 |
| Accumulated deficit | (15,605,489) | (14,597,262) |
| Treasury stock, 1,000,000 shares at June 30, 2014 and March 31, 2014 | (1,000) | (1,000) |
| Total shareholders' equity | 8,959,390 | 9,929,417 |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | $ 12,352,190 | $ 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 Months Ended June 30, 2014 and 2013**
**(Unaudited)**

| | Three Months Ended June 30, 2014 | Three Months Ended June 30, 2013 |
|---|---|---|
| **Revenue** | | |
| Product revenue, net | $ 79,338 | $ 258,980 |
| Licensing revenue | 375,000 | — |
| Revenue, net | 454,338 | 258,980 |
| **Cost of goods sold** | | |
| Cost of goods sold | 374,423 | 694,110 |
| **Gross margin (deficit)** | 79,915 | (435,130) |
| **General, administrative, and pre-operating expenses** | | |
| Professional and consulting fees | 260,235 | 514,362 |
| Salaries and benefits | 396,868 | 236,837 |
| Rent, equipment lease and facilities expense | 34,147 | 37,357 |
| Marketing costs | 10,688 | 13,249 |
| Depreciation and amortization | 200,124 | 199,874 |
| Corporate general and administrative | 124,153 | 101,805 |
| Total general and administrative expenses | 1,026,215 | 1,103,484 |
| **Loss from operations** | (946,300) | (1,538,614) |
| **Other expense** | | |
| Interest expense | (61,927) | (4,582) |
| **Net loss** | $ (1,008,227) | $ (1,543,196) |
| **Loss per share** | | |
| Basic: | | |
| Weighted average number of shares outstanding | 50,697,993 | 48,316,097 |
| Loss per share | $ (0.02) | $ (0.03) |
| Fully diluted: | | |
| Weighted average number of shares outstanding | 50,697,993 | 48,316,097 |
| Loss per share | $ (0.02) | $ (0.03) |

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

**Scio Diamond Technology Corporation**
**CONDENSED STATEMENTS OF CASH FLOW**
**For the Three Months Ended June 30, 2014 and 2013**
**(Unaudited)**

| | Three Months Ended June 30, 2014 | Three Months Ended June 30, 2013 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Net loss | $ (1,008,227) | $ (1,543,196) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 410,322 | 372,226 |
| Expense for warrants, stock and inventory issued in exchange for services | 26,200 | 211,746 |
| Employee stock based compensation | — | 90,554 |
| Inventory writedown | 68,722 | — |
| Changes in assets and liabilities: | | |
| Decrease in accounts receivable | 3,289 | 69,042 |
| Decrease in other receivables | 89,192 | — |
| Decrease/(increase) in prepaid expenses and rent | (4,551) | 392 |
| Decrease/(increase) in inventory and other assets | (101,813) | 185,263 |
| Increase in accounts payable | 365,325 | 165,535 |
| Increase/(decrease) in customer deposits | (29,835) | 112,272 |
| Increase/(decrease) in accrued expenses | 78,816 | (156,815) |
| Increase in other liabilities | 8,487 | 8,487 |
| **Net cash used in operating activities** | (94,073) | (484,494) |
| **Cash flows from investing activities:** | | |
| Purchase of property, plant and equipment | (13,152) | (15,407) |
| **Net cash used in investing activities** | (13,152) | (15,407) |
| **Cash flows from financing activities:** | | |
| Proceeds from note payable | 61,284 | 935,000 |
| Finance charges paid on note payable | — | (45,000) |
| Proceeds from sale of common stock - net of fees | — | 129 |
| **Net cash provided by financing activities** | 61,284 | 890,129 |
| Change in cash and cash equivalents | (45,941) | 390,228 |
| Cash and cash equivalents, beginning of period | 47,987 | 223,257 |
| **Cash and cash equivalents, end of period** | $ 2,046 | $ 613,485 |

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

(continued)

**Scio Diamond Technology Corporation**
**CONDENSED STATEMENTS OF CASH FLOW**
**For the Three Months Ended June 30, 2014 and 2013 (Unaudited)**
**(Continued)**

| | Three Months Ended June 30, 2014 | Three Months Ended June 30, 2013 |
|---|---|---|
| **Supplemental cash flow disclosures:** | | |
| Cash paid for: | | |
| Interest | $ — | $ — |
| Income taxes | $ — | $ — |
| | | |
| **Non-cash investing and financing activities:** | | |
| Payment of accrued expenses with stock | $ 12,000 | $ — |

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

**Scio Diamond Technology Corporation**
**CONDENSED STATEMENTS OF SHAREHOLDERS' EQUITY**
**For the period April 1, 2014 through June 30, 2014**
**(Unaudited)**

| | Common Stock | | Additional Paid in Capital | Treasury Stock | | Accumulated Deficit | Total |
|---|---|---|---|---|---|---|---|
| | Shares | Amount | | Shares | Amount | | |
| **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 consulting services | 60,000 | 60 | 26,140 | — | — | — | 26,200 |
| Common stock issued in exchange for past consulting services | 50,000 | 50 | 11,950 | — | — | — | 12,000 |
| Common stock returned to Company and cancelled | (1,000,000) | (1,000) | 1,000 | — | — | — | — |
| Net loss for the quarter ended June 30, 2014 | — | — | — | — | — | (1,008,227) | (1,008,227) |
| **Balance, June 30, 2014** | 49,849,312 | $ 49,849 | $ 24,516,030 | (1,000,000) | $ (1,000) | $ (15,605,489) | $ 8,959,390 |

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

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

- On-going solicitation of investment in the Company in the form of private placements of common shares, secured and unsecured debt to accredited investors;
- Focused efforts on new business development opportunities to generate revenues and diversify our customer base;
- Enhanced efforts on optimizing production for existing manufacturing capabilities; and
- Continued to explore strategic joint ventures, technology licensing agreements and dedicated contract manufacturing to expand company revenue and cash flow, including our recently agreed to joint venture in China.

In the opinion of management, these actions will be 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. 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 accompanying unaudited financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations.

In the opinion of management, the accompanying unaudited financial statements contain all adjustments (consisting only of normal recurring accruals) necessary to present fairly the Company’s financial position as of June 30, 2014 and March 31, 2014 and the results of operations and cash flows for the three month interim periods ended June 30, 2014 and 2013. All interim amounts have not been audited, and the results of operations for the interim periods herein are not necessarily indicative of the results of operations to be expected for future periods or the year. The balance sheet at March 31, 2014 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by GAAP for complete financial statements. These financial statements should be read in conjunction with the Company’s audited financial statements and notes thereto included in the Form 10-K Annual Report of the Company for the year ended March 31, 2014.

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.

*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 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 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:

| | June 30, | |
|---|---|---|
| | **2014** | **2013** |
| Common stock options and warrants | 8,090,878 | 9,338,045 |

*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 has determined that an allowance was not necessary at June 30, 2014 or March 31, 2014.

*Other Receivables*

As of March 31, 2014, the Company considered a pending insurance settlement over the actions of a Company supplier of $89,192 as an other receivable. This settlement was paid during the three months ended June 30, 2014.

*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 are as follows:

| | **June 30, 2014** | **March 31, 2014** |
|---|---|---|
| Raw materials and supplies | $ 28,702 | $ 35,543 |
| Work in process | 44,708 | 25,611 |
| Finished goods | 112,498 | 91,663 |
| | $ 185,908 | $ 152,817 |

During the three months ended June 30, 2014, we continued to experience selling prices lower then cost. As a result during the three months ended June 30, 2014, we recorded a lower of cost or market write down of $68,723 for inventory produced during the three months ended June 30, 2014 that was still on hand at June 30, 2014. The estimation of the total write-down involves 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 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.

*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 three months ended June 30, 2014 or 2013.

*Fair Value Measurement*

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The fair value hierarchy prescribed by the accounting literature contains three levels as follows:

Level 1— Quoted prices in active markets for identical assets or liabilities.

Level 2— Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3— Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

The carrying value of cash and cash equivalents, accounts receivable, other assets and trade accounts payable approximates fair value due to the short-term nature of these instruments.

*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. The Company recognizes licensing and development revenues in accordance with the contractual terms of the agreements.

*Recent Accounting Pronouncements*

In July 2013, the FASB issued ASC 2013-11, “Income Taxes — Presentation of an Unrecognized Tax benefit When a Net Operation Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists” (“ASU 2013-11”) which is part of Accounting Standards Codification (“ASC”) 740: Income Taxes. The new guidance requires and entity to present an unrecognized tax benefit and an NOL carryforward, a similar tax loss or a tax credit carryforward on a net basis as part of a deferred tax asset, unless the unrecognized tax benefit is not available to reduce the deferred tax asset component or would not be utilized for that purpose, then a liability would be recognized. ASU 2013-11 is effective for annual and interim periods for fiscal years beginning after December 15, 2013. The Company adopted this new standard for the fiscal year ended March 31, 2015 and the adoption has not had a significant impact on its financial statements.

In May 2014, the FASB issued ASU 2014-9 “Revenue from Contracts with Customers (Topic 606).” This guidance requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This guidance is effective for annual reporting periods beginning after December 15, 2016 and early adoption is not permitted. The Company will adopt this standard in fiscal year 2018. The Company has not yet determined the effect, if any, that the adoption of this standard will have on the Company’s financial position or results of operation.

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 — 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.

Intangible assets consist of the following:

| | Life | June 30, 2014 | March 31, 2014 |
|---|---|---|---|
| Patents, gross | 6.75 – 19.46 | $ 8,135,063 | $ 8,135,063 |
| In-process research and development | Indefinite | 2,250,435 | 2,250,435 |
| | | 10,385,498 | 10,385,498 |
| Accumulated amortization | | 1,338,359 | 1,144,858 |
| Net intangible assets | | $ 9,047,139 | $ 9,240,640 |

Total amortization expense for the quarter ending June 30, 2014 and 2013 was $193,710 and $193,753, respectively.

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

| Fiscal Year Ending | |
|---|---|
| Nine months ending March 31, 2015 | $ 581,301 |
| March 31, 2016 | 775,011 |
| March 31, 2017 | 775,011 |
| March 31, 2018 | 775,011 |
| March 31, 2019 | 775,011 |
| Thereafter | $ 3,115,359 |

NOTE 3 — NOTES PAYABLE

During the quarter ended June 30, 2013, the Company entered into a loan agreement with Platinum Capital Partners, LP (“Platinum”) providing for a $1 million secured revolving line of credit that the Company may draw on to fund working capital and other corporate purposes. At June 30, 2013, the Company had utilized a portion of these funds to fund its ongoing operations. Borrowings under the loan agreement accrue interest at the rate of 18% per annum, payable monthly on or before the last calendar day of each month, and a service charge of 3% applies to late payments. The loan agreement also provides for payment of an accommodation fee of up to 10% of the commitment amount as provided in the loan agreement, and payment of a monthly collateral monitoring fee of $2,000 per month for the first six months and $1,000 per month for the last six months of the term of the loan agreement. The 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 shareholders and sell, purchase or lease real or personal property or other assets or equipment. The loan agreement also contains affirmative covenants and events of default. The Company may prepay borrowings without premium or penalty upon notice to Platinum as provided in the loan agreement. Under a security agreement entered into in connection with the loan agreement, the Company granted Platinum a first priority security interest in the Company’s inventory, equipment, accounts and other rights to payments and intangibles as security for the loan.

On October 11, 2013, the Company entered into a First Amendment to Loan Agreement (the “First Amendment”), with Platinum, which amends the Original Loan Agreement (as amended by the First Amendment, the “Amended Loan Agreement”) to provide for an additional $500,000 of borrowing capacity (the “Additional Loan” and, together with the original Loan, the “Loan”) under the existing $1 million secured revolving line of credit established under the Original Loan Agreement. The Company may draw on the line to fund working capital. On October 11, 2013, $280,750 was drawn on the Additional Loan, $30,750 of which was retained by Platinum to cover applicable fees.

Borrowings accrue interest at the rate of 18% per annum, payable monthly on or before the last calendar day of each month. An interest reserve of $133,500 has been set aside from the proceeds of the New Note to make required payments of interest, provided that interest billed to the Company will first be deducted from a $90,000 reserve established under the Original Note for payments of interest on the Original Note, until that reserve has been exhausted. The Amended Loan Agreement also provides for payment of an accommodation fee of $25,000 and a closing fee of $3,250, the amounts of which were retained by Platinum out of amounts drawn on the Additional Loan on October 11, 2013. The Company's obligations under the Amended Loan Agreement are not guaranteed by any other party. The Company may prepay borrowings without premium or penalty upon notice to Platinum as provided in the Amended Loan Agreement. The Loan is secured by a security agreement, under which the Company grants Platinum first priority security interest in the Company's inventory, equipment, accounts and other rights to payments and intangibles as security for the Loan. The New Note provides for monthly interest payments commencing November 2013 and for repayment of all amounts drawn, together with accrued interest, on June 20, 2014.

The Company has utilized funds drawn on the Original Loan and the Additional Loan to fund its ongoing operations. The Company has capitalized financing costs related to the Platinum loans of $150,750 that are being amortized over the life of the loans. At June 30, 2014, the total due Platinum including all accrued fees was $1,473,345.

The Platinum loans matured on June 20, 2014 and the Company went into default status on the loans. In default status, Platinum could foreclose on the loan and has the right to take possession of the collateral including the Company's fixed assets and intellectual property. In addition, in default status, Platinum has the right to increase the interest rate on the note by 3% upon 30 day notice to the Company. To date, Platinum has not taken any action related to this default, including adjusting the interest rate, as the Company continues to pursue additional financing alternatives.

NOTE 4 — CAPITAL STOCK

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

At the request of the Board of Directors, the Company's entered into an agreement, effective April 12, 2014, with Mr. Joseph Cunningham to provide consulting services to the Company. Under this agreement, the Company agreed to provide Mr. Cunningham $4,000 and 20,000 shares of common stock per month in exchange for his professional services to the Company. Through June 30, 2014, the Company had issued 60,000 shares to Mr. Cunningham. These shares were valued at an average of $0.44 per share based on the closing price of the shares on the date of grant and the Company recognized $26,200 in professional and consulting fee expense for these shares, during the three months ended June 30, 2014.

On April 15, 2014, the Company entered into a Rights Agreement between the Company and Empire Stock Transfer Inc., as Rights Agent (as amended from time to time, the " *Rights Agreement* ") that was previously approved by the Board of Directors of the Company.

In connection with the Rights Agreement, a dividend was declared of one common stock purchase right (individually, a "Right" and collectively, the "Rights") for each share of common stock, par value $0.001 per share (the "Common Stock"), of the Company outstanding at the close of business on April 25, 2014 (the "Record Date"). Each Right will entitle the registered holder thereof, after the Rights become exercisable and until April 15, 2017 (or the earlier redemption, exchange or termination of the Rights), to purchase from the Company one share of Common Stock of the Company at a price of $1.20 per share of Common Stock (the "Purchase Price"). Until the earlier to occur of (i) the close of business on the tenth business day following a public announcement that a person or group of affiliated or associated persons has acquired, or obtained the right to acquire, beneficial ownership of 17% or more of the Common Stock (an "Acquiring Person") or (ii) the close of business on the tenth business day (or such later date as may be determined by action of the Board of Directors prior to such time as any person or group of affiliated or associated persons becomes an Acquiring Person) following the commencement or announcement of an intention to make a tender offer or exchange offer the consummation of which would result in the beneficial ownership by a person or group of affiliated or associated persons of 17% or more of the Common Stock (the earlier of (i) and (ii) being called the "Distribution Date"), the Rights will be evidenced, with respect to any of the Common Stock certificates outstanding as of the Record Date, by such Common Stock certificates, or, with respect to any uncertificated Common Stock registered in book entry form, by notation in book entry, in either case together with a copy of the Summary of Rights attached as Exhibit B to the Rights Agreement. Under the Rights Agreement, synthetic ownership of Common Stock in the form of derivative securities counts towards the 17% ownership threshold, to the extent actual shares of Common Stock equivalent to the economic exposure created by the derivative security are directly or indirectly beneficially owned by a counterparty to such derivative security.

The Rights Agreement provided that any person who beneficially owned 17% or more of the Common Stock immediately prior to the first public announcement of the adoption of the Rights Agreement, together with any affiliates and associates of that person (each an "Existing Holder"), shall not be deemed to be an "Acquiring Person" for purposes of the Rights Agreement unless an Existing Holder becomes the beneficial owner of one or more additional shares of Common Stock (other than pursuant to a dividend or distribution paid or made by the Company on the outstanding Common Stock in Common Stock or pursuant to a split or subdivision of the outstanding Common Stock). However, if upon acquiring beneficial ownership of one or more additional shares of Common Stock, the Existing Holder does not beneficially own 17% or more of the Common Stock then outstanding, the Existing Holder shall not be deemed to be an "Acquiring Person" for purposes of the Rights Agreement.

On June 22, 2014, the Board of Directors amended the Rights Agreement to accelerate the expiration date and effectively terminated all rights granted under the agreement. Since none of the rights were exercised prior to expiration, there was no financial impact of the rights offering.

On June 20, 2014, the Board of Directors granted restricted stock grants to Mr. Michael Laub of 50,000 shares for previously performed services rendered to the Company. The Company does not anticipate recognizing any expense for this restricted stock grants since it was in exchange for expenses previously accrued by the Company.

On June 23, 2014, the Company entered into a settlement agreement (see Item 1, Note 8 — LITIGATION below for more details) whereby amongst other things, Messrs. Edward Adams and Michael Monahan forfeited 1,000,000 shares of stock to the Company. These shares were subsequently cancelled as of this date.

The Company had 49,849,312 shares of common stock issued and outstanding as of June 30, 2014 of which 1,000,000 were held in treasury.

The Company had 5,566,795 warrants outstanding with a weighted average exercise price of $1.53 per share as of June 30, 2014. No warrants were issued in the three months ended June 30, 2014.

NOTE 5 — 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. Because the Plan has not been approved by our shareholders, all such stock option awards are non-qualified stock options. The following sets forth the options to purchase shares of the Company's stock issued and outstanding as of June 30, 2014:

| **Options** | **Shares** | **Weighted-Average Exercise Price** | **Weighted-Average Remaining Contractual Term** |
|---|---|---|---|
| Options Outstanding March 31, 2014 | 4,342,500 | $ 0.77 | 1.75 |
| Granted | — | — | — |
| Exercised | — | — | — |
| Expired/cancelled | (1,818,417) | 0.87 | — |
| Options Outstanding June 30, 2014 | 2,524,083 | $ 0.69 | 1.49 |
| Exercisable at June 30, 2014 | 2,049,708 | $ 0.77 | 1.35 |

A summary of the status of non-vested shares as of June 30, 2014 and changes during the three month ended June 30, 2014 is presented below.

| Non-vested Shares | Shares | Weighted Average Grant-Date Fair Value |
|---|---|---|
| Non-vested at March 31, 2014 | 2,414,792 | 0.49 |
| Granted | — | |
| Vested | (122,000) | 0.43 |
| Expired/cancelled: non-vested | (1,818,417) | 0.56 |
| Non-vested at June 30, 2015 | 474,375 | $ 0.23 |

The following table summarizes information about stock options outstanding by price range as of June 30, 2014:

| | Options Outstanding | | | Options Exercisable | |
|---|---|---|---|---|---|
| Range of Exercise Price | Number Outstanding | Weighted Average Remaining Contractual Life (years) | Weighted Average Exercise Price | Number of Shares | Weighted Average Exercise Price |
| $0.83 - $1.02 | 885,333 | 1.61 | $ 0.92 | 885,333 | $ 0.92 |
| $0.70 - $0.80 | 982,500 | 1.17 | 0.71 | 940,500 | 0.71 |
| $0.33 - $0.42 | 656,250 | 2.24 | 0.36 | 223,875 | 0.41 |
| | 2,524,083 | 1.49 | $ 0.69 | 2,049,708 | $ 0.77 |

The Company initially issued options with exercise prices of $0.70 or $0.80 per share which were the prices of recent equity capital investment. However, in December 2012, the Company decided to change the exercise price policy by utilizing the stock market closing price on the day that the options were granted by our Board of Directors. All subsequent exercise prices have been determined in this manner.

The intrinsic value of options outstanding at June 30, 2014 and March 31, 2014 was $0 and $0, respectively.

The Company estimates the fair value of options granted on the grant date utilizing the Black-Scholes Option Pricing model. For the three months ended June 30, 2014 and 2013, the Company recognized $0 and $90,554, respectively, as compensation cost for options issued, and recorded related deferred tax asset of $0 for all periods.

At June 30, 2014, unrecognized compensation cost related to non-vested awards was $108,979. This cost is expected to be recognized over a weighted average period of 2.11 years. The total fair value of options vested during the three months ended June 30, 2014 and 2013 was $52,580 and $0, respectively.

NOTE 6 — RELATED PARTIES

On May 27, 2014, the Board of Directors appointed Mr. James Korn and Mr. Gerald McGuire as independent members to the Board. Each of Messrs. Korn and McGuire were provided 250,000 shares of restricted stock upon their appointment to the Board.

On June 12, 2014, the Board of Directors decided to terminate without cause the employment of Chief Executive Officer, Michael McMahon and Chief Financial Officer, Jonathan Pfohl. The Board named then Board Member Gerald McGuire as interim Chief Executive Officer and appointed Mr. Douglas Walker as interim Chief Financial Officer. The Board also named Mr. Michael Laub as Chief Restructuring Officer.

On June 16, 2014, the Board of Directors appointed Bruce Likly as a member of Board and further appointed Mr. Likly to serve as the Co-Chairman of the Board. Mr. Likly was provided with a restricted share grant of 4,000,000 shares upon his appointment to the Board.

On June 20, 2014, the Board of Directors granted restricted stock grants to Mr. Michael Laub of 50,000 shares in exchange for $12,000 of liabilities owed to Mr. Laub for professional services provided to the Company. These shares were valued at $0.24 per share based on the liabilities owed to Mr. Laub. The Company does not anticipate recognizing any expense for this restricted stock grants since it was in exchange for expenses previously accrued by the Company.

On June 22, 2014, the equity granted to Messrs. Korn, Likly, and McGuire for their service on the Board of Directors consisting of 250,000, 4,000,000 and 250,000 restricted shares, respectively was returned to the Company. In addition, all equity granted and contemplated to be granted to Messrs. McGuire, Walker and Laub for their services as executive officers of the Company was effectively returned to the Company. The Company did not recognize any expense for the restricted shares granted and returned to the Company since none of the grants had vested at the time of their return to the Company.

On June 25, 2014, Jonathan Pfohl returned to the Company as Acting Chief Financial Officer.

NOTE 7 — INVESTMENT IN 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 Limited 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. The license agreement calls for the Company to receive $250,000 in licensing fees and $750,000 in development fees between October 2013 and June 2014. As of June 30, 2014, the Company has received these payments. In addition, once operations of Grace Rich LTD have commenced, the Company will receive $250 per machine per month in licensing fees with a minimum payment of $25,000 until the venture starts to distribute cash to its partners.

The Company determined the fair value of the license agreement does not exceed the value of the expected returns from the joint venture and accordingly has established an initial investment value of $0 and has not recorded any gains related to its contribution to the joint venture. The Company joint venture was in its development stage through June 30, 2014 and did not have any revenues. Expenses incurred by the joint venture were for planning and startup expenses. The total loss of the joint venture from during the three months ended June 30, 2014 was $680,141. The Company’s corresponding 30% share of these losses was $204,042.

As of June 30, 2014, the Company has not guaranteed obligations of the joint venture nor has it committed to pride additional funding. Therefore, the Company’s share of the joint venture’s net loss through June 30, 2014 was not recognized because the initial carrying value of the Company’s ownership interest in the joint venture was zero.

**Rollforward of the Company's ownership interest in the joint venture for the three months ended June 30, 2014:**

| | | |
|---|---|---|
| Balance of ownership interest in joint venture at March 31, 2014 | $ | (313,184) |
| Aggregate 2015 equity loss — share of joint venture losses | | (204,042) |
| 2015 equity loss — share of joint venture losses not recognized due to basis limitation | | 204,042 |
| Balance of ownership interest in joint venture at June 30, 2014 | $ | — |
| | | |
| Cumulative unrecognized loss on ownership interest in joint venture at June 30, 2014 | $ | (517,226) |

**Selected financial results for Grace Rich LTD for three months ended June 30, 2014 are as follows:**

| | | |
|---|---|---|
| Revenues | $ | — |
| Expenses | | 680,141 |
| Net Income (Loss) | $ | (680,141) |
| | | |
| Total Assets | $ | 69,597 |
| | | |
| Total Liabilities | $ | 1,792,382 |
| Total Partners Capital | | (1,722,786) |
| Total Liabilities and Partner Capital | $ | 69,597 |

The Company recognized $375,000 in revenues from Grace Rich during the three months ended June 30, 2014. The Company incurred $72,555 of joint venture related expenses during the three months ended June 30, 2014 that are reimbursable by Grace Rich LTD. These anticipated reimbursements were offset against the Company's related operating expense.

NOTE 8 — LITIGATION

On July 26, 2013, Bernard M. McPheely, Trustee for the Bernard M. McPheely Revocable Trust Dated May 25, 2012, Thomas P. Hartness, Trustee for the Thomas P. Hartness Revocable Trust Dated July 31, 2010, Brian McPheely and Robert Daisley (collectively, "Plaintiffs"), derivatively and on behalf of the Company, filed a complaint in the Court of Common Pleas of the State of South Carolina, County of Greenville against Edward S. Adams (then our Chairman), Michael R. Monahan (a former member of the Company's Board of Directors), Robert Linares (a then current member of the Board), Theodorus Strous (a then current member of the Board) and the law firm of Adams Monahan, LLP (collectively, "Defendants"), and the Company, as a nominal defendant (the "Scio Derivative Complaint"). Bernard M. McPheely is a former member of the Company's Board of Directors.

The Scio Derivative Complaint alleged (i) against Defendants, breach of fiduciary duty, corporate waste and unjust enrichment; (ii) against Messrs. Strous and Linares and Adams Monahan LLP, aiding and abetting a breach of fiduciary duty; (iii) against Messrs. Adams and Monahan, civil conspiracy; (iv) against Messrs. Adams, Monahan and Linares, breach of fiduciary duty — controlling shareholder; and (v) against Mr. Strous and Adams Monahan LLP, aiding and abetting a breach of controlling shareholder duty. The allegations relate to, among other things, certain actions allegedly taken by defendants in connection with: the acquisition by the Company of certain assets of ADI (the "ADI Asset Purchase"); the ADGC Asset Purchase; the Company's agreement to provide certain current and former stockholders of ADI and ADGC the opportunity to acquire up to approximately 16 million and 1 million shares, respectively, of common stock of the Company for $0.01 per share (collectively, the "ADI/ADGC Offering"); the provision of legal services by Adams Monahan LLP to the Company; certain equity issuances by the Company following the ADI/ADGC Offering; certain bonuses and other payments paid to members of the Board of Directors; and certain indemnification obligations undertaken by the Company in favor of Messrs. Adams and Monahan.

Plaintiffs were seeking direct and consequential damages sustained by the Company in an amount to be established through proof at trial, plus pre-judgment and post-judgment interest; appropriate equitable relief to remedy the alleged breaches of fiduciary duties; reasonable attorney's fees and costs for the Company incurred in prosecuting the action; and other relief as deemed by the court to be just and proper.

Defendants removed the Scio Derivative Complaint to the U.S. District Court for the District of South Carolina, Greenville Division (the "Federal Court") and filed a motion to dismiss the complaint on October 4, 2013. On December 16, 2013, the Federal Court granted the Defendants' motion to dismiss, in part based on the plaintiffs' lack of standing, and the remaining claims were dismissed by the court without prejudice in favor of mandatory arbitration proceedings

On October 15, 2013, plaintiff Mark P. Sennott, as Trustee of the Sennott Family Charitable Trust, ("Sennott") filed a complaint derivatively, on behalf of ADI, in the Federal Court, against Edward S. Adams (our then Chairman), Michael R. Monahan (a former member of the Company's Board of Directors), the law firm of Adams Monahan, LLP, Loblolly, Inc., which was formerly known as Scio Diamond Technology Corporation, and the Company (collectively, "Sennott Defendants"). This derivative complaint on ADI's behalf (the "ADI Derivative Complaint") alleges claims for breach of fiduciary duty, constructive fraud and unjust enrichment. The allegations in the ADI Derivative Complaint are duplicative of the Scio Derivative Complaint allegations concerning ADI, which were dismissed by the Federal Court's December 16, 2013 order in the Scio Derivative Complaint and repeat almost verbatim the allegations from earlier lawsuits filed and dismissed in 2012 against the Defendants, which were previously disclosed in the Company's Form 10-Q for the nine months ended December 31, 2012 and Form 10-K for fiscal year ended March 31, 2013. Sennott is seeking direct and consequential damages sustained by Sennott in an amount to be established through proof at trial, plus pre-judgment and post-judgment interest; appropriate equitable relief to remedy the allegedly wrongful acts; reasonable attorney's fees and costs incurred in prosecuting the action; and other relief as deemed by the court to be just and proper.

Both the Scio Derivative Complaint and the ADI Derivative Complaint were effectively settled on June 23, 2014 when 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.

The Settlement Agreement contains various other terms and provisions, including with respect to the transfer of one million shares of Common Stock from the Adams Group to the Save Scio Group, a portion of which is allocated for reimbursement of the Save Scio Group's out-of-pocket expenses in connection with the nomination of the Save Scio Nominees and past litigation involving certain members of the Adams Group and the Save Scio Group (the Scio Derivative Complaint and the ADI Derivative Complaint collectively known as the "Litigation"), the Save Scio Group's withdrawal of the Litigation, termination of the Save Scio Group's consent solicitation, and accelerated expiration of the Company's stockholder Rights Agreement adopted on April 15, 2014. Also included in the settlement is the forfeiture of one million shares of common stock by Edward S. Adams and Michael Monahan for cancellation by Scio.

Concurrent with the Settlement Agreement, the equity granted to Messrs. Korn, Likly, and McGuire for their service on the Board of Directors consisting of 250,000, 4,000,000 and 250,000 restricted shares, respectively was returned to the Company.   In addition, all equity granted and contemplated to be granted to Messrs. McGuire, Walker and Laub for their services as executive officers of the Company was effectively returned to the Company.  The Company did not recognize any expense for the restricted shares granted and returned to the Company since none of the grants had vested at the time of their return to the Company.

In addition, the Settlement agreement provides for the release of all liabilities amongst the parties.  This release resulted in the reversal of $343,556 of consulting and professional fees due to the settling parties for board fees, management committee fees, consulting services, indemnification of board members and legal expenses that were previously recorded as professional and consulting fees.  $232,806 of these consulting and professional fees were accrued as of March 31, 2014.

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 is fully cooperating with this inquiry.

NOTE 9 — SUBSEQUENT EVENTS

On July 11, 2014, the Board of Directors named Mr. Gerald McGuire, President, Chief Executive Officer and Director of the of the Company.  As of the date of this filing, the Company has not entered into an employment contract with Mr. McGuire.

On July 15, 2014, the Board of Directors approved the issuance and sale of up to 2,000,000 shares of common stock to accredited investors at a price of $0.30.  The Company may raise up to $600,000 from this offering and does not anticipate incurring any material expenses related to the offering.  Through August 8, 2014, the Company has issued 750,000 shares under this offering and raised $225,000.

***END NOTES TO FINANCIALS***

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Information included in this Quarterly Report 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. Words such as "expects," "should," "may," "will," "believes," "anticipates," "intends," "plans," "seeks," "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 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 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, and as a result, faces a high risk of business failure, (3) 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, (4) the Company may not effectively execute the Company's business plan or manage the Company's potential future business development, (5) the Company's business could be impaired if it fails to comply with applicable regulations, (6) the Company has had significant turnover in management and may not be able to attract and maintain 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, (7) the market for lab-grown diamond may not develop as anticipated, (8) competition may adversely affect our business, (9) 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, and (10) such other risks and uncertainties as have been disclosed or are hereafter disclosed from time to time in the Company's filings with the SEC, including, without limitations described under Risk Factors set forth in Part I, Item 1A of the Company's Form 10-K for the fiscal year ended March 31, 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, including any amendments to those filings. 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.

### GENERAL

*Corporate History*

We were incorporated on September 17, 2009 in the State of Nevada under the name Krossbow Holdings Corporation ("Krossbow"). Krossbow's original business plan was focused on offsetting carbon dioxide emissions through the creation and protection of forest-based carbon "sinks." Krossbow planned to assess carbon resource potentials, prescribe and implement ecosystem restorations to develop those resources, and thereby generate carbon offset products. However, we have since abandoned that original business plan and restructured our business to focus on man-made diamond technology development. We decided to acquire existing technology and 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.

On August 5, 2011, Edward S. Adams and Michael R. Monahan acquired control of the Company through the purchase of 2,000,000 shares of the Company's issued and outstanding common stock from Jason Kropp, Krossbow's sole director and executive officer at that time, in accordance with a common stock purchase agreement among Mr. Kropp, Mr. Adams and Mr. Monahan. Concurrent with the execution of the stock purchase agreement, Mr. Kropp resigned from all positions with Krossbow, including, but not limited to, that of President, Chief Executive Officer, Chief Financial Officer, Treasurer, Secretary and Director. Mr. Adams currently serves on the Company's Board of Directors and Mr. Monahan also served on the Board until his resignation on June 30, 2013.

On August 5, 2011, the Company executed an Asset Purchase Agreement (the "Scio Asset Purchase Agreement") with another privately-held Nevada corporation that also had the name "Scio Diamond Technology Corporation" ("Private Scio"). Under the terms of the Scio Asset Purchase Agreement, the Company purchased the name "Scio Diamond Technology Corporation" and acquired other rights from Private Scio for 13,000,000 newly issued shares of common stock of the Company. Messrs. Adams and Monahan were directors of Private Scio, and Joseph D. Lancia, our former President and Chief Executive Officer, was an officer of Private Scio, and Messrs. Adams, Monahan and Lancia owned 31.5%, 31.5% and 15.4%, respectively, of Private Scio. Messrs. Adams and Monahan each acquired, directly or indirectly, 4,100,000 shares of our common stock pursuant to the Scio Asset Purchase Agreement, and Mr. Lancia acquired 2,000,000 shares pursuant to the Scio Asset Purchase Agreement.

On August 31, 2011, the Company acquired certain assets of Apollo Diamond, Inc. ("ADI") (the "ADI Asset Purchase"), consisting primarily of diamond growing machines and intellectual property related thereto, for which the Company paid ADI an aggregate of $2,000,000 in a combination of cash and a promissory note to ADI with a September 1, 2012 maturity date. This promissory note had an outstanding balance of $125,000 at March 31, 2012 and was paid in full as of March 31, 2013. In connection with the ADI Asset Purchase, the Company 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 (the "ADI Offering"). Both Mr. Adams, in an executive role, and Mr. Monahan previously served in various capacities with ADI through early 2011.

On June 5, 2012, the Company acquired substantially all of the assets of Apollo Diamond Gemstone Corporation ("ADGC") (the "ADGC Asset Purchase"), 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 (the "ADGC Offering") with the intent that ADI Offering be conducted substantially concurrently with the ADGC Offering (collectively, the "ADI/ADGC Offering"). Mr. Adams and Mr. Monahan served in various capacities with ADGC through early 2011.

The ADI/ADGC Offering was completed in March 2013 and resulted in the issuance of an aggregate of 16,766,773 shares of the Company's common stock. 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. In March 2013, this customer notified the Company that due to the global supply chain restructuring of the ultimate end use of our product that they would not be purchasing additional materials. Subsequent to this, the Company has expanded its product focus to include Gemstone diamond material as well as industrial materials.

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 100 Company designed diamond growing machines. The agreements allow for the expansion of the joint venture to 400 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 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%.

*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 though 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.

As of June 30, 2014, nearly all of the Company's production capacity is being sold for use in precision cutting devices and gemstone materials. As of June 30, 2014 we had generated $2,754,427 in net revenue since inception. To date, over 60% of our product has been sold overseas and 100% of these sales have been to external customers. In the future, we expect continued development of an international market for our diamond materials.

**RESULTS OF OPERATIONS**

*Three Month Period Ended June 30, 2014 Compared to the Three Month Period Ended June 30, 2013*

During the three months ended June 30, 2014, we recorded net revenue of $454,338, compared to $258,980 in net revenue during the three months ended June 20, 2913. The increase in revenue is primarily due to the Company receiving $375,000 in development fees from the joint venture during the three months ended June 30, 2014 that were not in the prior period. Product revenues for the three months ended June 30, 1014 were $79,338 versus $258,980 in the prior period due to reduced sales and lower product prices during the three months ended June 30, 2014. We expect product revenues to increase as the fiscal year continues.

Cost of goods sold was $374,423 for the three months ended June 30, 2014 versus $694,110 for the three months ended June 30, 2013. This decrease was due to reduced product sales and lower direct and indirect labor expenses included in cost of goods sold during the three months ended June 30, 2014 versus the three months ended June 30, 2013. Although cost of good sold has decreased, we still have not attained operating maturity that allows us to predictably tie the quarterly changes in cost of good sold to revenue. We incurred a net amount of $260,235 in professional and consulting fees during the three months ended June 30, 2014. This figure includes reductions of $343,556 related to the reversal of expenses from the Settlement Agreement and a reduction of $82,650 for payments made for past legal fees by our insurance carrier. Without these adjustments, professional and consulting fees were $686,441 compared to $514,362 for the three months ended June 30, 2013. This increase in fees is the result of increased legal expenses. With the Settlement Agreement, the Company anticipates that future legal expenses will be reduced. Salary and benefit expenses including direct and indirect labor costs recorded in cost of goods sold were $493,773 during the three months ended June 30, 2014 and $411,891 during the three months ended June 30, 2013. This increase of $81,882 is the result of the Company accruing $275,000 as expected executive severance expenses which more than offsets reductions from lower headcount during the three months June 30, 2014 versus the three months ended June 30, 2013.

Depreciation expense of $155,040 and $172,352 was recorded in cost of goods sold during the three months ended June 30, 2014 and 2012, respectively.

We have continued to generate limited revenue to offset our expenses, and so we have incurred net losses. Our net loss for three month period ended June 30, 2014 was $1,008,227, compared to a net loss of $1,543,196 during the three months ended June 30, 2013. Our net loss per share for the three month period ended June 30, 2014 was $(0.02) per share, compared to a net loss per share of $(0.03) for the three months ended June 30, 2013. The weighted average number of shares outstanding was 50,697,993 and 48,316,097, respectively, for the three month periods ended June 30, 2014 and 2013.

**FINANCIAL CONDITION**

At June 30, 2014, we had total assets of $12,352,190, compared to total assets of $12,850,139 at March 31, 2014. We had cash of $2,046 at June 30, 2014 compared to cash of $47,987 at March 31, 2014.

Total liabilities at June 30, 2014 were $3,392,800, compared to total liabilities of $2,920,722 at March 31, 2014. Total liabilities at June 30, 2014 were comprised primarily of accounts payable, accrued expenses, customer deposits and notes payables. The increase in total liabilities is primarily due to our increased accounts payable. Accounts payable increased $365,325 largely due to accrued professional fees for legal services.

The Company had negative working capital (defined as current assets less current liabilities) of $(3,022,728) at June 30, 2014 versus $(2,402,369) at March 31, 2014. This decrease in working capital resulted from the Company's increase in current liabilities including accounts payable, accrued expenses and notes payable and the decrease in current assets including cash and prepaid expenses during the three months ended June 30, 2014.

Total shareholders' equity was $8,959,390 at June 30, 2014, compared to $9,929,390 at March 31, 2014. Shareholders' equity decreased $970,027 during the period due to our operating net loss offset by additional paid in capital from common stock issued for services.

**CASH FLOWS**

*Operating Activities*

We have not generated positive cash flows from operating activities. For the three months ended June 30,2014, net cash flows used in operating activities were $(94,073) compared to $(484,494) for three months ended June 30, 2013. The net cash flow used in operating activities for the three months ended March 31, 2014 consists primarily of a net loss of $(1,008,227) offset by depreciation and amortization of $410,322, a decrease in other receivables of $89,192, increases in accounts payable of $365,325 and accrued expenses of $78,816, net increases in other current assets of $(103,075), and a net decrease in other current liabilities of $(21,337).

*Investing Activities*

For the three month periods ended June 30, 2014 and 2013, net cash flows used in investing activities were $13,152, and $15,407, respectively. These amounts consist of the purchase of property, plant and equipment and comparable for both periods since continue operations has not required substantial additional capital investment.

*Financing Activities*

We have financed our operations primarily through the issuance of equity and debt securities. For the three month periods ended June 30, 2014 and June 30, 2013, we generated $61,284 and $890,129, respectively, from financing activities. The $61,284 generated during the three months ended June 30, 2014 represent advances on the Platinum note for interest payable on the facility.

**LIQUIDITY AND CAPITAL RESOURCES**

We expect that working capital requirements will continue to be funded through a combination of our existing funds, further issuances of securities, and future credit facilities or corporate borrowings. Our working capital requirements are expected to increase in line with the growth of our business. Effective June 21, 2013, we entered into a $1,000,000 secured credit facility to provide near-term liquidity for working capital requirements. This credit facility was increased by an additional $500,000 of borrowing capacity on October 11, 2013 as described in Item 1, Note 3 - NOTES PAYABLE. The Platinum loans matured on June 20, 2014 and the Company went into default status on the loans. To date, Platinum has not taken any action related to this default, including adjusting the interest rate, as the Company continues to pursue additional financing alternatives.

Existing cash of $2,046 as of June 30, 2014, is not adequate to meet our current obligations or fund our operations over the next fiscal year ending March 31, 2015. As of June 30, 2014, we had no additional lines of credit or other bank financing arrangements other than as described above. Generally, we have financed operations through June 30, 2014 through the proceeds of sales of our common stock and borrowings under our existing credit facilities. Thereafter, we expect to raise additional capital and generate revenues to meet operating requirements.

On July 15, 2014, the Board of Directors approved the issuance and sale of up to 2,000,000 shares of common stock to accredited investors at a price of $0.30. The Company may raise up to $600,000 from this offering and does not anticipate incurring any material expenses related to the offering. Through August 8, 2014, the Company has issued 750,000 shares under this offering and raised $225,000.

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.

We expect that working capital requirements will continue to be funded through a combination of our existing funds, further issuances of securities, and future credit facilities or corporate borrowings. Our working capital requirements are expected to increase in line with the growth of our business.

**MATERIAL COMMITMENTS AND ARRANGEMENTS**

On June 21, 2013, the Company entered into a loan agreement with Platinum Capital Partners, LP ("Platinum") providing for a $1 million secured revolving line of credit that the Company may draw on to fund working capital and other corporate purposes. The Company has utilized these funds to fund our ongoing operations. Borrowings under the loan agreement accrue interest at the rate of 18% per annum, payable monthly on or before the last calendar day of each month. The loan agreement also provides for payment of an accommodation fee of up to 10% of the commitment amount as provided in the loan agreement, and payment of a monthly collateral monitoring fee of $2,000 per month for the first six months and $1,000 per month for the last six months of the term of the loan agreement. The loan agreement contains a number of restrictions on our business, including restrictions on our ability to merge, sell assets, create or incur liens on assets, make distributions to our shareholders and sell, purchase or lease real or personal property or other assets or equipment. The loan agreement also contains affirmative covenants and events of default. The Company may prepay borrowings without premium or penalty upon notice to Platinum as provided in the loan agreement. Under a security agreement entered into in connection with the loan agreement, we granted Platinum a first priority security interest in the Company's inventory, equipment, accounts and other rights to payments and intangibles as security for the loan. This credit facility was increased by an additional $500,000 of borrowing capacity on October 11, 2013 as described in Item 1, Note 3 — NOTES PAYABLE. As of June 30, 2014, the total due under these facilities, including accrued fees, was $1,473,345. The credit facility matured on June 20, 2014 and since this date we have been in default on the agreement with Platinum. We are having discussions with Platinum on extending the term of the debt agreements and currently, Platinum has indicated they will not take any action related to this default as we pursue additional funding for our operations.

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 PRC to deploy 100 Scio designed diamond growing machines. The agreements allow for the expansion of the joint venture to over 500 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 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.

## OFF-BALANCE SHEET ARRANGEMENTS

As of the date of this Quarterly 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.

## 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 filed with our Form 10-K for the fiscal year ended March 31, 2014.

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 judgmental estimates and complex accounting principles, which represent our critical accounting policies.

*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. There were no impairment charges as of June 30, 2014.

The Company continues to classify the remaining patent portfolio as IPRD and believes that the IPRD has alternative future use and value. At such time that production begins and commercialization of this portion of the intellectual property portfolio begins, then the segmentation and bifurcation of the remaining IPRD asset to finite-lived commercialized intellectual property assets will be considered. Applicable accounting guidance requires an indefinite life for IPRD assets until such time as the commercialization can be reasonably estimated at which time the assets will be available for their intended use. At such time as those requirements are met, we believe that consideration of the legal life of the intellectual property protection should be of considerable importance in determining the useful life. Upon commercialization and determination of the useful life of the intellectual property assets, consideration will be given to the eventual expiration of the intellectual property rights underlying certain critical aspects of our manufacturing process.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Not applicable.

**ITEM 4. CONTROLS AND PROCEDURES**

*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 June 30, 2013, we carried 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 not effective as of June 30, 2014.

*Remediation of Material Weaknesses in Internal Controls over Financial Reporting*

In connection with the evaluation described above and prior evaluations, the current management team identified material weaknesses in our internal control over financial reporting as of June 30, 2014, in the following areas:

- Lack of a functioning audit committee of the Board of Directors, resulting in ineffective oversight in the establishment and functioning of required internal controls and procedures;
- Insufficient communication from the Board of Directors to Management in connection with period end financial disclosure and reporting; and due to our small size, limited segregation of duties in certain areas of our financial reporting and other accounting processes and procedures.

A material weakness (within the meaning of PCAOB Auditing Standard No. 5) is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those responsible for oversight of our financial reporting.

During the period covered by this quarterly report on Form 10-Q, we have not been able to remediate the material weaknesses identified above. The effectiveness of efforts the Company has made to remediate the identified material weaknesses have been limited by recent turnover of the Chief Executive Officer and Chief Financial Officer positions. We have taken steps to enhance and improve the design of our internal control over financial reporting including the addition of two independent directors to the Board of Directors on May 27, 2014, and a new Board of Directors consisting of a majority of outside and independent directors was established on June 23, 2014. On July 11, 2014, Gerald McGuire was named President, CEO and Director of the Company. This addition of management to the Board of Directors should enhance communication between the Board and management. In addition, we plan to take additional steps during our fiscal year ending March 31, 2015.

To further remediate such weaknesses, we expect to implement the following changes during our fiscal year ending March 31, 2015:

- The Board of Directors plans to establish a functioning audit committee compliant with NASDAQ listing requirements to oversee the financial reporting and control structure of the Company;
- The Board of Directors is committed to providing timely communication to management related to issues affecting period end financial reporting; and
- Evaluate the cost-effectiveness of segregating duties in our financial reporting and other accounting processes and procedures.

***Changes in Internal Controls***

Other than described above in connection with our ongoing remediation efforts, there were no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during our quarter ended June 30, 2014, that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II - OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

On May 16, 2014 the Company received a Subpoena from the SEC requesting information from the Company. This investigation has been described by the SEC to the Company as a fact-finding inquiry. The Company has responded timely to all requests made by the SEC.

On June 23, 2014, the existing litigation that Company was involved with and previously disclosed was settled. See NOTE 8 — LITIGATION for more information.

### ITEM 1A. RISK FACTORS

Not applicable (the Company is a smaller reporting company).

### ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Unless otherwise indicated, the issuances were made in reliance on an exemption from registration under Section 4(a)(2) of the Securities Act of 1933, as amended (the "Securities Act"), as we reasonably believed that the recipients were sophisticated, that no general solicitations were involved and these transactions did not otherwise involve a public offering.

At the request of the Board of Directors, the Company entered into an agreement, effective April 12, 2014, with Mr. Joseph Cunningham to provide consulting services to the Company. Under this agreement, the Company agreed to provide Mr. Cunningham $4,000 and 20,000 shares of common stock per month in exchange for his professional services to the Company. Through June 30, 2014, the Company had issued 60,000 shares to Mr. Cunningham. These shares were valued at an average of $0.44 and the Company recognized $26,200 in expense for these shares during the three months ended June 30, 2014.

On June 20, 2014, the Board of Directors granted restricted 50,000 shares of stock to Mr. Michael Laub in exchange for $12,000 of liabilities owed to Mr. Laub for professional services previously provided to the Company. These shares were valued at $0.24 per share, based on the value of the liabilities owed to Mr. Laub.

On July 15, 2014, the Board of Directors approved the issuance and sale of up to 2,000,000 shares of common stock to accredited investors at a price of $0.30. The Company may raise up to $600,000 from this offering and does not anticipate incurring any expenses related to the offering. Through August 8, 2014, the Company has issued 750,000 shares under this offering and raised $225,000. The issuance and sale of the shares has not been registered under the Securities Act, and the Securities may not be offered or sold in the United States absent registration under or exemption from the Securities Act and any applicable state securities laws. The shares have been issued and sold in reliance upon an exemption from registration afforded by Section 4(a)(2) of the Securities Act and Rule 506(b) of Regulation D promulgated under the Securities Act, based on the following facts: each of the Investors has represented that it is an accredited investor as defined in Rule 501 promulgated under the Securities Act, that it is acquiring the shares for investment only and not with a view towards, or for resale in connection with, the public sale or distribution thereof in violation of applicable securities laws and that it has sufficient investment experience to evaluate the risks of the investment; the Company used no advertising or general solicitation in connection with the issuance and sale of the Securities to the Investors; and the shares will be issued as restricted securities.

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

On June 20, 2014, the Company's loan facilities with Platinum Capital Partners matured and the Company fell into default status. At June 30, 2014, the total due Platinum including all principal, capitalized interest and accrued fees was $1,473,345. See Item 1, Note 3 — NOTES PAYABLE for more information.

### ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

**ITEM 5. OTHER INFORMATION**

None.

**ITEM 6. EXHIBITS**

The following exhibits are filed as part of this Report:

| | |
|---|---|
| 3.1 | Amended and Restated bylaws (incorporated by reference to Exhibit 3.1 to the Form 8-K filed with the SEC on June 26, 2014). |
| 10.1 | 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). |
| 10.2 | 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). |
| 10.3 | 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). |
| 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 Quarterly Report on Form 10-Q for the quarter ended June 30, 2014, formatted in eXtensible Business Reporting Language (XBRL); (i) Balance Sheets; (ii) Statements of Operations; (iii) Statements of Shareholders' Equity; (iv) Statements of Cash Flow; and (v) Notes to the Unaudited Financial Statements* |

* Filed herewith.

**SIGNATURES**

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

**SCIO DIAMOND TECHNOLOGY CORPORATION.**

| | |
|---|---|
| Dated: August 19, 2014 | */s/ Gerald McGuire*<br>By: Gerald McGuire<br>Its: Chief Executive Officer |
| Dated: August 19, 2014 | */s/ Jonathan Pfohl*<br>By: Jonathan Pfohl<br>Its: Acting Chief Financial Officer |

**Exhibit 31.1**

**Rule 13a-14(a) Certification of the Principal Executive Officer**

I, Gerald McGuire, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Scio Diamond Technology Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a—15(e) and 15d—15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a—15(f) and 15d—15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 19, 2014

/s/ Gerald McGuire
By: Gerald McGuire
Its: Chief Executive Officer (Principal Executive Officer)

**Exhibit 31.2**

**Rule 13a-14(a) Certification of the Principal Financial Officer**

I, Jonathan M. Pfohl, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Scio Diamond Technology Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a—15(e) and 15d—15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a—15(f) and 15d—15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 19, 2014

/s/ Jonathan Pfohl
By: Jonathan Pfohl
Its: Acting Chief Financial Officer (Principal Financial Officer)

**Exhibit 32**

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Scio Diamond Technology Corporation (the “Company”) on Form 10-Q for the period ending June 30, 2014 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), each of the undersigned hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge and belief:

1. The report fully complies with complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: August 19, 2014

/s/ Gerald McGuire
By: Gerald McGuire
Its: Chief Executive Officer (Principal Executive Officer)

Date: August 19, 2014

/s/ Jonathan Pfohl
By: Jonathan Pfohl
Its: Acting Chief Financial Officer (Principal Financial Officer)