JAZZ PHARMACEUTICALS INC
Form DEF 14A
April 16, 2010

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

Filed by the Registrant x Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement

¨ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

x Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material Pursuant to § 240.14a-12

Jazz Pharmaceuticals, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box)

x No fee required.

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

1. Title of each class of securities to which transaction applies:

2. Aggregate number of securities to which transaction applies:

3. Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

4. Proposed maximum aggregate value of transaction:

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¨ Fee paid previously with preliminary materials.

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6. Amount Previously Paid:

7. Form, Schedule or Registration Statement No.:

8. Filing Party:

9. Date Filed:

JAZZ PHARMACEUTICALS, INC.

3180 Porter Drive

Palo Alto, California 94304

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

To be Held on June 7, 2010

Dear Stockholder:

You are cordially invited to attend the Annual Meeting of Stockholders of Jazz Pharmaceuticals, Inc., a Delaware corporation (the Company). The meeting will be held on Monday, June 7, 2010, at 10:00 a.m. local time at the Company s offices located at 3180 Porter Drive, Palo Alto, California 94304 for the following purposes:

1. To elect the four nominees for director named in the accompanying Proxy Statement to hold office until the 2013 Annual Meeting of Stockholders.

2. To ratify the selection by the Audit Committee of the Board of Directors of Ernst & Young LLP as the Company s independent registered public accounting firm for the fiscal year ending December 31, 2010.

3. To conduct any other business properly brought before the meeting.

These items of business are more fully described in the Proxy Statement accompanying this notice.

The record date for the Annual Meeting is April 14, 2010. Only stockholders of record at the close of business on that date may vote at the meeting or any adjournment thereof.

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Stockholders to Be Held on June 7, 2010 at 10:00 a.m. local time at the Company s offices located at 3180 Porter Drive, Palo Alto, California 94304.

The proxy statement and annual report to stockholders are available at https://materials.proxyvote.com/472147.

By Order of the Board of Directors

/s/ Carol A. Gamble

Carol A. Gamble

Senior Vice President, General Counsel

and Corporate Secretary

Palo Alto, California

April 16, 2010

You are cordially invited to attend the meeting in person. Whether or not you expect to attend the meeting, please vote as soon as possible. You may vote your shares over the telephone or the internet. If you received a proxy card or voting instruction card by mail, you may submit your proxy card or voting instruction card by completing, signing, dating and mailing your proxy card or voting instruction card in the envelope provided. Even if you have voted by proxy, you may still vote in person if you attend the meeting. Please note, however, that if your shares are held of record by a broker, bank or other nominee and you wish to vote at the meeting, you must obtain a proxy issued in your name from that record holder.

JAZZ PHARMACEUTICALS, INC.

3180 Porter Drive

Palo Alto, California 94304

PROXY STATEMENT

FOR THE 2010 ANNUAL MEETING OF STOCKHOLDERS

TO BE HELD ON MONDAY, JUNE 7, 2010 AT 10:00 A.M.

QUESTIONS AND ANSWERS ABOUT THIS PROXY MATERIAL AND VOTING

Why am I receiving these materials?

The Board of Directors of Jazz Pharmaceuticals, Inc. is soliciting your proxy to vote at the Jazz Pharmaceuticals 2010 Annual Meeting of Stockholders, or the Annual Meeting, including at any adjournments or postponements of the Annual Meeting. This proxy statement contains important information regarding the Annual Meeting, the proposals on which you are being asked to vote, information you may find useful in determining how to vote and voting procedures.

Why did I receive a Notice in the mail regarding the internet availability of proxy materials this year instead of a full set of proxy materials?

Jazz Pharmaceuticals is pleased to take advantage of U.S. Securities and Exchange Commission, or SEC, rules that allow companies to furnish their proxy materials over the internet. In this regard, most of our stockholders holding their shares in street name will not receive paper copies of our proxy materials (unless requested), and will instead be sent a Notice of Internet Availability of Proxy Materials, or Notice. All stockholders receiving a Notice will have the ability to access the proxy materials on the website referred to in the Notice and to request to receive a printed set of the proxy materials. Instructions on how to access the proxy materials over the internet or to request a printed set of the proxy materials may be found in the Notice.

Why did I receive a full set of proxy materials in the mail instead of a Notice regarding the internet availability of proxy materials?

Jazz Pharmaceuticals is providing stockholders of record who are holding shares in their own name and stockholders who have previously requested to receive paper copies of our proxy materials with paper copies of our proxy materials instead of a Notice. Jazz Pharmaceuticals intends to mail the full sets of proxy materials to the stockholders described in the previous sentence on or about April 19, 2010.

How do I attend the Annual Meeting?

You are invited to attend the Annual Meeting to vote on the proposals described in this proxy statement. The Annual Meeting will be held on Monday, June 7, 2010 at 10:00 a.m. local time at Jazz Pharmaceuticals offices located at 3180 Porter Drive, Palo Alto, California, 94304. Directions to the Annual Meeting may be found at https://materials.proxyvote.com/472147. Information on how to vote in person at the Annual Meeting is discussed below. However, you do not need to attend the Annual Meeting to vote your shares.

Who can vote at the Annual Meeting?

Only stockholders of record at the close of business on April 14, 2010 will be entitled to vote at the Annual Meeting. On this record date, there were 31,538,547 shares of common stock outstanding and entitled to vote.

Stockholders of Record: Shares Registered in Your Name

If on April 14, 2010 your shares were registered directly in your name with Jazz Pharmaceuticals transfer agent, Computershare Trust Company, then you are a stockholder of record. As a stockholder of record, you may vote in person at the Annual Meeting or vote by proxy. Whether or not you plan to attend the Annual Meeting, we urge you to vote by proxy over the telephone or on the internet as instructed below, or fill out and return a proxy card.

Beneficial Owner: Shares Registered in the Name of a Broker or Bank

If on April 14, 2010 your shares were held, not in your name, but rather in an account at a brokerage firm, bank, dealer, or other similar organization, then you are the beneficial owner of shares held in street name and a Notice is being sent to you by that organization. The organization holding your account is considered to be the stockholder of record for purposes of voting at the Annual Meeting. As a beneficial owner, you have the right to direct your broker or other agent regarding how to vote the shares in your account. You are also invited to attend the Annual Meeting. However, since you are not the stockholder of record, you may not vote your shares in person at the Annual Meeting unless you request and obtain a valid proxy from your broker or other agent.

What am I voting on?

There are two matters scheduled for a vote:

- Election of the four nominees named herein for director to hold office until the 2013 Annual Meeting of Stockholders; and

- Ratification of the selection by the Audit Committee of the Board of Directors of Ernst & Young LLP as Jazz Pharmaceuticals independent registered public accounting firm for the fiscal year ending December 31, 2010.

What if another matter is properly brought before the Annual Meeting?

The Board of Directors knows of no other matters that will be presented for consideration at the Annual Meeting. If any other matters are properly brought before the Annual Meeting, it is the intention of the persons named in the accompanying proxy to vote on those matters in accordance with their best judgment.

How do I vote?

You may either vote For all the nominees to the Board of Directors or you may Withhold your vote for all or any of the nominees. For the ratification of the Audit Committee s selection of Ernst & Young LLP as Jazz Pharmaceuticals independent registered public accounting firm for the fiscal year ending December 31, 2010, you may vote For or Against or abstain from voting. The procedures for voting are fairly simple:

Stockholders of Record: Shares Registered in Your Name

If you are a stockholder of record, you may vote in person at the Annual Meeting, you may vote by proxy using the enclosed proxy card, or you may vote by proxy over the telephone or on the internet as instructed below. Whether or not you plan to attend the Annual Meeting, we urge you to vote by proxy to ensure your vote is counted. You may still attend the Annual Meeting and vote in person even if you have already voted by proxy.

- To vote in person, come to the Annual Meeting and we will give you a ballot when you arrive.

- To vote using a proxy card, simply complete, sign and date the enclosed proxy card and return it promptly in the envelope provided. If you return your signed proxy card to us before the Annual Meeting, we will vote your shares as you direct.

To vote over the telephone, dial toll-free 1-800-652-VOTE (8683) within the U.S., U.S. territories and Canada using a touch-tone phone and follow the recorded instructions. You will be asked to provide the company number and control number from the enclosed proxy card. Your vote must be received by 1:00 a.m., Central Time, on June 7, 2010 to be counted.

To vote through the internet, go to www.investorvote.com/JAZZ to complete an electronic proxy card. You will be asked to provide the company number and control number from the enclosed proxy card. Your vote must be received by 1:00 a.m., Central Time, on June 7, 2010 to be counted.

Beneficial Owner: Shares Registered in the Name of Broker or Bank

If you are a beneficial owner of shares registered in the name of your broker, bank, or other agent, you should have received a Notice containing voting instructions from that organization rather than from Jazz Pharmaceuticals. Simply follow the voting instructions in the Notice to ensure that your vote is counted. Alternatively, you may vote by telephone or over the internet as instructed by your broker or bank. To vote in person at the Annual Meeting, you must obtain a valid proxy from your broker, bank, or other agent. Follow the voting instructions from your broker or bank included with the Notice, or contact your broker or bank to request a proxy form.

We provide internet proxy voting to allow you to vote your shares online, with procedures designed to ensure the authenticity and correctness of your proxy vote instructions. However, please be aware that you must bear any costs associated with your internet access, such as usage charges from internet access providers and telephone companies.

How many votes do I have?

On each matter to be voted upon, you have one vote for each share of common stock you own as of April 14, 2010.

What if I return a proxy card or otherwise vote but do not make specific choices?

If you return a signed and dated proxy card or otherwise vote without marking voting selections, your shares will be voted, as applicable, For the election of all four nominees named herein for director, and For the ratification of the Audit Committee s selection of Ernst & Young LLP as Jazz Pharmaceuticals independent registered public accounting firm for the fiscal year ending December 31, 2010. If any other matter is properly presented at the Annual Meeting, your proxy holder (one of the individuals named on your proxy card) will vote your shares using his or her best judgment.

Who is paying for this proxy solicitation?

We will pay for the entire cost of soliciting proxies. In addition to these proxy materials, our directors and employees may also solicit proxies in person, by telephone, or by other means of communication. Directors and employees will not be paid any additional compensation for soliciting proxies. We may also reimburse brokerage firms, banks and other agents for the cost of forwarding proxy materials to beneficial owners.

What does it mean if I receive more than one set of proxy materials or more than one Notice, or combination thereof?

If you receive more than one set of proxy materials or more than one Notice or a combination thereof, your shares may be registered in more than one name or are registered in different accounts. Please follow the voting instructions on **each** set of proxy materials or Notices to ensure that all of your shares are voted.

Can I change my vote after submitting my proxy?

Yes. You can revoke your proxy at any time before the final vote at the Annual Meeting. If you are the record holder of your shares, you may revoke your proxy in any one of the following ways:

You may submit another properly completed proxy card with a later date.

You may grant a subsequent proxy by telephone or through the internet.

You may send a timely written notice that you are revoking your proxy to Jazz Pharmaceuticals Secretary at 3180 Porter Drive, Palo Alto, California 94304.

You may attend the Annual Meeting and vote in person. Simply attending the Annual Meeting will not, by itself, revoke your proxy. Your most current proxy card or telephone or internet proxy is the one that is counted.

If your shares are held by your broker or bank as a nominee or agent, you should follow the instructions provided by your broker or bank.

When are stockholder proposals due for next year s annual meeting?

Stockholders of Jazz Pharmaceuticals may submit proposals on matters appropriate for stockholder action at meetings of its stockholders in accordance with Rule 14a-8 promulgated under the Securities Exchange Act of 1934, as amended, or Exchange Act. For such proposals to be included in Jazz Pharmaceuticals proxy materials relating to its 2011 Annual Meeting of Stockholders, all applicable requirements of Rule 14a-8 must be satisfied and, pursuant to Rule 14a-8, such proposals must be received by Jazz Pharmaceuticals no later than December 19, 2010. However, if Jazz Pharmaceuticals 2011 Annual Meeting of Stockholders is not held between May 8, 2011 and July 7, 2011, then the deadline will be a reasonable time prior to the time Jazz Pharmaceuticals begins to print and mail its proxy materials. Such proposals should be delivered to Jazz Pharmaceuticals, Inc., Attn: Secretary, 3180 Porter Drive, Palo Alto, California 94304.

Pursuant to Jazz Pharmaceuticals bylaws, if you wish to bring a proposal before the stockholders or nominate a director at the 2011 Annual Meeting of Stockholders, but you are not requesting that your proposal or nomination be included in next year s proxy materials, you must notify Jazz Pharmaceuticals Secretary, in writing, not later than the close of business on March 9, 2011 nor earlier than the close of business on February 7, 2011. However, if Jazz Pharmaceuticals 2011 Annual Meeting of Stockholders is not held between May 8, 2011 and July 7, 2011, to be timely, notice by the stockholder must be so received not earlier than the close of business on the 120th day prior to the 2011 Annual Meeting of Stockholders and not later than the close of business on the later of the ninetieth 90th day prior to the 2011 Annual Meeting of Stockholders or the tenth day following the day on which public announcement of the date of the 2011 Annual Meeting of Stockholders is first made.

Jazz Pharmaceuticals also advises you to review its bylaws, which contain additional requirements about advance notice of stockholder proposals and director nominations. Among other things, a stockholder s notice to Jazz Pharmaceuticals Secretary must set forth the information required by Jazz Pharmaceuticals bylaws with respect to each matter the stockholder proposes to bring before the 2011 Annual Meeting of Stockholders. The chairman of the 2011 Annual Meeting of Stockholders may determine, if the facts warrant, that a matter has not been properly brought before the meeting and, therefore, may not be considered at the meeting. In addition, the proxy solicited by the Board of Directors for the 2011 Annual Meeting of Stockholders will confer discretionary voting authority with respect to (i) any proposal presented by a stockholder at that meeting for which Jazz Pharmaceuticals has not been provided with timely notice and (ii) any proposal made in accordance with the Jazz Pharmaceuticals bylaws, if the 2011 proxy statement briefly describes the matter and how management s proxy holders intend to vote on it, if the stockholder does not comply with the requirements of Rule 14a-4(c)(2) promulgated under the Exchange Act.

How are votes counted?

Votes will be counted by the inspector of election appointed for the Annual Meeting, who will separately count For , Withhold and broker non-votes, and, with respect to proposals other than the election of the nominees named herein for director, For , Against, Abstain and broker non-votes. A broker non-vote occurs when a nominee, such as a broker or bank, holding shares for a beneficial owner does not vote on a particular proposal because the nominee does not have discretionary voting power with respect to that proposal and has not received instructions with respect to that proposal from the beneficial owner. In the event that a broker, bank, custodian, nominee or other record holder of our common stock indicates that it does not have discretionary authority to vote certain shares on a particular proposal, then those shares will be treated as broker non-votes with respect to that proposal. Accordingly, if you own shares through a nominee, such as a broker or bank, please be sure to instruct your nominee how to vote to ensure that your vote is counted on both of the proposals. Please note that beginning in January 2010, brokers or banks holding shares for a beneficial owner are no longer permitted to vote shares with respect to the election of directors without instructions from the beneficial owner. Therefore, if you are a beneficial owner of shares registered in the name of your broker or bank, please be advised that, if you do not timely provide instructions to your broker or bank, your shares will not be voted in connection with the election of directors. As noted above, please be sure to instruct your nominee how to vote to ensure that your vote is counted on **both** of the proposals.

Abstentions and broker non-votes will be treated as shares present for the purpose of determining the presence of a quorum for the transaction of business at the Annual Meeting. Abstentions will be counted towards the tabulation of shares present in person or represented by proxy and will have the same effect as an Against vote on Proposal 2. Broker non-votes have no effect and will not be counted towards the vote total for any proposal.

How many votes are needed to approve each proposal?

For the election of directors, the four nominees receiving the most For votes (among votes properly cast in person or by proxy) will be elected.

To be approved, Proposal 2, the ratification of the Audit Committee s selection of Ernst & Young LLP as Jazz Pharmaceuticals independent registered public accounting firm for the fiscal year ending December 31, 2010, must receive a For vote from at least a majority of the shares represented and voting either in person or by proxy at the Annual Meeting on Proposal 2.

What is the quorum requirement?

A quorum of stockholders is necessary to hold a valid meeting. A quorum will be present if stockholders holding at least a majority of the outstanding shares entitled to vote are present at the Annual Meeting in person or represented by proxy. On the record date, there were 31,538,547 shares outstanding and entitled to vote.

Your shares will be counted towards the quorum only if you submit a valid proxy (or one is submitted on your behalf by your broker, bank or other nominee) or if you vote in person at the Annual Meeting. Abstentions and broker non-votes will be treated as shares present for the purpose of determining the presence of a quorum. If there is no quorum, the chairman of the Annual Meeting or a majority of shares present at the Annual Meeting in person or represented by proxy may adjourn the Annual Meeting to another date.

How can I find out the results of the voting at the Annual Meeting?

Preliminary voting results will be announced at the Annual Meeting. Final voting results are expected to be published in a current report on Form 8-K filed by Jazz Pharmaceuticals with the SEC on or before the fourth business day following the Annual Meeting. If final voting results are not available to us in time to file a Form 8-K within four business days following the Annual Meeting, we intend to file a Form 8-K to publish preliminary results and, within four business days after the final results are known to us, file an additional Form 8-K to publish the final results.

What proxy materials are available on the internet?

Our letter to stockholders, proxy statement, and annual report to stockholders are available at https://materials.proxyvote.com/472147.

PROPOSAL 1

ELECTION OF DIRECTORS

Jazz Pharmaceuticals Board of Directors is divided into three classes and each class has a three-year term. Vacancies on the Board of Directors may be filled only by the affirmative vote of a majority of the remaining directors, even if the remaining directors constitute less than a quorum of the Board of Directors. A director elected by the Board to fill a vacancy in a class will serve for the remainder of the full term of that class and until the director s successor is elected and qualified. This applies to vacancies created by an increase in the authorized number of directors.

Jazz Pharmaceuticals Board of Directors presently has 11 members and there are no vacancies. There are four directors in Class III, the class whose term of office expires at the Annual Meeting. Each of the nominees listed below was elected to the Board prior to Jazz Pharmaceuticals initial public offering in June 2007. Each of the nominees listed below was recommended for reelection to the Board at the Annual Meeting by the Nominating and Corporate Governance Committee of the Board of Directors. If elected at the Annual Meeting, each of these nominees would serve until the 2013 Annual Meeting of Stockholders and until his successor is elected and has qualified, or until his death, resignation or removal. It is Jazz Pharmaceuticals policy to invite directors and nominees for director to attend annual meetings of stockholders. One of our non-employee directors attended the 2009 Annual Meeting of Stockholders.

Directors are elected by a plurality of the votes of the holders of shares present in person or represented by proxy and entitled to vote on the election of directors. The four nominees receiving the highest number of affirmative votes will be elected. Shares represented by executed proxies will be voted, if authority to do so is not withheld, for the election of the four nominees named below. If any nominee becomes unavailable for election as a result of an unexpected occurrence, your shares will be voted for the election of a substitute nominee proposed by the Nominating and Corporate Governance Committee of the Board. Each person nominated for election has agreed to serve if elected. Jazz Pharmaceuticals management has no reason to believe that any nominee will be unable to serve.

The following includes a brief biography of each nominee and each director whose term of office will continue after the Annual Meeting, including their respective ages as of April 14, 2010. Each biography includes information regarding the specific experience, qualifications, attributes or skills that led the Nominating and Corporate Governance Committee and the Board to determine that the applicable nominee or continuing director should serve as a member of the Board as of the date of this proxy statement.

Class III Director Nominees for Election for a Three-Year Term Expiring at the 2013 Annual Meeting

Bruce C. Cozadd, age 46, is a co-founder and has served as our Chairman and Chief Executive Officer since April 2009. From 2003 until 2009, he served as our Executive Chairman. From 1991 until 2001, he held various positions with ALZA Corporation, a pharmaceutical company now owned by Johnson & Johnson, most recently as its Executive Vice President and Chief Operating Officer, with responsibility for research and development, manufacturing and sales and marketing. Previously at ALZA Corporation he held the roles of Chief Financial Officer and Vice President, Corporate Planning and Analysis. He serves on the boards of Cerus Corporation, a biopharmaceutical company, Threshold Pharmaceuticals, a biotechnology company, and The Nueva School and Stanford Hospital and Clinics, both non-profit organizations. In the past five years he also served as a director of Genencor International. He received a B.S. from Yale University and an M.B.A. from the Stanford Graduate School of Business. Mr. Cozadd brings to the Board significant experience and expertise in the management, operations and strategic planning of pharmaceuticals companies, in financing, fund-raising and capital markets, and as a director of public and private companies and nonprofit organizations. As our Chief Executive Officer, he brings to the Board a detailed knowledge of all of our activities.

Michael W. Michelson, age 59, has served as a member of our Board of Directors since 2004. Since 1981, he has been employed by Kohlberg Kravis Roberts & Co. L.P., or KKR, where he is a Member and also serves on KKR s Investment and Management Committees. Funds affiliated with KKR are our company s largest stockholder. Mr. Michelson serves on the boards of HCA Inc., a healthcare services company and Biomet, Inc., a healthcare manufacturing company. In the past five years he also served as a director of Accellent Inc. and Alliance Imaging. He received an A.B. from Harvard College and a J.D. from Harvard Law School. As a senior Member of KKR, Mr. Michelson brings to the Board many years of finance and financing expertise, and a breadth of expertise with many different types of companies.

Kenneth W. O Keefe, age 43, has served as a member of our Board of Directors since 2004. Since 1997, he has been Managing Director of Beecken Petty O Keefe & Company, a private equity firm, which he co-founded; and funds affiliated with his firm are among our largest stockholders. He serves on the boards of several privately-held healthcare companies. He received a B.A. from Northwestern University and an M.B.A. from the University of Chicago. As a member of the private equity firm Beecken Petty O Keefe, Mr. O Keefe brings to the Board expertise in financial matters and in analyzing and evaluating financial statements, as well as experience managing private equity investments. He serves or has served on the audit committee of several companies in the health care industry, including as Chair of our Audit Committee.

Alan M. Sebulsky, age 51, has served as a member of our Board of Directors since 2004. Since 2003, he has served as a Managing Partner of Apothecary Capital LLC, an investment advisory firm. From 2002 to 2003, he was an independent investor. From 1994 to 2002, he held various positions, most recently as a Managing Director, at Lincoln Capital Management, a private investment management firm, where he was responsible for investments in the health care industry. He received a B.B.A. and an M.S. from the University of Wisconsin, Madison. In the past five years he served as a director of Arrow International. Mr. Sebulsky brings to the Board the perspectives of a former Wall Street healthcare stock analyst and someone who actively follows the health care industry and manages a dedicated healthcare investment fund. He also brings the perspective of an individual who is not affiliated with a firm that has a substantial ownership position in our company.

The Board of Directors recommends

a vote For each named nominee.

Class I Directors Continuing in Office Until the 2011 Annual Meeting

Bryan C. Cressey, age 60, has served as a member of our Board of Directors since 2006. Since 2007 he has been a Partner of Cressey and Company, LLC, and since 1998, he has been a Partner of Thoma Cressey Bravo, Inc., both private equity firms of which he is a founder. Funds affiliated with the Thoma Cressey Bravo firm are among our largest stockholders. Mr. Cressey serves on the boards of Belden, Inc., a networking cable technology company, Select Medical Corporation, a healthcare services company, and several privately-held healthcare services companies. He received a B.A. from the University of Washington, a J.D. from Harvard Law School and an M.B.A. from Harvard Business School. As the founder of the health care focused private equity firm Cressey and Company, LLC and board member of several health care companies, Mr. Cressey brings to the Board many years of experience and expertise as an investor in and advisor to companies in the health care sector.

Patrick G. Enright, age 48, has served as a member of our Board of Directors since July 2009, when funds affiliated with his firm made a significant equity investment in our company. Since 2006, Mr. Enright has served as a Managing Member of Longitude Capital, a venture capital firm, of which he is a founder. From 2002 through 2006, Mr. Enright was a Managing Director of Pequot Ventures where he co-led the life sciences investment practice. Mr. Enright also has significant life sciences operations experience, beginning his career more than 25 years ago at Sandoz (now Novartis). He currently serves on the boards of Corcept Therapeutics Incorporated, a pharmaceutical company, and several privately-held companies. In the past five years he also served as a director of Threshold Pharmaceuticals, Sequenom Inc., and Valentis, Inc. Mr. Enright received a B.S. from Stanford University and an M.B.A. from the Wharton School at the University of Pennsylvania. As a

venture capital investor focused on life science companies and someone who has worked in the pharmaceutical industry, Mr. Enright brings to the Board both operating experience and financial expertise in the life sciences industry.

James B. Tananbaum, M.D., age 46, has served as a member of our Board of Directors since 2003. Since 2000, Dr. Tananbaum has been a Managing Director of Prospect Venture Partners, a venture capital firm he co-founded. He serves on the boards of Infinity Pharmaceuticals, Inc., and several privately-held companies. In the past five years he also served as a director of Critical Therapeutics and Vanda Pharmaceuticals. Dr. Tananbaum was the founder of GelTex, Inc. and Theravance, Inc. He received a B.S.E.E. from Yale University, and an M.D. and an M.B.A. from Harvard University. Dr. Tananbaum brings to the Board his scientific, financial and operational expertise gained as a physician, founder of two life science companies and venture capital investor focused on life science companies. As a venture capitalist focused on life science companies who sits on numerous boards, Dr. Tananbaum also provides financial and operational expertise regarding our industry.

Nathaniel M. Zilkha, age 34, has served as a member of our Board of Directors since October 2007. Since 2007, he has been employed by KKR, where he is the Global Co-Head of Special Situations Investing at KKR, which includes the firm s activities in public and private distressed and structured investments. Previously he was a member of KKR s North American Private Equity team. Funds affiliated with KKR are our company s largest stockholder. Prior to joining KKR, Mr. Zilkha spent eight years in the Principal Investment Area of Goldman Sachs, where he invested in private equity and principal debt transactions. Mr. Zilkha graduated cum laude from Princeton University. As an employee of KKR, Mr. Zilkha brings to the Board a particular expertise in working with distressed companies and those in need of additional financing. His financial expertise and experience is of particular use to the Board.

Class II Directors Continuing in Office Until the 2012 Annual Meeting

Samuel D. Colella, age 70, has served as a member of our Board of Directors since 2003. Since 1999, he has served as Managing Director of Versant Ventures, a venture capital firm, which he co-founded. He serves on the boards of Genomic Health Inc., a molecular diagnostics company, Alexza Pharmaceuticals, a drug delivery company, and several privately-held companies. In the past five years he also served as a director of Solta Medical and Symyx, Inc. Mr. Colella received a B.S. from the University of Pittsburgh and an M.B.A. from the Stanford Graduate School of Business. Mr. Colella brings to the Board many years of experience investing in, and serving on the boards of, public and private life sciences companies. As an early investor in Jazz Pharmaceuticals, he has an intimate knowledge of the business and strategy of our company.

James C. Momtazee, age 38, has served as a member of our Board of Directors since 2004. Since 1996, he has been employed by KKR, where he is a Member. Funds affiliated with KKR are our company s largest stockholder. He serves on the boards of HCA Inc., a healthcare services company, and Accellent Inc., a manufacturing and engineering services company. In the past five years he also served as a director of Accuride Corp. and Alliance Imaging. He received an A.B. from Stanford University and an M.B.A. from the Stanford Graduate School of Business. As a Member of KKR and a board member of other health care companies, Mr. Momtazee brings to the Board significant expertise in financing and financial matters, including expertise and experience in structuring complex financial transactions and a broad understanding of the market related to those transactions, which is of particular use to the Board.

Robert M. Myers, age 46, is a co-founder and was appointed as our President in March 2007 and has served as a member of our Board of Directors since April 2009. From 2003 until 2007, he served as our Executive Vice President and Chief Business Officer. From 2002 until 2003, he served as Executive Vice President, Pharmaceuticals at Exelixis, a biotechnology company. He previously held various positions with ALZA Corporation from 1992 to 2001, most recently as its Senior Vice President, Commercial Development. In this role, he was responsible for ALZA Corporation s corporate development, mergers and acquisitions, new product

planning and corporate planning. He received B.S. and M.S. degrees from Stanford University and an M.B.A. from the Stanford Graduate School of Business. As President of our company, Mr. Myers is responsible for, and has detailed knowledge and expertise in, the sales, marketing and development of our products and product candidates. He also brings to the Board many years of pharmaceutical company transactional experience, which has been very important to the success of our company in our partnering and financing arrangements.

There are no family relationships among any of our executive officers and directors.

CORPORATE GOVERNANCE AND BOARD MATTERS

Independence of Jazz Pharmaceuticals Board of Directors

As required under the NASDAQ Stock Market LLC, or NASDAQ, listing standards, a majority of the members of a listed company s board of directors must qualify as independent, as affirmatively determined by the board of directors. The Board of Directors consults with internal counsel to ensure that the Board s determinations are consistent with relevant securities and other laws and regulations regarding the definition of independent, including those set forth in pertinent listing standards of NASDAQ, as in effect time to time. Consistent with these considerations, after review of all relevant transactions or relationships between each director, or any of his or her family members, and Jazz Pharmaceuticals, its senior management and its independent registered public accounting firm, the Board has affirmatively determined that all of our directors are independent directors within the meaning of the applicable NASDAQ listing standards, except that Mr. Cozadd, our Chairman and Chief Executive Officer, and Mr. Myers, our President, are not independent directors by virtue of their employment with Jazz Pharmaceuticals. The Board also determined that Dr. Saks, our former Chief Executive Officer, was not an independent director by virtue of his former employment with Jazz Pharmaceuticals. In addition, the Board determined that each member of our Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee during 2009 was an independent director within the meaning of the applicable NASDAQ listing standards and SEC rules.

Board Leadership Structure and Risk Oversight

Bruce Cozadd has served as our Chairman since the founding of Jazz Pharmaceuticals in 2003. He became our Chief Executive Officer, in addition to his role as Chairman, upon the departure of Dr. Saks, our former Chief Executive Officer who was also a founder, in April 2009. We believe that a combined Chairman/Chief Executive Officer role helps provide strong, unified leadership for our management team and optimizes communication with our Board of Directors. Mr. Cozadd has a history, throughout the existence of our company, of communicating on a regular basis with the independent members of our Board of Directors.

The Board believes that the Chief Executive Officer is best suited to serve as Chairman of our company because he is the member of the Board who is most familiar with our business as a whole, and the most capable of identifying and bringing to the attention of the full Board the strategic priorities and key issues facing Jazz Pharmaceuticals. As a person who has spent many years in executive management, and many years serving as a director of public companies as well as private companies and non-profit organizations, he brings both the directorial and operational perspectives to the combined position.

We are a small company, with constrained financial resources, and our Board of Directors is actively involved in our key business decisions. We believe that having a single leader for our company is good for our business, efficiently and effectively promotes the strategic direction and development of our company, provides the most efficient form of communication with our Board and promotes the active participation of our independent Board members on a regular basis. We therefore believe that a combined Chairman/Chief Executive Officer position is currently the best governance model for our company.

Our Board of Directors is comprised of eleven directors, of whom nine are independent. Individuals affiliated with our earliest and longest term stockholders, and of our largest stockholder, are members of our Board of Directors, providing continuity, a long-term understanding of our business, and active involvement with our management team as our company has matured. Our independent Board members meet without management after each regularly scheduled Board meeting, and also conduct more informal meetings and discussions among themselves between meetings. When they do talk without management participation, one of them agrees to, and does, update management on the discussions. Depending on the issue, one or another of them will take the lead in communicating with management. While there is no formal lead independent director, several directors have played this role on different issues, providing management with insight and expertise.

The Board of Directors has three standing committees an Audit Committee, a Compensation Committee, and a Nominating and Corporate Governance Committee. Each of these committees is comprised solely of independent directors, and each committee has a separate chair. Our Audit Committee is responsible for reviewing and reporting to the Board on the company s risk management, and receives reports from our General Counsel and our Chief Regulatory and Compliance Officer at each regularly scheduled Audit Committee meeting. Our full Board receives regular reports concerning these reviews from the Audit Committee at Board meetings, and also receives reports concerning material risks and concerns from our General Counsel and our Chief Regulatory and Compliance Officer at Board meetings if there are material matters to be discussed, or if there are significant updates on outstanding matters. Our Compensation Committee approves all compensation plans for Jazz Pharmaceuticals, and ensures that there are appropriate incentives for meeting both short-term and long-term objectives and increasing stockholder value over time. Our Nominating and Corporate Governance Committee reviews the qualifications of all new directors and recommends to the full Board whether the Board should elect or nominate them. Finally, our full Board of Directors approves all of our material transactions, with full discussion and debate, and a review of the risks and rewards of the proposed transaction.

We believe that our directors provide effective oversight of risk management, especially through the work of the Audit Committee, the ongoing dialogue between the full board and our Chairman/Chief Executive Officer, and the active participation in important company matters by our independent directors.

Meetings of the Board of Directors

The Board of Directors met 26 times during the fiscal 2009. All directors attended at least 75% of the aggregate number of meetings of the Board and of the committees on which they served, held during the portion of the last fiscal year for which they were directors or committee members, respectively.

As required under applicable NASDAQ listing standards, in fiscal 2009, Jazz Pharmaceuticals independent directors generally met at regularly scheduled Board meeting, in regularly scheduled executive sessions at which only independent directors were present.

Committees of the Board

Our Board has three standing committees: an Audit Committee, a Compensation Committee, and a Nominating and Corporate Governance Committee. The following table provides membership and meeting information for 2009 for each of the standing Board committees:

Name	Audit	Compensation	Nominating and Corporate Governance
Samuel D. Colella		X	X
Bryan C. Cressey	X		
Patrick G. Enright[(1)]	X		
Michael W. Michelson		X*	
James C. Momtazee			X*
Kenneth W. O Keefe	X*		
Alan M. Sebulsky	X		
James B. Tananbaum, M.D.		X	
Total meetings in fiscal 2009	8	4	1

(1) Joined the Audit Committee on September 30, 2009.

* Committee Chairperson

Below is a description of each standing committee of our Board of Directors. Our Board of Directors has determined that each member of each committee meets the applicable NASDAQ rules and regulations regarding independence and that each member is free of any relationship that would impair his individual exercise of independent judgment with regard to Jazz Pharmaceuticals.

Audit Committee

The Audit Committee of the Board of Directors oversees Jazz Pharmaceuticals corporate accounting and financial reporting processes and audits of its financial statements. For this purpose, the Audit Committee performs several functions. In particular, the Audit Committee:

- evaluates the performance of and assesses the qualifications of the independent auditors;
- determines and approves the engagement of the independent auditors;
- determines whether to retain or terminate the existing independent auditors or to appoint and engage new independent auditors;
- determines and approves the engagement of the independent auditors to perform any proposed permissible non-audit services;
- monitors the rotation of partners of the independent auditors on Jazz Pharmaceuticals audit engagement team as required by applicable laws and rules;
- reviews, provides oversight of and approves or rejects transactions between Jazz Pharmaceuticals and any related persons;

confers with management and the independent auditors regarding the effectiveness of our internal control over financial reporting;

is responsible for receiving and reviewing reports concerning risk management, and reporting to the Board of Directors with respect thereto;

establishes procedures, as required under applicable laws and rules, for the receipt, retention and treatment of complaints received by Jazz Pharmaceuticals regarding accounting, internal accounting controls or auditing matters and the confidential and anonymous submission by employees of concerns regarding questionable accounting or auditing matters; and

meets to review the company s annual audited financial statements and quarterly financial statements and quarterly earnings press releases with management and the independent auditor, including reviewing Jazz Pharmaceuticals disclosures under Management s Discussion and Analysis of Financial Condition and Results of Operations included in our annual and quarterly reports filed with the SEC.

The Audit Committee is currently composed of four directors (Messrs. Cressey, Enright, O Keefe and Sebulsky). Mr. Enright joined the Audit Committee in September 2009. Our Board of Directors has determined that Messrs. Cressey, Enright, O Keefe and Sebulsky meet the independence requirements of Rule 10A-3 of the Exchange Act and NASDAQ listing standards with respect to audit committee members. Our Board of Directors has also determined that Mr. O Keefe qualifies as an audit committee financial expert within the meaning of SEC regulations. In making this determination, our Board of Directors considered the overall knowledge, experience and familiarity of Mr. O Keefe with accounting matters, in analyzing and evaluating financial statements, and in managing private equity investments. Mr. O Keefe serves as chairperson of the Audit Committee.

The Audit Committee met eight times during 2009. The Audit Committee is governed by a written charter approved by our Board of Directors, which charter reflects the applicable standards and requirements adopted by the SEC and the NASDAQ. A copy of the charter can be found on our website, *www.jazzpharmaceuticals.com*, in the section titled Company under the subsection titled Board Committees.

Report of the Audit Committee of the Board of Directors[(1)]

The Audit Committee has reviewed and discussed the audited financial statements for the fiscal year ended December 31, 2009 with management of Jazz Pharmaceuticals. The Audit Committee has discussed with the independent registered public accounting firm the matters required to be discussed by Statement on Auditing Standards No. 61, as amended (AICPA, *Professional Standards*, Vol. 1. AU section 380), as adopted by the Public Company Accounting Oversight Board, or the PCAOB, in Rule 3200T. The Audit Committee has also received the written disclosures and the letter from the independent registered public accounting firm required by applicable requirements of the PCAOB regarding the independent accountants communications with the audit committee concerning independence, and has discussed with the independent registered public accounting firm that firm s independence. Based on the foregoing, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in Jazz Pharmaceuticals Annual Report on Form 10-K for the fiscal year ended December 31, 2009.

Respectfully submitted,

The Audit Committee of the Board of Directors

Mr. Kenneth W. O Keefe (Chairperson)

Mr. Bryan C. Cressey

Mr. Patrick G. Enright

Mr. Alan M. Sebulsky

[(1)] The material in this report is not soliciting material , is not deemed filed with the SEC and is not to be incorporated by reference in any filing of Jazz Pharmaceuticals under the Securities Act of 1933, as amended, or the Exchange Act, whether made before or after the date hereof and irrespective of any general incorporation language in any such filing.

Compensation Committee

The Compensation Committee is composed of three directors: Messrs. Colella and Michelson and Dr. Tananbaum. Mr. Michelson serves as the chairperson of the Compensation Committee. All members of the Compensation Committee are independent (as independence is currently defined in Rule 5605(a)(2) of the NASDAQ listing standards). The Compensation Committee held four regular meetings during 2009 and acted by unanimous written consent two times during the year. The Compensation Committee also had a number of informal discussions and consultations with one another and with Mr. Cozadd, our Chairman and Chief Executive Officer. The Compensation Committee is governed by a written charter that is available on Jazz Pharmaceuticals website at *www.jazzpharmaceuticals.com* in the section titled Company under the subsection titled Board Committees.

The Compensation Committee reviews and oversees our compensation policies, plans and programs, and reviews and determines the compensation to be paid to our executive officers and other senior management. Specific responsibilities of our Compensation Committee include:

- recommending to our Board of Directors for approval the compensation and other terms of employment of our Chairman and Chief Executive Officer;
- determining the compensation and other terms of employment of our other executive officers and senior management;
- reviewing and approving the compensation of our executive officers and other senior management against objectives and goals approved by the Board of Directors;
- evaluating and recommending to our Board of Directors for approval the compensation plans and programs advisable for us, and evaluating and recommending the modification or termination of existing plans and programs;
- monitoring our compensation practices and policies to ensure that such practices and policies do not present material risks to our company; and
- reviewing and approving the terms of any employment agreements, severance arrangements, change of control protections and any other compensatory arrangements for our executive officers and other senior management.

Compensation Committee Processes and Procedures

Typically, the Compensation Committee meets four to six times per year, generally on the same day as regularly scheduled Board meetings and with greater frequency if necessary. The agenda for each meeting is usually developed by our Vice President, Human Resources, our General Counsel and our Chairman and Chief Executive Officer, and reviewed with the Chairman of the Compensation Committee. However, from time to time, various members of management and other employees as well as outside advisors or consultants may be invited by the Compensation Committee to make presentations, provide financial or other background information or advice or otherwise participate in Compensation Committee meetings. Mr. Cozadd may not participate in, or be present during, any deliberations or determinations of the Compensation Committee regarding his compensation. The charter of the Compensation Committee grants the Compensation Committee full access to all books, records, facilities and personnel of Jazz Pharmaceuticals, as well as authority to obtain, at the expense of Jazz Pharmaceuticals, advice and assistance from internal and external legal, accounting or other advisors and consultants and other external resources that the Compensation Committee considers necessary or appropriate in the performance of its duties. In particular, the Compensation Committee has the authority to retain compensation consultants to assist in its evaluation of executive compensation (or we may do so on behalf of the Compensation Committee at its request), including the authority to approve the consultant s reasonable fees and other retention terms.

Under its charter, the Compensation Committee may form and delegate authority to subcommittees as appropriate, including, but not limited to, a subcommittee composed of one or more members of the Board, to

grant stock awards under our equity compensation plans. In 2009, the Compensation Committee delegated authority to Mr. Cozadd and Dr. Saks, our former Chief Executive Officer (until his resignation), and in September 2009, to Mr. Myers, our President (while still also retaining authority for itself and for the Board), to approve discretionary options grants under our 2007 Equity Incentive Plan, or the 2007 Plan, to newly hired employees who are below the Vice President level, to employees newly promoted to below the Vice President level, and to our specialty sales consultants as part of a sales incentive plan. The purpose of this authority is to enhance the flexibility of option administration within Jazz Pharmaceuticals and to facilitate the timely grant of options to new non-officer employees of Jazz Pharmaceuticals within the specified guidelines approved by the Compensation Committee. No employee may be granted a stock option by Mr. Cozadd or Mr. Myers for more than the number of shares of our common stock that is determined pursuant to the guidelines and policies established by the Compensation Committee from time to time. During 2009, Mr. Cozadd exercised his authority to grant options to purchase an aggregate of 199,650 shares to non-officer employees. As part of its oversight function, the Compensation Committee reviews, at each regularly-scheduled meeting of the Compensation Committee, the list of all grants approved by Mr. Cozadd and Mr. Myers since the last regularly scheduled meeting.

As described under Executive Compensation Narrative Disclosure to Summary Compensation Table , in 2007 Compensia, Inc., a compensation consulting firm, provided a competitive compensation assessment with respect to our executive officers, which consisted of providing the Compensation Committee with certain benchmarking material to assist the Compensation Committee in determining executive compensation levels, and in 2008, Compensia provided the Compensation Committee with an update of certain of the benchmarking material provided in 2007. As part of its engagement, Compensia was requested by the Compensation Committee to perform analyses of competitive compensation levels for a group of comparative companies chosen by the Compensation Committee, as well as to provide the Compensation Committee with additional survey data collected from the Radford Biotech Executive Survey. For 2009, as described under Executive Compensation Narrative Disclosure to Summary Compensation Table , for 2009 there were no salary increases for executives, and our executives took temporary voluntary pay reductions; no compensation consultants were involved in these decisions. In late 2009, the Compensation Committee engaged Radford to provide advice to the Compensation Committee in 2010 with respect to 2010 executive compensation.

Historically, the Compensation Committee has made most significant adjustments to annual compensation, determined bonus and equity awards at one or more meetings held during the first quarter of the year. However, the Compensation Committee also considers matters related to our progress in achieving our corporate objectives under our annual Bonus Plan for the year, as well as high-level strategic issues, such as the efficacy of our compensation strategy, potential modifications to that strategy and new trends, plans or approaches to compensation, at various meetings throughout the year. For executives other than our Chief Executive Officer (currently Mr. Cozadd), the Compensation Committee solicits and considers evaluations and recommendations submitted to the Compensation Committee by our Chief Executive Officer. While our Chief Executive Officer discusses his recommendations with the Compensation Committee, he does not participate in determining his own compensation. In making his recommendations, our Chief Executive Officer receives input from our Human Resources department and has access to various third party compensation surveys and compensation data. Our General Counsel also participates in Compensation Committee meetings, but does not participate in any discussions of executive officer compensation. For all executives, as part of its deliberations, the Compensation Committee may review and consider, as appropriate, materials such as financial reports and projections, our progress against our corporate performance objectives, operational data, tax and accounting information, executive and stock ownership information, company stock performance data, analyses of historical executive compensation levels and current corporate compensation levels, and recommendations of any compensation consultants engaged by the Compensation Committee (or by us on behalf of the Compensation Committee), including analyses of executive compensation paid at other companies identified by any such consultants.

With respect to director compensation matters, our Board of Directors, upon the recommendation of the Nominating and Corporate Governance Committee, determines and sets non-employee director compensation.

Compensation arrangements for our non-employee directors for 2009 are described under Director Compensation. Our current level of director compensation was set in 2007 and has not been reviewed since that time. In 2010 we intend to review our director compensation level, at the request of the Nominating and Corporate Governance Committee, using data for comparable companies, including our peer group of pharmaceutical companies used in connection with our executive compensation review. We expect that the Nominating and Corporate Governance Committee will use this information in making its recommendations to the Board of Directors about whether and to what extent director compensation should be modified. The Nominating and Corporate Governance Committee and the Board of Directors believe that: director compensation should fairly compensate directors for work required in a company of our size and activities; the compensation should align directors interests with the long-term interest of stockholders; and the structure of the compensation should be simple, transparent and easy to understand. For information concerning the compensation of our non-employee directors, see Director Compensation below.

Nominating and Corporate Governance Committee

The Nominating and Corporate Governance Committee of our Board of Directors is responsible for, among other things:

- overseeing all aspects of our corporate governance functions on behalf of the Board;
- making recommendations to the Board regarding corporate governance issues;
- identifying, reviewing, evaluating and recommending for selection candidates for membership to our Board of Directors;
- reviewing, evaluating and considering the recommendation for nomination of incumbent members of our Board of Directors for reelection to our Board of Directors and monitoring the size of our Board of Directors;
- evaluating nominations by stockholders of candidates for election to our Board of Directors;
- reviewing, discussing and reporting to our Board of Directors an assessment of our Board s performance;
- recommending compensation paid to non-employee directors; and
- determining adherence to our Code of Conduct of our policy statements.

The Nominating and Corporate Governance Committee believes that candidates for director should have certain minimum qualifications, including the ability to read and understand basic financial statements, being over 21 years of age and having the highest personal integrity and ethics. The Nominating and Corporate Governance Committee also intends to consider such factors as possessing relevant expertise upon which to be able to offer advice and guidance to management, having sufficient time to devote to the affairs of Jazz Pharmaceuticals, demonstrated excellence in his or her field, having the ability to exercise sound business judgment and having the commitment to rigorously represent the long-term interests of Jazz Pharmaceuticals stockholders. However, the Nominating and Corporate Governance Committee retains the right to modify these qualifications from time to time. Members of the Nominating and Corporate Governance Committee obtain recommendations for potential directors from their and other Board members contacts in our industry, and may from time to time engage a search firm to assist in identifying potential directors.

Candidates for director nominees are reviewed in the context of the current composition of the Board, the operating requirements of Jazz Pharmaceuticals and the long-term interests of stockholders. While we do not have a formal policy on Board diversity, the Nominating and Corporate Governance Committee takes into account a broad range of diversity considerations when assessing director candidates, including individual backgrounds and skill sets, professional experience and other factors that contribute to our Board having an appropriate range of expertise, talents, experiences and viewpoints, and considers those diversity considerations, in view of the needs of the Board

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as a whole, when making decisions on director nominations. In the case of incumbent directors whose terms of office are set to expire, the Nominating and Corporate Governance Committee reviews these directors overall service to Jazz Pharmaceuticals during their terms, including the number of meetings attended, level of participation, quality of performance and any other relationships and transactions that might impair the directors independence. In the case of new director candidates, the Nominating and Corporate Governance Committee also determines whether the nominee is independent for NASDAQ purposes, which determination is based upon applicable NASDAQ listing standards, applicable SEC rules and regulations and the advice of counsel, if necessary. The Nominating and Corporate Governance Committee may use its network of contacts to compile a list of potential candidates, but may also engage, if it deems appropriate, a professional search firm. The Nominating and Corporate Governance Committee conducts any appropriate and necessary inquiries into the backgrounds and qualifications of possible candidates after considering the function and needs of the Board. The Nominating and Corporate Governance Committee meets to discuss and consider the candidates qualifications and then selects a nominee for recommendation to the Board.

The Nominating and Corporate Governance Committee, to date, has not adopted a formal policy with regard to the consideration of director candidates recommended by stockholders and will consider director candidates recommended by stockholders on a case-by-case basis, as appropriate. Stockholders wishing to recommend individuals for consideration by the Nominating and Corporate Governance Committee may do so by delivering a written recommendation to Jazz Pharmaceuticals Secretary at 3180 Porter Drive, Palo Alto, California 94304 and providing the candidate s name, biographical data and qualifications and a document indicating the candidate s willingness to serve if elected. The Nominating and Corporate Governance Committee does not intend to alter the manner in which it evaluates candidates based on whether the candidate was recommended by a stockholder or not. To date, the Nominating and Corporate Governance Committee has not received any such nominations nor has it rejected a director nominee from a stockholder or stockholders holding more than 5% of our voting stock.

The Nominating and Corporate Governance Committee is composed of two directors: Messrs. Colella and Momtazee. Mr. Momtazee is Chairman of the Nominating and Corporate Governance Committee. Both members of the Nominating and Corporate Governance Committee are independent (as independence is currently defined in Rule 5605(a)(2) of the NASDAQ listing standards). The Nominating and Corporate Governance Committee met one time during 2009. The Nominating and Corporate Governance Committee is governed by a written charter that is available on Jazz Pharmaceuticals website at *www.jazzpharmaceuticals.com* in the section titled Company under the subsection titled Board Committees.

Stockholder Communications with the Board of Directors

To date, we have not adopted a formal process related to stockholder communications with the Board. Nevertheless, every effort has been made to ensure that the views of stockholders are heard by the Board or individual directors, as applicable, and that appropriate responses are provided to stockholders in a timely manner. We believe that our responsiveness to stockholder communications to the Board has been excellent. As a result, the Board believes that there has not been a need to adopt a formal process for stockholder communications with the Board.

Code of Conduct

The Jazz Pharmaceuticals Code of Conduct applies to all officers, directors and employees, including our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. The Code of Conduct is available on our website at *www.jazzpharmaceuticals.com* under the section entitled Company at Corporate Responsibility. Stockholders may request a free copy of the Code of Conduct by submitting a written request to Jazz Pharmaceuticals, Inc., Attention: Investor Relations, 3180 Porter Drive, Palo Alto, California 94304. If we make any substantive amendments to the Code of Conduct or grant any waiver from a provision of the Code of Conduct to any executive officer or director, we will promptly disclose the nature of the amendment or waiver on our website.

PROPOSAL 2

RATIFICATION OF SELECTION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee of the Board of Directors has selected Ernst & Young LLP as Jazz Pharmaceuticals independent registered public accounting firm for the fiscal year ending December 31, 2010 and has further directed that management submit the selection of the independent registered public accounting firm for ratification by the stockholders at the Annual Meeting. Ernst & Young LLP has audited Jazz Pharmaceuticals financial statements since its inception in 2003. Representatives of Ernst & Young LLP are expected to be present at the Annual Meeting and they will have an opportunity to make a statement if they so desire and will be available to respond to appropriate questions.

Neither Jazz Pharmaceuticals bylaws nor other governing documents or law require stockholder ratification of the selection of Ernst & Young LLP as Jazz Pharmaceuticals independent registered public accounting firm. However, the Audit Committee is submitting the selection of Ernst & Young LLP to the stockholders for ratification as a matter of good corporate practice. If the stockholders fail to ratify the selection, the Audit Committee will reconsider whether or not to retain that firm. Even if the selection is ratified, the Audit Committee in its discretion may direct the selection of different independent registered public accounting firm at any time if they determine that such a change would be in the best interests of Jazz Pharmaceuticals and its stockholders.

On behalf of the Audit Committee, the Board of Directors

recommends a vote For Proposal 2.

Independent Registered Public Accounting Firm Fees and Services

In connection with the audit of our 2009 financial statements, we entered into an engagement agreement with Ernst & Young LLP which sets forth the terms by which Ernst & Young LLP will perform audit and interim services for Jazz Pharmaceuticals. That agreement is subject to alternative dispute resolution procedures and an exclusion of punitive damages. We have entered into a similar agreement with Ernst & Young LLP in relation to our 2010 financial statements.

The following table represents aggregate fees billed to Jazz Pharmaceuticals for the fiscal years ended December 31, 2009 and 2008 by Ernst & Young LLP, Jazz Pharmaceuticals independent registered public accounting firm:

	Fiscal Year Ended	
	2009	**2008**
Audit Fees	$ 909,841	$ 970,948
Audit-Related Fees		70,000
Tax Fees	145,357	174,626
All Other Fees		1,500
Total Fees	$ 1,055,198	$ 1,217,074

Audit Fees: Consists of fees for professional services rendered for the audit of our financial statements, review of interim financial statements, assistance with registration statements filed with the Securities and Exchange Commission and services that are normally provided by Ernst & Young LLP in connection with statutory and regulatory filings or engagements. Related to fiscal year ended December 31, 2009, fees of $54,841 were billed in connection with Registration Statements on Form S-1 and S-8 filings and other potential offerings. Related to fiscal year ended December 31, 2008, fees of $134,000 were billed in connection with Registration Statements on Form S-3 and S-8 filings.

Audit-Related Fees: Consists of fees for assurance and related services that are reasonably related to the performance of the audit or review of our financial statements and are not reported under Audit Fees. During the fiscal year ended December 31 2008, fees of $70,000 were billed in connection with accounting consultation services.

Tax Fees: Consists of fees for professional services for tax compliance, tax advice and tax planning. During the fiscal year ended December 31, 2009, fees of $78,750 were billed in connection with tax compliance services and fees of $66,607 were billed in connection with tax advice and planning services. During the fiscal year ended December 31, 2008, fees of $78,750 were billed in connection with tax compliance services and fees of $95,876 were billed in connection with tax advice and planning services.

All Other Fees: Consists of fees for products and services other than the services described above. Related to fiscal year ended December 31, 2008 fees of $1,500 were billed in connection with access to Ernst & Young s online accounting and tax research tool.

All fees described above were approved by the Audit Committee.

Pre-Approval Policies and Procedures

In February 2007, the Audit Committee adopted a policy and procedures for the pre-approval of audit and non-audit services rendered by our independent registered public accounting firm, Ernst & Young LLP, and has pre-approved all new services since that time. The policy generally pre-approves specified services in the defined categories of audit services, audit-related services, and tax services up to specified amounts. Pre-approval may also be given as part of the Audit Committee s approval of the scope of the engagement of the independent auditor or on an individual explicit case-by-case basis before the independent auditor is engaged to provide each service. The pre-approval of services may be delegated to one or more of the Audit Committee s members, but the decision must be reported to the full Audit Committee at its next scheduled meeting.

The Audit Committee has determined that the rendering of the services other than audit services by Ernst & Young LLP is compatible with maintaining the principal accountant s independence.

SECURITY OWNERSHIP OF

CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information regarding the ownership of Jazz Pharmaceuticals common stock as of April 8, 2010 (except as noted) by: (i) each director and nominee for director; (ii) each of the executive officers named in the Summary Compensation Table (referred to in this proxy statement as our named executive officers); (iii) all executive officers and directors of Jazz Pharmaceuticals as a group; and (iv) all those known by us to be beneficial owners of more than five percent of our common stock.

	Beneficial Ownership[2]	
Name and Address of Beneficial Owner[1]	**Number of Shares**	**Percent of Total**
5% Stockholders:		
Entities affiliated with Kohlberg Kravis Roberts & Co. L.P. 9 West 57th Street, Suite 4200 New York, NY 10019		
KKR JP LLC[3]	10,504,338	32.69%
KKR JP III LLC[3]	36,445	*
KKR Financial Holdings III, LLC[3]	70,156	*
Entities affiliated with Longitude Capital Partners, LLC[4] 800 El Camino Real, Suite 220 Menlo Park, CA 94025	2,993,601	9.21%
Entities affiliated with Thoma Cressey Bravo, Inc.[5] Sears Tower, 92nd Floor 22 South Wacker Drive Chicago, IL 60606	2,432,487	7.68%
Bridger Management, LLC[6] 90 Park Avenue, 40th Floor New York, NY 10016	1,942,050	6.16%
Entities affiliated with Versant Ventures[7] 3000 Sand Hill Road, #4-210 Menlo Park, CA 94025	1,663,392	5.25%
Entity affiliated with Beecken Petty O Keefe & Company, LLC[8] 131 Dearborn Street, Suite 2800 Chicago, IL 60603	1,621,659	5.13%
Named Executive Officers and Directors:		
Bruce C. Cozadd[9]	701,168	2.19%
Samuel R. Saks, M.D.[10]	131,986	*
Robert M. Myers[11]	520,704	1.63%
Carol A. Gamble[12]	191,315	*
Samuel D. Colella[13]	1,695,631	5.35%
Bryan C. Cressey[14]	2,459,987	7.76%
Patrick G. Enright[15]	3,006,359	9.25%
Michael W. Michelson[16]	15,211	*
James C. Momtazee[17]	12,836	*
Kenneth W. O Keefe[18]	1,666,271	5.26%
Alan M. Sebulsky[19]	93,696	*
James B. Tananbaum, M.D.[20]	1,537,645	4.86%
Nathaniel M. Zilkha[21]	10,730	*
All directors and executive officers as a group (15 persons)[22]	12,233,275	35.58%

* Represents beneficial ownership of less than 1%.

(1) Unless otherwise provided in the table above or in the notes below, the address for each of the beneficial owners listed is c/o Jazz Pharmaceuticals, Inc., 3180 Porter Drive, Palo Alto, California 94304.

(2) This table is based upon information supplied by officers, directors and principal stockholders and Schedules 13G filed with the Securities and Exchange Commission, or the SEC. Unless otherwise indicated in the footnotes to this table and subject to community property laws where applicable, we believe that each of the stockholders named in this table has sole voting and investment power with respect to the shares indicated as beneficially owned. Applicable percentages are based on 31,538,547 shares outstanding on April 8, 2010, adjusted as required by rules promulgated by the SEC. The number of shares beneficially owned includes shares of common stock issuable pursuant to the exercise of stock options that are exercisable within 60 days of April 8, 2010, as well as shares credited to individual non-employee director phantom stock accounts under our Directors Deferred Compensation Plan as of April 8, 2010. Amounts credited to individual non-employee director phantom stock accounts under our Directors Deferred Compensation Plan are payable solely in shares of our common stock, but such shares do not have current voting or investment power. Shares issuable pursuant to our Directors Deferred Compensation Plan and shares issuable pursuant to the exercise of stock options that are exercisable within 60 days of April 8, 2010 are deemed to be outstanding and beneficially owned by the person to whom such shares are issuable for the purpose of computing the percentage ownership of that person, but they are not treated as outstanding for the purpose of computing the percentage ownership of any other person.

(3) KKR JP LLC (KKR JP) directly holds 9,906,501 shares and warrants to purchase 597,837 shares. KKR Millennium Fund L.P. (KKR Millennium Fund) is the sole member of KKR JP. KKR Associates Millennium L.P. (KKR Associates Millennium) is the sole general partner of KKR Millennium Fund. KKR Millennium GP LLC (KKR Millennium GP) is the sole general partner of KKR Associates Millennium. KKR Fund Holdings L.P. (KKR Fund Holdings) is the designated member of KKR Millennium GP. KKR Fund Holdings GP Limited (KKR Fund Holdings GP) is a general partner of KKR Fund Holdings. KKR Millennium Fund, KKR Associates Millennium, KKR Millennium GP, KKR Fund Holdings and KKR Fund Holdings GP disclaim beneficial ownership of the securities held by KKR JP.

KKR JP III LLC (KKR JP III) directly holds 36,445 shares. KKR Partners III, L.P. (KKR Partners III) is the sole member of KKR JP III. KKR III GP LLC (KKR III GP) is the sole general partner of KKR Partners III. KKR Partners III and KKR III GP disclaim beneficial ownership of the securities held by KKR JP III.

KKR Financial Holdings III, LLC (KKR Financial Holdings III) directly holds warrants to purchase 70,156 shares. KKR Financial Holdings LLC (KKR Financial Holdings) is the sole member of KKR Financial Holdings III. KKR Financial Advisors LLC (KKR Financial Advisors) is the manager of KKR Financial Holdings. Kohlberg Kravis Roberts & Co. (Fixed Income) LLC (Kohlberg Kravis Roberts & Co. (Fixed Income)) is the sole member of KKR Financial Advisors. Kohlberg Kravis Roberts & Co. L.P. (Kohlberg Kravis Roberts & Co.) is the holder of all of the outstanding equity interests in Kohlberg Kravis Roberts & Co. (Fixed Income). KKR Management Holdings L.P. is the general partner of Kohlberg Kravis Roberts & Co. KKR Management Holdings Corp. is the general partner of KKR Management Holdings L.P. KKR Financial Holdings, KKR Financial Advisors, Kohlberg Kravis Roberts & Co. (Fixed Income), Kohlberg Kravis Roberts & Co., KKR Management Holdings L.P. and KKR Management Holdings Corp. disclaim beneficial ownership of the securities held by KKR Financial Holdings III.

Each of KKR Group Holdings L.P. (KKR Group Holdings) (as the sole shareholder of KKR Fund Holdings GP, a general partner of KKR Fund Holdings L.P. and the sole shareholder of KKR Management Holdings Corp.); KKR Group Limited (KKR Group) (as the general partner of KKR Group Holdings); KKR & Co. L.P. (KKR & Co.) (as the sole shareholder of KKR Group); and KKR Management LLC (KKR Management) (as the general partner of KKR & Co.) disclaim beneficial ownership of the securities held by KKR JP and KKR Financial Holdings III.

As the designated members of KKR Management LLC and the managers of KKR III GP LLC, Messrs. Henry R. Kravis and George R. Roberts may be deemed to be the beneficial owner of the securities held by KKR JP, KKR JP III and KKR Financial Holdings III but disclaim beneficial ownership of such securities. Messrs. Kravis and Roberts have also been designated as managers of KKR Millennium GP by KKR Fund Holdings.

The entities named in this footnote (3) are sometimes referred to as the KKR Entities. Michael W. Michelson, James C. Momtazee and Nathaniel M. Zilkha are members of our Board of Directors and are executives of Kohlberg Kravis Roberts & Co. L.P. and/or one or more of its affiliates. Each of Messrs. Michelson, Momtazee and Zilkha disclaim beneficial ownership of any securities beneficially owned by the KKR Entities. The address of the KKR Entities (except KKR Financial Holdings III, KKR Financial Holdings, KKR Financial Advisors and Kohlberg Kravis Roberts & Co. (Fixed Income)) and Mr. Kravis is c/o Kohlberg Kravis Roberts & Co. L.P., 9 West 57th Street, New York, NY 10019. The address of KKR Financial Holdings III, LLC, KKR Financial Holdings LLC, KKR Financial Advisors LLC and KKR Financial LLC is 555 California Street, 50th Floor, San Francisco, CA 94104. The address of Messrs. Roberts, Michelson, Momtazee and Zilkha is c/o Kohlberg Kravis Roberts & Co. L.P., 2800 Sand Hill Road, Suite 200, Menlo Park, CA 94025.

(4) Consists of 2,005,539 shares and a warrant to acquire 929,243 shares held by Longitude Venture Partners, L.P., and 40,195 shares and a warrant to acquire 18,624 shares held by Longitude Capital Associates, L.P. Mr. Enright is a Managing Member of Longitude Capital Partners, LLC, which is the sole general partner of each of these two entities. As such he may be deemed to have shared voting and dispositive power with respect to shares and warrants held by those entities. Mr. Enright disclaims beneficial ownership of all such shares and warrants, except to the extent of his proportionate pecuniary interest therein.

(5) Consists of 2,259,250 shares and a warrant to acquire 135,841 shares held by Thoma Cressey Fund VII, LP and 35,275 shares and a warrant to acquire 2,121 shares held by Thoma Cressey Friends Fund VII, LP. Mr. Cressey is a partner of Thoma Cressey Equity Partners, the sponsor of these entities, the Thoma Cressey Funds, and is deemed to have shared voting and investment power over the shares held by Thoma Cressey Equity Partners and its affiliated entities. Mr. Cressey disclaims beneficial ownership of the shares held by the Thoma Cressey Funds, except to the extent of his pecuniary interest therein.

(6) Based upon a Schedule 13G/A filed with the SEC on February 12, 2010 by Bridger Management, LLC on behalf of itself, Swiftcurrent Offshore, Ltd. and Roberto Mignone, reporting beneficial ownership as of February 12, 2010. According to the Schedule 13G/A filed by Bridger Management, LLC, the 1,942,050 of the shares are beneficially owned by Roberto Mignone in his capacity as managing member of Bridger Management, LLC as a result of the purchase of such shares by certain accounts managed by Bridger Management, LLC. Swiftcurrent Offshore, Ltd., an account managed by Bridger Management, LLC, beneficially owns 835,250 of the shares. The Schedule 13G/A filed by Bridger Management, LLC provides information only as of February 12, 2010 and, consequently, the beneficial ownership of above-mentioned reporting persons may have changed between February 12, 2010 and March 17, 2010.

(7) Consists of 1,488,676 shares and a warrant to acquire 129,613 shares held by Versant Venture Capital II, L.P., 28,260 shares and a warrant to acquire 2,464 shares held by Versant Affiliates Fund II-A, L.P. and 13,247 shares and a warrant to acquire 1,132 shares held by Versant Side Fund II, L.P. Mr. Colella is a managing member of Versant Ventures II, LLC, which is the general partner of each of Versant Venture Capital II, L.P., Versant Affiliates Fund II-A, L.P. and Versant Side Fund II, L.P., or the Versant Funds, and is deemed to have shared voting and investment power over the shares held by the Versant Funds. Mr. Colella disclaims beneficial ownership of the shares held by the Versant Funds, except to the extent of his pecuniary interest therein.

(8) Consists of 1,529,684 shares and a warrant to acquire 91,975 shares held by Jazz Investors LLC. Beecken Petty O Keefe & Company, LLC is the sole manager of Jazz Investors, LLC. Mr. O Keefe is one of the member managers of Beecken Petty O Keefe & Company, LLC, and as such may be deemed to have shared voting and dispositive power with respect to the shares beneficially owned by Jazz Investors, LLC. Mr. O Keefe disclaims beneficial ownership of such shares, except to the extent of his pecuniary interest therein. Mr. O Keefe is a member of our Board of Directors. The address of Jazz Investors, LLC, Beecken Petty O Keefe & Company, LLC and Mr. O Keefe is 131 South Dearborn Street, Suite 2800, Chicago, IL 60603.

(9) Includes 434,830 shares Mr. Cozadd has the right to acquire pursuant to options exercisable within 60 days of April 8, 2010.

(10) Dr. Saks resigned as our Chief Executive Officer (and as a director) effective April 3, 2009.

(11) Includes 382,781 shares Mr. Myers has the right to acquire pursuant to options exercisable within 60 days of April 8, 2010.

(12) Includes 172,823 shares Ms. Gamble has the right to acquire pursuant to options exercisable within 60 days of April 8, 2010.

(13) Includes 27,500 shares Mr. Colella has the right to acquire pursuant to options exercisable within 60 days of April 8, 2010, 4,739 shares issuable to Mr. Colella pursuant to our Directors Deferred Compensation Plan, and the shares described in Note (7) above. Mr. Colella disclaims beneficial ownership of the shares described in Note (7) above, except to the extent of his pecuniary interest therein.

(14) Includes 27,500 shares Mr. Cressey has the right to acquire pursuant to options exercisable within 60 days of April 8, 2010 and the shares described in Note (5) above. Mr. Cressey disclaims beneficial ownership of the shares described in Note (5) above, except to the extent of his pecuniary interest therein.

(15) Includes 7,500 shares Mr. Enright has the right to acquire pursuant to options exercisable within 60 days of April 8, 2010, 5,258 shares issuable to Mr. Enright pursuant to our Directors Deferred Compensation Plan, and the shares described in Note (4) above. Mr. Enright disclaims beneficial ownership of the shares described in Note (4) above, except to the extent of his pecuniary interest therein.

(16) Consists solely of shares issuable to Mr. Michelson pursuant to our Directors Deferred Compensation Plan. Mr. Michelson disclaims beneficial ownership of the shares described in Note (3) above.

(17) Consists solely of shares issuable to Mr. Momtazee pursuant to our Directors Deferred Compensation Plan. Mr. Momtazee disclaims beneficial ownership of the shares described in Note (3) above.

(18) Includes 27,500 shares Mr. O Keefe has the right to acquire pursuant to options exercisable within 60 days of April 8, 2010, 17,112 shares issuable to Mr. O Keefe pursuant to our Directors Deferred Compensation Plan, and the shares described in Note (8) above. Mr. O Keefe disclaims beneficial ownership of the shares described in Note (8) above, except to the extent of his pecuniary interest therein.

(19) Includes 54,036 shares Mr. Sebulsky has the right to acquire pursuant to options exercisable within 60 days of April 8, 2010 and 11,408 shares issuable to Mr. Sebulsky pursuant to our Directors Deferred Compensation Plan.

(20) Includes 27,500 shares Dr. Tananbaum has the right to acquire pursuant to options exercisable within 60 days of April 8, 2010 and 1,403,129 shares and a warrant to acquire 84,365 shares held by Prospect Venture Partners II, L.P., and 21,366 shares and a warrant to acquire 1,285 shares held by Prospect Associates II, L.P. Dr. Tananbaum is a managing member of Prospect Management Co. II, L.L.C., which serves as the sole general partner of each of Prospect Venture Partners II, L.P. and Prospect Associates II, L.P., or the Prospect Funds. The managing members of Prospect Management Co. II, L.L.C. are deemed to have shared voting and investment power over the shares held by the Prospect Funds. Dr. Tananbaum disclaims beneficial ownership of the shares held by the Prospect Funds, except to the extent of his pecuniary interest therein.

(21) Consists solely of shares issuable to Mr. Zilkha pursuant to our Directors Deferred Compensation Plan. Mr. Zilkha disclaims beneficial ownership of the shares described in Note (3) above.

(22)

Includes 8,824,621 shares and warrants to purchase 1,396,663 shares held by entities affiliated with certain of our directors, 1,370,894 shares that certain of our executive officers and directors have the right to acquire within 60 days of April 8, 2010 through the exercise of options, and 77,294 shares issuable to our directors under our Directors Deferred Compensation Plan. Does not include the 131,986 shares held by Dr. Saks as of April 8, 2010 due to his resignation in April 2009. See notes (2) through (21) above.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires our directors and executive officers, and persons who own more than ten percent of a registered class of our equity securities, to file with the SEC initial reports of ownership and reports of changes in ownership of common stock and other equity securities of Jazz Pharmaceuticals. Officers, directors and greater than ten percent stockholders are required by SEC regulation to furnish us with copies of all Section 16(a) forms they file.

To our knowledge, based solely on a review of the copies of such reports furnished to us and written representations that no other reports were required, during the fiscal year ended December 31, 2009, all Section 16(a) filing requirements applicable to our officers, directors and greater than ten percent beneficial owners were complied with, except that, inadvertently, an initial report of ownership on Form 3 was filed late by Joan Colligan, our executive director and principal accounting officer, who automatically became a Section 16(a) officer upon the departure of our former Chief Financial Officer (and principal accounting officer) on December 31, 2008; and a stock option grant in January 2009 that otherwise would have been included on Form 4 was reported on her initial Form 3.

EXECUTIVE COMPENSATION

Summary of Compensation

The following table sets forth certain summary information for the year indicated with respect to the compensation earned by our Chief Executive Officer and our two most highly compensated executive officers other than our Chief Executive Officer who were serving as executive officers as of December 31, 2009, as well as our former Chief Executive Officer who resigned effective April 3, 2009. We refer to these individuals in this proxy statement as our named executive officers.

SUMMARY COMPENSATION TABLE FISCAL 2008 AND 2009

Name and Principal Position	Year	Salary ($)[1]	Option Awards ($)[2]	Non-Equity Incentive Plan Compensation ($)[3]	All Other Compensation ($)[4]	Total ($)
Bruce C. Cozadd	2009	442,729	189,260	205,300	1,574	838,863
Chairman and Chief Executive Officer	2008	423,523	490,241		1,435	915,199
Samuel R. Saks, M.D.[5]	2009	141,392	189,260		520	331,172
Former Chief Executive Officer	2008	468,266	490,241		1,539	960,046
Robert M. Myers	2009	420,024	141,945	193,900	1,564	757,433
President	2008	444,096	345,240		1,499	790,835
Carol A. Gamble	2009	348,048	75,704	120,412	1,296	545,460
	2008	357,267	207,144		1,239	565,650
Senior Vice President, General Counsel and Corporate Secretary						

(1) The dollar amounts in this column represent base salary earned during the indicated fiscal year. For more information regarding salaries in 2008 and 2009, see Narrative Disclosure to Summary Compensation Table Base Salary.

(2) The dollar amounts in this column represent the aggregate grant date fair value of all option awards granted during the indicated fiscal year. These amounts have been calculated in accordance with FASB ASC Topic 718, or ASC 718, using the Black-Scholes option-pricing model and excluding the effect of estimated forfeitures. Assumptions used in the calculation of these amounts are included in the notes to Jazz Pharmaceuticals audited consolidated financial statements included in Jazz Pharmaceuticals Annual Report on Form 10-K for the year ended December 31, 2009 filed with the Securities and Exchange Commission on March 4, 2010. These amounts do not necessarily correspond to the actual value that may be recognized by the named executive officers.

(3) The dollar amounts in this column represent the cash bonus awarded under our annual Bonus Plan for 2009. For more information, please see Narrative Disclosure to Summary Compensation Table Annual Bonus Plan. No bonuses were awarded to our named executive officers under our annual Bonus Plan for 2008.

(4) Represents group term life insurance premiums paid by Jazz Pharmaceuticals.

(5) Effective April 3, 2009, Dr. Saks resigned as our Chief Executive Officer.

Narrative Disclosure to Summary Compensation Table

Base Salary

We provide a base salary to our executive officers, the rate for which is set each year, effective March 1. In December 2008, our executive officers proposed, and our Compensation Committee accepted that, in light of our then current economic situation, effective January 1, 2009, our executive officers would take a temporary pay

reduction of between 5% and 10% of their 2008 base salaries. Effective August 1, 2009 and based on our improved financial situation since the beginning of the year, the temporary pay reduction ended, and our executive officer salaries returned to 2008 base salary levels. The 2008 and 2009 base salary rates for our named executive officers, without regard to the voluntary pay reductions, are set forth in the table below.

Name	2008 and 2009 Base Salary after August 1, 2009 ($)[(1)(2)]
Bruce C. Cozadd[(3)]	468,000
Samuel R. Saks, M.D.[(4)]	468,000
Robert M. Myers	444,000
Carol A. Gamble	357,000

(1) Base salary rate beginning March 1, 2008. The base salary rate for January and February 2008 was $450,000 for Mr. Cozadd, $450,000 for Dr. Saks, $426,000 for Mr. Myers and $343,000 for Ms. Gamble.

(2) The named executive officers offered to take voluntary temporary base salary rate reductions (10% for Messrs. Cozadd, Myers and Dr. Saks, and 5% for Ms. Gamble) beginning January 1, 2009 through July 31, 2009, and the Compensation Committee accepted this offer. During the period of their voluntary reductions, their base salary rates were $421,200 for Mr. Cozadd and Dr. Saks, $399,600 for Mr. Myers and $339,150 for Ms. Gamble.

(3) Mr. Cozadd s actual base salary for 2008 was prorated for the amount of his time devoted to his role as our Executive Chairman. Mr. Cozadd devoted 90% of his time to his role as Executive Chairman during 2008 until December 22, 2008, when he began devoting 100% of his time to his role as Executive Chairman. In connection therewith, Mr. Cozadd s actual base salary for January 1, 2008 through February 29, 2008 was $405,000; for March 1, 2008 through December 21, 2008 it was $421,200; and from December 22, 2008 through December 31, 2008 it was $468,000. In April 2009 Mr. Cozadd became our Chief Executive Officer.

(4) Dr. Saks resigned his position with the company effective April 3, 2009 and has not received any compensation from us since that date.

Annual Bonus Plan

In accordance with our annual Bonus Plan, we maintain an annual bonus award program to reward executive officers (and other employees) for attaining our corporate performance objectives, as well as to reward them for their individual contributions to the achievement of those objectives. Target bonus levels under the annual Bonus Plan are assigned based on various categories of employees. The actual bonus awarded in any year, if any, may be more or less than the target, depending primarily on the achievement of our corporate objectives, and an individual employee s achievement of his or her objectives. Whether or not a bonus is paid for any year is within the discretion of our Compensation Committee, and our Compensation Committee has the discretion to award bonuses even if the applicable performance criteria set forth under the annual Bonus Plan have not been met or to award a bonus based on other criteria. In this regard, in December 2008, Mr. Cozadd, then our Executive Chairman, and Dr. Saks, then our Chief Executive Officer, recommended to the Compensation Committee that, in light of our cash position at that time, no bonuses be paid for 2008. The Compensation Committee accepted this recommendation.

As set forth in our annual Bonus Plan, the target bonus levels for 2009 for our named executive officers were: 50% of the applicable annual base salary rate for Dr. Saks and Messrs. Cozadd and Myers; and 40% of the applicable annual base salary rate for Ms. Gamble. Dr. Saks resigned his position with us effective April 3, 2009 and was therefore not eligible for a bonus under the annual Bonus Plan for 2009. For 2009, our key corporate objectives approved by the Board of Directors in early 2009 were to:

- obtain and publicly disclose top-line results for our second pivotal Phase III trial of JZP-6 (sodium oxybate) for the treatment of fibromyalgia during the third quarter of 2009, and submit a New Drug Application, or NDA, to the U.S. Food and Drug Administration for JZP-6 by December 31, 2009;

- secure equity and nonequity financing sufficient to achieve our corporate objectives;

- achieve total Xyrem and Luvox CR net sales of $97 million and EBITDA from commercial operations of $45 million in 2009;

- achieve an operating loss of less than $10 million, measured by EBIDTA, by the end of the first quarter of 2009, and achieve breakeven on an operating basis, measured by EBIDTA, in the fourth quarter of 2009;

- ensure that employees are aligned with the corporate objectives and that our company operates in compliance with applicable laws and regulations; and

- partner a development project, secure rights to a new product opportunity and develop a revised strategic plan.

Each of the executive officers is responsible for meeting our corporate objectives, and each objective was deemed important in determining the level of our performance during the year. Although the Compensation Committee did not set individual goals for individual executive officers, certain of the named executive officer s responsibilities are more directly related to particular corporate objectives and may therefore given greater weight in the determination of the bonus amount paid to a named executive officer. As Chairman and Chief Executive Officer, Mr. Cozadd is responsible for the company meeting all of its objectives. Mr. Myers is responsible for all of our commercial operations, and our corporate objective related to achieving Xyrem and Luvox CR net sales and commercial EBIDTA targets may be given somewhat greater weight in the determination of his bonus. Ms Gamble, along with Mr. Cozadd and Mr. Myers, is particularly responsible for our obtaining equity and non-equity financing, and their efforts in achieving this corporate objective had a greater impact on their bonus determination than it did for other executive officers. Nevertheless, in a small company such as ours, each executive is expected to contribute in significant ways to the achievement of most, if not all, of our corporate objectives.

In approving the corporate objectives for 2009, the expectation of our Board of Directors was that it would be highly unlikely that all of the corporate objectives would be achieved for the year. In this regard, the Board of Directors has historically approved corporate objectives that have been stretch objectives beyond those that would reasonably be expected to be attained in any given year, and our corporate objectives historically have not been achieved at the 100% level. Our Compensation Committee determines the size of the total bonus pool under the annual Bonus Plan, which is based primarily on our Board of Directors determination of our success in achieving our corporate objectives for the plan year. The Compensation Committee also determines the portion of the pool, if any, that will be allocated to the executive officers as a group and the individual bonuses for each of our executive officers and vice presidents. Mr. Cozadd provides input to the Compensation Committee with respect to bonuses for executive officers and vice presidents other than his own compensation. For 2009, the Compensation Committee did not quantify or assign specific percentage criteria to the various corporate objectives under the annual Bonus Plan, but rather sought to approve a bonus payout that generally reflected our Board of Directors determination of the level of achievement of our corporate objectives, after taking into account the key corporate objectives listed above and our company s cash position.

With respect to the achievement of our 2009 corporate objectives, after considering the input of Mr. Cozadd, our Board of Directors determined that we had achieved most, but not all, of our key corporate objectives. Based on the Board of Directors determination of the level of achievement of our corporate objectives for 2009, our Compensation Committee approved a total corporate bonus payout of 78% of the total target bonus pool. In evaluating our performance against our corporate objectives for 2009, the Compensation Committee believed the following were highly significant that (i) our net sales and commercial EBITDA targets for 2009 were achieved; (ii) the unblinding of the second pivotal Phase III clinical trial of JZP-6 in June 2009 and the submission of the NDA for JZP-6 to the FDA in December 2009; (iii) our achievement of an operating loss of less than $10 million by the end of the first quarter of 2009 and break even operating results, measured by EBITDA, in the second

quarter of 2009; and (iv) our resolution of defaults under our Senior Secured Note and Warrant Purchase Agreement dated as of March 14, 2008, as amended, or the Senior Note Agreement, and successfully raising additional capital in a private placement.

Our actual bonus award amounts under the annual Bonus Plan are determined by multiplying the percentage achievement determined by the Compensation Committee by the target bonus percentage set forth in our Bonus Plan (50% for Mr. Cozadd and Mr. Myers and 40% for Ms. Gamble) by the actual salary earned during the year. In determining the specific bonus award amounts for our named executive officers for 2009 under the annual Bonus Plan, our Compensation Committee desired to ensure that the different voluntary salary reductions taken by various executive officers (and other company officers) from January 1, 2009 through July 31, 2009 did not impact relative bonus awards among executive officers. Accordingly, in setting individual bonuses, the Compensation Committee set aside from the executive portion of the total bonus pool an amount sufficient to offset the individual voluntary salary reductions, and then allocated the remainder of the pool against salaries without taking effect of the voluntary reductions. Because all of our named executive officers contributed significantly to our achievement of our key objectives in 2009, the Compensation Committee (with approval from the Board of Directors with regard to Mr. Cozadd) determined that the same achievement rate was applicable for each of Mr. Cozadd, Mr. Myers and Ms. Gamble. The cash bonus awards for 2009 under the Bonus Plan for our named executive officers were as follows:

Name	Total Bonus under 2009 Bonus Plan($)[1]
Bruce C. Cozadd	205,300
Robert M. Myers	193,900
Carol A. Gamble	120,412

(1) The bonus for 2009 was calculated by determining the amount of the temporary voluntary salary reduction ($27,300 for Mr. Cozadd, $25,900 for Mr. Myers and $10,412 for Ms. Gamble) for each executive, and adding to it to the bonus amount determined under the Bonus Plan for 2009 as described above, but subject to the total amount of the bonus pool available for executives.

In late 2009, the Compensation Committee engaged Radford to provide the Compensation Committee with advice concerning executive compensation for 2010. In part as a result of its discussion with Radford, the Compensation Committee determined that the bonus target for the Chief Executive Officer should be 60% (rather than the 50% target stated in the Bonus Plan) beginning with any bonus for 2010.

Stock Option Awards

In May 2008, we granted stock options to our named executive officers under our 2007 Equity Incentive Plan. In determining the number of stock option grants to the named executive officers in May 2008, the Compensation Committee considered the 2007 Plan benchmark data from our peer group companies provided by Compensia, Inc., a compensation consultant, as well as Radford survey data, with a goal of ensuring a level of long-term incentive compensation for our named executive officers as a group at approximately the 50th percentile of long-term incentive compensation for executive officers in similar positions with similar responsibilities at our peer companies. Accordingly, after considering these factors, Mr. Myers and Ms. Gamble each received grants of stock options reflecting their respective positions in the company, and each of Mr. Cozadd and Dr. Saks was granted a stock option covering the same number of shares as each other. Each of Mr. Cozadd and Dr. Saks received options for 106,500 shares; Mr. Myers received options for 75,000 shares; and Ms. Gamble received options for 45,000 shares. The options have a ten year term and will vest as to 50% of the shares in April 2010, and as to the remainder of the shares in 24 equal monthly installments thereafter. The exercise price of the options is $7.96 per share, the fair market value of our common stock on the date of the grant, determined in accordance with the terms of the 2007 Plan.

In January 2009, the Compensation Committee again used Radford data in reviewing the levels of stock option grants to our named executive officers and again sought to ensure a level of annual grants for our named executive officers as a group at approximately the 50th percentile of the annual grants for executive officers in similar positions with similar responsibilities at our peer companies chosen for 2008. As a result, stock options were granted under the 2007 Plan as follows: options for 200,000 shares to each of Mr. Cozadd and Dr. Saks, options for 150,000 shares to Mr. Myers, and options for 80,000 shares to Ms. Gamble. The options have a 10 year term and vested as to $33^{1/3}$% of the shares in January 2010, and vest as to the remainder of the shares in 24 equal monthly installments thereafter. The exercise price of the options is $1.25 per share, the fair market value of our common stock on the date of grant, determined in accordance with the terms of our 2007 Equity Incentive Plan.

The 2007 Plan became effective in connection with our initial public offering. The following is a brief description of certain of the permissible terms of stock options and other stock awards granted under the 2007 Plan:

Stock Options. Incentive and nonstatutory stock options may be granted pursuant to incentive and nonstatutory stock option agreements adopted by the plan administrator. The plan administrator determines the exercise price for a stock option provided that the exercise price of an incentive stock option and nonstatutory stock option cannot be less than 100% of the fair market value of our common stock on the date of grant. Options granted under the 2007 Plan vest at the rate specified by the plan administrator. Acceptable consideration for the purchase of common stock issued upon the exercise of a stock option will be determined by the plan administrator and may include (a) cash or check, (b) a broker-assisted cashless exercise, (c) the tender of common stock previously owned by the optionee, (d) a net exercise of the option and (e) other legal consideration approved by the plan administrator.

Generally, the plan administrator determines the term of stock options granted under the 2007 Plan, generally up to a maximum of ten years. Unless the terms of an optionee s stock option agreement provide otherwise, if an optionee s relationship with us, or any of our affiliates, ceases for any reason other than disability or death, the optionee may exercise any vested options for a period of three months following the cessation of service. If an optionee s service relationship with us, or any of our affiliates, ceases due to disability or death (or an optionee dies within a certain period following cessation of service), the optionee or a beneficiary may exercise any vested options for a period of 12 months in the event of disability, and 18 months in the event of death. The option term may be extended in the event that exercise of the option following termination of service is prohibited by applicable securities laws. In no event, however, may an option be exercised beyond the expiration of its term.

Restricted Stock Awards. Restricted stock awards may be granted pursuant to restricted stock award agreements adopted by the plan administrator. Restricted stock awards may be granted in consideration for (a) cash or check, (b) past or future services rendered to us or our affiliates or (c) any other form of legal consideration. Shares of common stock acquired under a restricted stock award may, but need not, be subject to a share repurchase option in our favor in accordance with a vesting schedule to be determined by the plan administrator. Rights to acquire shares under a restricted stock award may be transferred only upon such terms and conditions as set by the plan administrator.

Restricted Stock Unit Awards. Restricted stock unit awards may be granted pursuant to restricted stock unit award agreements adopted by the plan administrator. Restricted stock unit awards may be granted in consideration for any form of legal consideration. A restricted stock unit award may be settled by cash, delivery of stock, a combination of cash and stock as deemed appropriate by the plan administrator, or in any other form of consideration set forth in the restricted stock unit award agreement. Additionally, dividend equivalents may be credited in respect to shares covered by a restricted stock unit award. Except as otherwise provided in the applicable award agreement, restricted stock units that have not vested will be forfeited upon the participant s cessation of continuous service for any reason.

Stock Appreciation Rights. Stock appreciation rights may be granted pursuant to stock appreciation rights agreements adopted by the plan administrator. The plan administrator determines the strike price for a stock appreciation right which cannot be less than 100% of the fair market value of our common stock on the date of grant. Upon the exercise of a stock appreciation right, we will pay the participant an amount equal to the product of (a) the excess of the per share fair market value of our common stock on the date of exercise over the strike price, multiplied by (b) the number of shares of common stock with respect to which the stock appreciation right is exercised. A stock appreciation right granted under the 2007 Plan vests at the rate specified by the plan administrator.

The plan administrator determines the term of stock appreciation rights granted under the 2007 Plan, up to a maximum of ten years. If a participant s service relationship with us, or any of our affiliates, ceases, then the participant, or the participant s beneficiary, may exercise any vested stock appreciation right for three months (or such longer or shorter period specified in the stock appreciation right agreement) after the date such service relationship ends. In no event, however, may a stock appreciation right be exercised beyond the expiration of its term.

Performance Stock Awards. The 2007 Plan permits the grant of performance stock awards that may qualify as performance-based compensation that is not subject to the $1,000,000 limitation on the income tax deductibility of compensation paid per covered executive officer imposed by Section 162(m) of the Internal Revenue Code. To assure that the compensation attributable to one or more performance stock awards will so qualify, our Compensation Committee can structure one or more such awards so that stock will be issued or paid pursuant to such award only upon the achievement of certain pre-established performance goals during a designated performance period. The maximum benefit to be received by a participant in any calendar year attributable to performance stock awards may not exceed 2,000,000 shares of our common stock.

Other Stock Awards. The plan administrator may grant other awards based in whole or in part by reference to our common stock. The plan administrator will set the number of shares under the award and all other terms and conditions of such awards.

Corporate Transactions. In the event of certain significant corporate transactions, our Board of Directors has the discretion to take one or more of the following actions with respect to outstanding stock awards:

- arrange for assumption, continuation, or substitution of a stock award by a surviving or acquiring entity (or its parent company);
- arrange for the assignment of any reacquisition or repurchase rights applicable to any shares of our common stock issued pursuant to a stock award to the surviving or acquiring corporation (or its parent company);
- accelerate the vesting and exercisability of a stock award followed by the termination of the stock award;
- arrange for the lapse of any reacquisition or repurchase rights applicable to any shares of our common stock issued pursuant to a stock award;
- cancel or arrange for the cancellation of a stock award, to the extent not vested or not exercised, in exchange for appropriate cash consideration; and
- arrange for the surrender of a stock award in exchange for a payment equal to the excess of (a) the value of the property the holder of the stock award would have received upon the exercise of the stock award, over (b) any exercise price payable by such holder in connection with such exercise.

Our Board of Directors need not take the same action for each stock award.

Changes in Control. The form of option agreement adopted by our Board of Directors under the 2007 Plan provides that in the event an optionee s service relationship with us or a successor entity is terminated, actually

without cause or constructively, within 12 months following, or one month prior to, the effective date of certain specified change in control transactions, the vesting and exercisability of the option will accelerate in full. Our Board of Directors has the discretion to provide additional acceleration of vesting and exercisability upon or after a change in control transaction as may be provided in a stock award agreement or any other written agreement between us or any of our affiliates and a participant.

Outstanding Equity Awards at Fiscal Year-End

The following table sets forth, for the fiscal year ended December 31, 2009, certain information regarding outstanding equity awards at fiscal year end for our named executive officers other than Dr. Saks, who resigned as our Chief Executive Officer effective April 3, 2009. All of Dr. Saks options expired unexercised prior to December 31, 2009.

OUTSTANDING EQUITY AWARDS AT 2009 FISCAL-YEAR END TABLE

	Option Awards			
Name	**Number of Securities Underlying Unexercised Options (#) Exercisable**	**Number of Securities Underlying Unexercised Options (#) Unexercisable**	**Option Exercise Price ($)**	**Option Expiration Date**
Bruce C. Cozadd		200,000[1]	1.25	01/20/19
		106,500[2]	7.96	05/15/18
		40,662[3]	19.37	02/26/17
	164,120	0	15.09	02/17/14
	54,707	0	30.18	02/17/14
	54,707	0	45.27	02/17/14
Robert M. Myers		150,000[1]	1.25	01/20/19
		75,000[2]	7.96	05/15/18
		31,625[3]	19.37	02/26/17
	164,120	0	15.09	02/17/14
	54,707	0	30.18	02/17/14
	54,707	0	45.27	02/17/14
Carol A. Gamble		80,000[1]	1.25	01/20/19
		45,000[2]	7.96	05/15/18
		22,590[3]	19.37	02/26/17
	62,652	0	15.09	02/17/14
	20,884	0	30.18	02/17/14
	20,884	0	45.27	02/17/14

(1) The shares subject to this stock option award vested as to $33^{1/3}$% of the shares in January 2010, and vest as to the remainder of the shares in 24 equal monthly installments thereafter.

(2) The shares subject to this stock option award vested as to 50% of the shares subject to the option on April 8, 2010, and will vest as to the remainder of the shares in 24 equal monthly installments thereafter.

(3) The shares subject to this stock option award vested as to one-third of the shares on February 27, 2010, and vest as to the remainder of the shares in 24 equal monthly installments thereafter.

Post-Termination Compensation

Executive Employment Agreements

In February 2009, the employment agreement dated February 18, 2004, as amended, between us and each of our named executive officers expired in accordance with its terms. The employment agreements provided for an initial base salary, subject to annual increases determined by the Compensation Committee, and provided for the participation of each of our named executive officers in our annual Bonus Plans. Under the employment agreements, Dr. Saks and Messrs. Cozadd and Myers were each eligible to receive an annual performance bonus determined in accordance with our annual Bonus Plans and targeted at 50% of their respective annual base salaries, subject to increases approved by our Board of Directors. Under her employment agreement, Ms. Gamble was eligible to receive an annual performance bonus determined in accordance with our annual Bonus Plans and targeted at 40% of her annual base salary, subject to increases approved by our Board of Directors. Notwithstanding the expiration of the employment agreements, each of our continuing named executive officers will continue to be eligible for annual salary increases and participation in our annual Bonus Plan. The employment agreements also provided for severance payments and other benefits in the event of certain terminations of employment, including in connection with a change in control. In connection with the expiration of the employment agreements, each of our current named executive officers became a participant in our Amended and Restated Executive Change in Control and Severance Benefit Plan, which is described below.

Amended and Restated Executive Change in Control and Severance Benefit Plan

General. In May 2007, our Board of Directors adopted a Change in Control and Severance Benefit Plan, effective May 1, 2007, or the Severance Benefit Plan, that provided for certain severance benefits to our non-executive officer Vice Presidents in connection with specified termination events. In February 2009, our Board of Directors approved an amendment and restatement of the Severance Benefit Plan (as so amended and restated, the Amended Severance Benefit Plan), to include our named executive officers in the Amended Severance Benefit Plan and to modify the severance payments for Senior Vice Presidents who were previously Vice Presidents and were therefore covered by the Severance Benefit Plan as Vice Presidents. Prior to such amendment and restatement, only Vice Presidents were covered by the Severance Benefit Plan. In addition, the plan was amended to clarify that no benefits would be payable if a change of control resulted from arrangements with our senior lenders.

Under the Amended Severance Benefit Plan, in the event that an officer s employment terminates due to an Involuntary Termination Without Cause or a Constructive Termination, each as defined in the Amended Severance Benefit Plan, within 12 months following a Change in Control, as defined in the Amended Severance Benefit Plan, and assuming all of the other conditions of the Amended Severance Benefit Plan are met, then each officer who is a participant in the Amended Severance Benefit Plan would be entitled to the following benefits under the Amended Severance Benefit Plan:

a single lump sum cash severance payment, payable on the first payroll date following the termination, equal to the sum of:

(1) the officer s base salary in effect during the last regularly scheduled payroll period immediately preceding the termination (without, as a general matter, giving effect to any voluntary pay reduction taken by the officer during the 12 months preceding the date of termination), or the Applicable Base Salary, plus (2) the product of (i) the Applicable Base Salary multiplied by (ii) the greater of any annual bonus, as a percentage of annual base salary paid in the year of determination, paid to the officer in respect of either of the last two calendar years prior to the date of termination (subject to an alternative calculation as well as a reduction for officers who have not been employed for the entire calendar year prior to the date of termination), multiplied by (iii) the quotient obtained by dividing: (a) the sum of the number of full months that an officer is employed in the year of an applicable termination and 12, by (b) 12;

multiplied by 150% for the Chairman and Chief Executive Officer or President (currently Mr. Cozadd and Mr. Myers), 125% for Senior Vice Presidents (which currently includes Ms. Gamble), or 100% for Vice Presidents;

full payment of all of the applicable COBRA premiums for any health, dental or vision plan sponsored by Jazz Pharmaceuticals for a period of up to (i) 18 months for the Chairman and Chief Executive Officer or President, (ii) 15 months for Senior Vice Presidents, and (iii) 12 months for Vice Presidents, provided that the officer timely elects continued coverage; and

acceleration in full of the vesting and exercisability, and termination of any of our repurchase rights, with respect to outstanding options and other equity awards held by the officers.

The double trigger for payment of benefits under the Amended Severance Benefit Plan was selected because it was considered to be industry standard and appropriately protects our named executive officers and other officers in the event of termination of their employment following a Change in Control, but not solely as a result of a Change in Control. In addition, as a general matter, in order to be eligible to receive benefits under the Amended Severance Benefit Plan, our named executive officers and other officers must execute a general waiver and release of claims, and such release must become effective in accordance with its terms. All other benefits (such as life insurance, disability coverage and 401(k) plan coverage) will terminate as of the officer s termination date (except to the extent that a conversion privilege may be available thereunder).

If any of the severance benefits payable under the Amended Severance Benefit Plan would constitute a parachute payment within the meaning of Section 280G of the Internal Revenue Code, subject to the excise tax imposed by Section 4999 of the Internal Revenue Code, a named executive officer may receive a reduced amount of the affected severance benefits (the Amended Severance Benefit Plan does not provide for the gross up of any excise taxes imposed by Section 4999 of the Internal Revenue Code). No named executive officer would receive benefits under the Amended Severance Benefit Plan if (i) the named executive officer has entered into an individually negotiated employment agreement that provides for severance or change in control benefits, (ii) the named executive officer is entitled to receive benefits under another severance benefit plan maintained by us, (iii) the named executive officer voluntarily terminates employment with us to accept employment with another entity that is controlled, directly or indirectly, by us or is otherwise affiliated with us or (iv) the named executive officer does not confirm in writing that he or she is subject to agreements with us relating to proprietary and confidential information. In addition, benefits would be terminated under the Amended Severance Benefit Plan if the named executive officer willfully breaches his or her agreements with us relating to proprietary and confidential information or engages in certain non-solicitation or business interference activities.

Potential Payments Upon Termination. The following table sets forth the potential severance payments and benefits under the Amended Severance Benefit Plan to which the named executive officers would be entitled in connection with specified termination events, as if the named executive officers employment terminated as of December 31, 2009. Other than as described above under Stock Option Awards, there are no other agreements, arrangements or plans that entitle any named executive officers to severance, perquisites or other benefits upon termination of employment or a change in control. The following table does not include Dr. Saks, whose resignation was effective as of April 3, 2009. Dr. Saks did not receive any severance benefits in connection with his resignation.

POTENTIAL PAYMENTS UPON TERMINATION AS OF DECEMBER 31, 2009

Name	Benefit	Involuntary Termination Without Cause or Constructive Termination in Connection with a Change of Control($)[1]
Bruce C. Cozadd	Lump Sum Cash Severance Payment	1,150,500
	COBRA Payments	20,901
	Vesting Acceleration[2]	1,326,000
	Benefit Total	**2,497,401**
Robert M. Myers	Lump Sum Cash Severance Payment	1,103,746
	COBRA Payments	39,757
	Vesting Acceleration[2]	994,500
	Benefit Total	**2,138,003**
Carol A. Gamble	Lump Sum Cash Severance Payment	832,133
	COBRA Payments	21,841
	Vesting Acceleration[2]	530,400
	Benefit Total	**1,384,374**

(1) These benefits would be payable under the Amended Severance Benefit Plan if the Involuntary Termination Without Cause or Constructive Termination occurred within 12 months following a Change in Control and assuming such termination took place on December 31, 2009.

(2) The value of stock option vesting acceleration is based on the closing stock price of $7.88 per share for our common stock as reported on the NASDAQ Global Market on December 31, 2009, minus the exercise price of the unvested option shares subject to acceleration.

Other Compensatory Arrangements

Employee Stock Purchase Plan

Additional long-term equity incentives are provided through our 2007 Employee Stock Purchase Plan, or the ESPP, in which all regular employees, including executive officers, employed by us or by any of our affiliates may participate and may contribute, normally through payroll deductions, up to 15% of their earnings for the purchase of our common stock under the ESPP. The ESPP is implemented through a series of offerings of purchase rights to eligible employees. Under the ESPP, we may specify offerings with a duration of not more than 27 months, and may specify shorter purchase periods within each offering. Each offering will have one or more purchase dates on which shares of our common stock will be purchased for employees participating in the offering. Unless otherwise determined by our Board of Directors, common stock is purchased for accounts of employees participating in the ESPP at a price per share equal to the lower of (a) 85% of the fair market value of a share of our common stock on the first date of an offering or (b) 85% of the fair market value of a share of our common stock on the date of purchase.

401(k) Plan

Our employees are eligible to participate in our 401(k) plan. Our 401(k) plan is intended to qualify as a tax qualified plan under Section 401 of the Code. Our 401(k) plan provides that each participant may contribute a portion of his or her pretax compensation, up to a statutory limit, which for most employees was $16,500 in 2009 (with a larger catch up limit for older employees). Employee contributions are held and invested

by the plan s trustee. Our 401(k) plan also permits us to make discretionary contributions and matching contributions, subject to established limits and a vesting schedule. To date, we have not made any contributions to the plan on behalf of participating employees.

Additional Benefits

Executive officers are eligible to participate in all of Jazz Pharmaceuticals benefit plans, such as medical, dental, vision short-term disability, long-term disability, group life insurance, Section 125 flexible spending accounts and our employee stock purchase plan, in each case generally on the same basis as other employees. We also have a flexible benefits healthcare plan and a flexible benefits childcare plan under which employees can set aside pre-tax funds to pay for qualified health care expenses and qualified childcare expenses not reimbursed by insurance.

Pension Benefits

Our named executive officers did not participate in, or otherwise receive any benefits under, any pension or retirement plan sponsored by us during the year ended December 31, 2009.

Nonqualified Deferred Compensation

During the year ended December 31, 2009, our named executive officers did not contribute to, or earn any amounts with respect to, any defined contribution or other plan sponsored by us that provides for the deferral of compensation on a basis that is not tax-qualified.

DIRECTOR COMPENSATION

Cash Compensation Arrangements

Pursuant to our current compensation program for non-employee directors, each member of our Board of Directors who is not an employee or an officer of Jazz Pharmaceuticals currently receives the following cash compensation for Board services, as applicable:

- a $30,000 annual retainer for service as a Board member;
- a $15,000 supplemental annual retainer for service as chair of the Audit Committee;
- a $10,000 supplemental annual retainer for service as chair of the Compensation Committee; and
- a $5,000 supplemental annual retainer for service as chair of each other committee of the Board.

On December 18, 2007, our Board of Directors determined that for purposes of non-employee directors that are appointed or elected other than on August 15 of any given year, a pro-rata portion of all cash retainers for the period from such non-employee director s appointment or election to the next subsequent August 15 will be deemed earned and payable on the date of the first regularly scheduled meeting of the Board that takes place not less than 31 days following the date of such non-employee director s appointment or election (provided such date is in a window period as defined under Jazz Pharmaceuticals stock trading policy), or in the event such date is not in a window period, the next subsequent date which is in a window period. Payments of cash retainers are subject to a non-employee s director s election pursuant to our Directors Deferred Compensation Plan. Any amounts deferred pursuant to our Directors Deferred Compensation Plan are credited to a phantom stock account, as described below. On August 14, 2008, our Board of Directors determined that any distributions from a phantom stock account will be in shares of our common stock. Our non-employee directors are also reimbursed for their travel and other reasonable expenses incurred in attending Board or committee meetings.

Directors Deferred Compensation Plan

In May 2007, our Board of Directors adopted the Directors Deferred Compensation Plan, which was amended by our Board of Directors in December 2008. The Directors Deferred Compensation Plan allows each non-employee director to elect to defer receipt of all or a portion of his or her annual retainer fees to a future date

or dates. Any amounts deferred under the Directors Deferred Compensation Plan are credited to a phantom stock account. The number of phantom shares of our common stock credited to each director s phantom stock account each year will be determined based on the amount of the compensation deferred during any given year, divided by the fair market value of our common stock on the date the retainer fees are due to be paid. Upon a separation from our Board of Directors, or as soon thereafter as practical once the non-employee director has provided the necessary information for electronic deposit of shares of our common stock, or upon the occurrence of a change in control, each non-employee director will receive (or commence receiving, depending upon whether the director has elected to receive distributions from his or her phantom stock account in a lump sum or in installments over time) a distribution of his or her phantom stock account, in shares of our common stock reserved under our 2007 Non-Employee Directors Stock Option Plan, which is described below. The Directors Deferred Compensation Plan may be amended or terminated at any time by our Board of Directors, and in form and operation is intended to be compliant with Section 409A of the Internal Revenue Code of 1986, as amended.

2007 Non-Employee Directors Stock Option Plan

Our 2007 Non-Employee Directors Stock Option Plan, or 2007 Directors Plan, became effective in connection with our initial public offering. The 2007 Directors Plan provides for the automatic grant of nonstatutory stock options to purchase shares of our common stock to our non-employee directors over their period of service on our Board of Directors. In addition, the 2007 Directors Plan provides the source of shares to fund distributions of our common stock under the Directors Deferred Compensation Plan.

Pursuant to the terms of the 2007 Directors Plan, any individual who first becomes a non-employee director is automatically granted an option to purchase 30,000 shares of our common stock. Each initial option vests with respect to one-third of the shares on the first anniversary of the date of grant, and the balance in a series of 24 successive equal monthly installments thereafter. In addition, each individual who is serving as a non-employee director on the first trading day on or after August 15 of each year is automatically granted an option to purchase 10,000 shares of our common stock on such date. The shares subject to each such annual option vest in a series of 12 successive equal monthly installments measured from the date of grant. All stock options granted under the 2007 Directors Plan have a maximum term of ten years, and the exercise price of each option granted under the 2007 Directors Plan is equal to 100% of the fair market value of our common stock on the date of grant.

If a non-employee director s service relationship with us, or any of our affiliates, whether as a non-employee director or subsequently as an employee, director or consultant of ours or an affiliate, ceases for any reason other than disability or death, or after any 12-month period following a change in control, the optionee may exercise any vested options for a period of three months following the cessation of service. If such an optionee s service relationship with us, or any of our affiliates, ceases due to disability or death (or an optionee dies within a certain period following cessation of service), the optionee or a beneficiary may exercise the option for a period of 12 months in the event of disability, and 18 months in the event of death. If such an optionee s service terminates within 12 months following a specified change in control transaction, the optionee may exercise the option for a period of 12 months following the effective date of such a transaction. The option term may be extended in the event that exercise of the option following termination of service is prohibited by applicable securities laws. In no event, however, may an option be exercised beyond the expiration of its term.

In the event of certain significant corporate transactions, all outstanding options under the 2007 Directors Plan may be assumed, continued or substituted for by any surviving or acquiring entity (or its parent company). If the surviving or acquiring entity (or its parent company) elects not to assume, continue or substitute for such options, then (a) with respect to any such options that are held by optionees then performing services for us or our affiliates, the vesting and exercisability of such options will be accelerated in full and such options will be terminated if not exercised prior to the effective date of the corporate transaction and (b) all other outstanding options will terminate if not exercised prior to the effective date of the corporate transaction. Our Board of Directors may also provide that the holder of an outstanding option not assumed in the corporate transaction will surrender such option in exchange for a payment equal to the excess of (a) the value of the property that the

optionee would have received upon exercise of the option, over (b) the exercise price otherwise payable in connection with the option. In addition, the vesting and exercisability of options held by non-employee directors who are either required to resign their position in connection with a specified change in control transaction or are removed from their position in connection with such a change in control will be accelerated in full.

Director Compensation Table

The following table sets forth certain information with respect to the compensation of all non-employee directors of Jazz Pharmaceuticals for the fiscal year ended December 31, 2009. Mr. Cozadd, our Chairman and Chief Executive Officer, and Dr. Saks, our former Chief Executive Officer and a former director, are not listed in the following table since they are, or were, employees of Jazz Pharmaceuticals and did not receive any additional compensation for serving on our Board of Directors or its committees. On March 31, 2009, Mr. Myers was appointed to the Board and he does not receive any additional compensation for serving on our Board of Directors or its committees.

2009 DIRECTOR COMPENSATION

Name	Fees Earned or Paid in Cash ($)[1]	Option Awards ($)[2][3]	Total ($)
E. Alexander Albert[4]			
Samuel D. Colella	30,000	44,598	74,598
Bryan C. Cressey	30,000	44,598	74,598
Patrick G. Enright	33,288	135,459	168,747
Michael W. Michelson	40,000		40,000
James C. Momtazee	35,000		35,000
Kenneth W. O Keefe	45,000	44,598	89,598
Alan M. Sebulsky[5]	30,000	92,330	122,330
James B. Tananbaum, M.D.[6]	30,000	44,598	74,598
Nathaniel M. Zilkha	30,000		30,000

(1) Represents fees earned in 2009. Each director in the table above, other than Dr. Tananbaum and Mr. Cressey for 2009, elected to defer his cash retainer fees pursuant to the Directors Deferred Compensation Plan. The number of shares credited to individual non-employee director phantom stock accounts under our Directors Deferred Compensation Plan as of December 31, 2009 was as follows: 4,739 shares for Mr. Colella; 5,258 shares for Mr. Enright; 6,319 shares for Mr. Michelson; 5,529 shares for Mr. Momtazee; 7,109 shares for Mr. O Keefe; 4,739 shares for Mr. Sebulsky; and 4,739 shares for Mr. Zilkha. In connection with Mr. Albert s resignation from the Board, the 3,826 shares then credited to Mr. Albert s individual non-employee director phantom stock account were distributed to Mr. Albert in accordance with the terms of our Directors Deferred Compensation Plan.

(2) The dollar amounts in this column represent the aggregate grant date fair value of all option awards granted during the year ended December 31, 2009. These amounts have been calculated in accordance with FASB ASC Topic 718, or ASC 718, using the Black-Scholes option-pricing model and excluding the effect of estimated forfeitures. Assumptions used in the calculation of these amounts are included in the notes to Jazz Pharmaceuticals audited consolidated financial statements included in Jazz Pharmaceuticals Annual Report on Form 10-K for the year ended December 31, 2009 filed with the Securities and Exchange Commission on March 4, 2010. These amounts do not necessarily correspond to the actual value that may be recognized by our directors.

(3) The aggregate number of shares subject to outstanding stock options held by the directors listed in the table above as of December 31, 2009 was as follows: 30,000 shares for each of Dr. Tananbaum and Messrs. Colella, Cressey and O Keefe; 40,000 for Mr. Enright; and 66,536 shares for Mr. Sebulsky. Each of Messrs.

Albert, Michelson, Momtazee and Zilkha declined any equity compensation for his service as a non-employee director in accordance with certain internal policies of Kohlberg Kravis Roberts & Co. L.P., with which each such director is or was either associated or affiliated.

(4) Mr. Albert resigned from the Board in September 2009.

(5) Effective in November 2009, in addition to his annual stock option grant of 10,000 shares in August 2009 under the 2007 Directors Plan, Mr. Sebulsky received a stock option for 10,000 shares, exercisable beginning one year after the effective date of the grant at an exercise price of $6.89, the fair market value of our common stock on the effective date of the grant, determined in accordance with the 2007 Directors Plan.

(6) Dr. Tananbaum s cash retainer fees were paid to Prospect Management Co., II, LLC.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

Policy and Procedures for Review of Related Party Transactions

In 2007, we adopted a Related Party Transaction Policy that sets forth our procedures for the identification, review, consideration and approval or ratification of related-person transactions. For purposes of our policy only, a related-person transaction is a transaction, arrangement or relationship (or any series of similar transactions, arrangements or relationships) in which Jazz Pharmaceuticals and any related person are, were or will be participants in which the amount involves exceeds $120,000. Transactions involving compensation for services provided to Jazz Pharmaceuticals as an employee or director are not covered by this policy. A related person is any executive officer, director or beneficial owner of more than 5% of any class of our voting securities, including any of their immediate family members and any entity owned or controlled by such persons.

Under the policy, if a transaction has been identified as a related-person transaction (including any transaction that was not a related-person transaction when originally consummated or any transaction that was not initially identified as a related-person transaction prior to consummation), our management must present information regarding the related-person transaction to our Audit Committee (or, if Audit Committee approval would be inappropriate, to another independent body of our Board of Directors) for review, consideration and approval or ratification. The presentation must include a description of, among other things, the material facts, the interests, direct and indirect, of the related persons, the benefits to us of the transaction and whether the transaction is on terms that are comparable to the terms available to or from, as the case may be, an unrelated third party or to or from employees generally. Under the policy, we will, on an annual basis, collect information that our General Counsel deems reasonably necessary from each director, executive officer and (to the extent feasible) significant stockholder to enable us to identify any existing or potential related-person transactions and to effectuate the terms of the policy. In addition, under our Code of Conduct, our employees and directors have an affirmative responsibility to disclose any transaction or relationship that reasonably could be expected to give rise to a conflict of interest to our General Counsel, or, if the employee is an executive officer, to our Board of Directors. In considering related-person transactions, our Audit Committee (or other independent body of our Board of Directors) will take into account the relevant available facts and circumstances including, but not limited to, the risks, costs and benefits to us, the terms of the transaction, the availability of other sources for comparable services or products and, if applicable the impact on a director s independence in the event that the related person is a director, immediate family member of a director or an entity with which a director is affiliated.

The policy requires that, in determining whether to approve, ratify or reject a related-person transaction, our Audit Committee (or other independent body of our Board of Directors) must consider, in light of known circumstances, whether the transaction is, or is not inconsistent with, our best interests and those of our stockholders, as our Audit Committee (or other independent body of our Board of Directors) determines in the good faith exercise of its discretion.

Certain Transactions With or Involving Related Persons

Sales of Securities

Registered Direct Offering. In July 2008, we sold an aggregate of 3,848,289 immediately separable units in a registered direct offering to select investors, with each unit consisting of one share of our common stock and a warrant to purchase 0.45 of a share of common stock at a price per unit of $6.75625 for aggregate consideration of approximately $26.0 million. In the aggregate, we issued and sold 3,848,289 shares of our common stock and warrants to purchase up to an aggregate of 1,731,724 shares of our common stock pursuant to the terms of a placement agent agreement and the related subscription agreements. Each warrant has an exercise price of $7.37 per share. The investors in the registered direct public offering included certain of our existing stockholders as set forth in the table below, and other select institutional investors. We refer to these issuances below as the Registered Direct. As a result of the participation of related persons in the Registered Direct, such participation was reviewed and pre-approved in accordance with our Related Party Transaction Policy by a special committee of our Board of Directors comprised solely of independent directors who were not affiliated or associated with the investors in the Registered Direct.

July 2009 Private Placement. In July 2009, we sold an aggregate of 1,895,734 immediately separable units in a private placement to certain entities affiliated with Longitude Capital Partners, LLC, or Longitude Capital, with each unit consisting of one share of our common stock and a warrant to purchase 0.5 of a share of common stock at a price per unit of $3.6925 for aggregate consideration of approximately $7.0 million. In the aggregate, we issued and sold 1,895,734 shares of common stock and warrants to purchase up to an aggregate of 947,867 additional shares of common stock to the Longitude Capital purchasers pursuant to a securities purchase agreement. Each warrant has an exercise price of $4.00 per share. We refer to these issuances below as the July 2009 Private Placement. Although the July 2009 Private Placement occurred after the adoption of our Related Party Transaction Policy, our Related Party Transaction Policy did not require that we obtain prior approval of this transaction by our Audit Committee (or other independent body of our Board of Directors) since at the time we entered into the securities purchase agreement pursuant to which the July 2009 Private Placement was effected, neither the Longitude Capital purchasers nor Patrick G. Enright, managing member of Longitude Capital and currently a member of our Board of Directors, were related persons within the meaning of our Related Party Transaction Policy. However, in accordance with our Related Party Transaction Policy, we submitted the July 2009 Private Placement to the Audit Committee for review and ratification at their first regularly-scheduled meeting following the transaction and the Audit Committee ratified the transaction in accordance with our Related Party Transaction Policy.

Set forth in the table below is certain information regarding related person participation in the Registered Direct and the 2009 Private Placement, including information regarding the number of shares of common stock purchased and warrants to purchase common stock acquired in each of the Registered Direct and the 2009 Private Placement by related persons.

Purchaser	Common Stock	Common Stock Warrants
Principal Stockholders[1]		
Entities affiliated with Kohlberg Kravis Roberts & Co. L.P.[2]	1,328,527	597,837
Entities affiliated with Thoma Cressey Bravo, Inc.[3]	306,583	137,962
Entity affiliated with Beecken Petty O Keefe & Company, LLC[4]	204,389	91,975
Entities affiliated with Prospect Venture Partners[5]	190,334	85,650
Entities affiliated with Versant Ventures[6]	296,022	133,209
Entities affiliated with Longitude Capital Partners, LLC[7]	1,895,734	947,867

(1) Certain of our directors are affiliated and/or associated with our principal stockholders as indicated in the table below:

Director	Principal Stockholder
Bryan C. Cressey	Entities affiliated with Thoma Cressey Bravo, Inc.
Samuel D. Colella	Entities affiliated with Versant Ventures
Patrick G. Enright	Entities affiliated with Longitude Capital Partners, LLC
Michael W. Michelson	Entities affiliated with Kohlberg Kravis Roberts & Co. L.P.
James C. Momtazee	Entities affiliated with Kohlberg Kravis Roberts & Co. L.P.
Kenneth W. O Keefe	Entity affiliated with Beecken Petty O Keefe & Company, LLC
James B. Tananbaum, M.D.	Entities affiliated with Prospect Venture Partners
Nathaniel M. Zilkha	Entities affiliated with Kohlberg Kravis Roberts & Co. L.P.

(2) Consists of 1,328,527 shares of common stock acquired by KKR JP LLC in the Registered Direct. Also consists of a warrant to purchase 597,837 shares of common stock acquired by KKR JP LLC.

(3) Consists of 301,870 shares of common stock acquired by Thoma Cressey Fund VII, LP and 4,713 shares of common stock acquired by Thoma Cressey Friends Fund VII, LP in the Registered Direct. Also consists of a warrant to purchase 135,841 shares of common stock acquired by Thoma Cressey Fund VII, LP and a warrant to purchase 2,121 shares of common stock acquired by Thoma Cressey Friends Fund VII, LP in the Registered Direct.

(4) Consists of 204,389 shares of common stock acquired by Jazz Investors LLC in the Registered Direct, and a warrant to purchase 91,975 shares of common stock acquired by Jazz Investors LLC in the Registered Direct.

(5) Consists of 187,479 shares of common stock acquired by Prospect Venture Partners II, L.P. and 2,855 shares of common stock acquired by Prospect Associates II, L.P. in the Registered Direct. Also consists of a warrant to purchase 84,365 shares of common stock acquired by Prospect Venture Partners II, L.P. and a warrant to purchase 1,285 shares of common stock acquired by Prospect Associates II, L.P. in the Registered Direct.

(6) Consists of 288,029 shares of common stock acquired by Versant Venture Capital II, L.P., 5,476 shares of common stock acquired by Versant Affiliates Fund II-A, L.P. and 2,517 shares of common stock acquired by Versant Side Fund II, L.P. in the Registered Direct. Also consists of a warrant to purchase 129,613 shares of common stock acquired by Versant Venture Capital II, L.P., a warrant to purchase 2,464 shares of common stock acquired by Versant Affiliates Fund II-A, L.P. and a warrant to purchase 1,132 shares of common stock acquired by Versant Side Fund II, L.P. in the Registered Direct.

(7) Consists of 1,858,486 shares of common stock acquired by Longitude Venture Partners, L.P. and 37,248 shares of common stock acquired by Longitude Capital Associates, L.P. in the 2009 Private Placement. Also consists of a warrant to purchase 929,243 shares of common stock acquired by Longitude Venture Partners, L.P. and a warrant to purchase 18,624 shares of common stock acquired by Longitude Capital Associates, L.P. in the 2009 Private Placement.

Senior Secured Notes and Related Warrants

In June 2005, Orphan Medical, Inc., or Orphan Medical, a wholly-owned subsidiary of Jazz Pharmaceuticals, issued senior secured notes in the aggregate principal amount of $80.0 million, or the Orphan Notes, with interest payable on the Orphan Notes at the rate of 15% per year, payable quarterly in arrears. We guaranteed the obligations of Orphan Medical to repay the Orphan Notes pursuant to a senior secured note and warrant purchase agreement we entered into with the purchasers of the Orphan Notes, and also issued warrants to purchase an aggregate of 785,728 shares of Series BB Preferred Stock originally having an exercise price of $20.36 per share. KKR Financial Holdings III, LLC, or KFN, an entity affiliated with Kohlberg Kravis Roberts & Co. L.P., and LB I Group, Inc., an entity affiliated with Lehman Brothers Holdings Inc., both of which were

significant stockholders during 2008 and 2009, purchased $25.0 million and $31.0 million principal amount of Orphan Notes, respectively, and warrants to purchase 245,540 and 304,469 shares of our common stock, respectively. With respect to KFN, the $25.0 million principal amount represented the largest aggregate amount of principal balance outstanding on the Orphan Notes to date. In March 2008, KFN sold $17.9 million in principal amount of notes and warrants to purchase 175,384 shares of common stock to LB I Group. With respect to LB I Group, $56.0 million principal amount represented the largest aggregate amount of principal balance outstanding on the Orphan Notes to date. For the period from January 1, 2006 to March 17, 2008, total interest payments under the Orphan Notes were $26.6 million, of which $7.7 million and $11.1 million was paid to KFN and LB I Group, respectively. The issuance of the Orphan Notes and related warrants were effected prior to the adoption of our Related Party Transaction Policy and were approved by our Board of Directors.

In March 2008, JPI Commercial, LLC, or JPIC, a wholly-owned subsidiary of Jazz Pharmaceuticals, issued senior secured notes in the aggregate principal amount of $120.0 million, or the JPIC Notes, with interest payable on the JPIC Notes at the rate of 15% per year, payable quarterly in arrears commencing June 30, 2008. With respect to defaults, interest is payable at an annual default rate of 17%. We guaranteed the obligations of JPIC to repay the JPIC Notes pursuant to a senior secured note and warrant purchase agreement, or the Senior Note Agreement, we entered into with the purchasers of the JPIC Notes. Of the $120.0 million in principal amount of JPIC Notes issued in March 2008, $80.0 million in principal amount of JPIC Notes were issued in exchange for the same principal amount of Orphan Notes and in connection therewith, the Orphan Notes were retired. With respect to KFN, KFN was issued $7.1 million in principal amount of JPIC Notes in exchanges for its Orphan Notes. LB I Group was issued $56.0 million in principal amount of JPIC Notes in exchanges for its Orphan Notes, and also purchased $33.5 million in principal amount of additional JPIC Notes. In connection with the purchase of additional JPIC Notes, LB I Group was issued a warrant to purchase 470,836 shares of our common stock originally having an exercise price of $14.23 per share. Together, the $89.5 million in aggregate principal amount of JPIC Notes issued to LB I Group represented the largest aggregate amount of principal balance outstanding to date held by LB I Group. In August 2008, JPIC paid certain holders of the senior secured notes $504,000 aggregate principal amount plus accrued interest as their pro rata share of the proceeds from the JPIC s sale of its rights to Antizol and Antizol-Vet and the principal amount was reduced accordingly. Under the terms of the agreement with the senior secured note holders, JPIC is obligated to pay the holders of the senior secured notes the proceeds from any future sale of the JPIC s rights to Xyrem, Luvox CR and JZP-6, if the holders so elect. Other than with respect to the August 2008 payment and the retiring of the Orphan Notes in March 2008, no principal payments have been made on either the Orphan Notes or the JPIC Notes. For the period from January 1, 2008 to December 31, 2009, total interest payments under the JPIC Notes were $35.9 million, of which $2.1 million and $26.7 million was paid to KFN and LB I Group, respectively. Although the issuance of the JPIC Notes and our entry into the Senior Note Agreement in connection therewith (and the issuance of warrants to purchase our common stock pursuant thereto) occurred after the adoption of our Related Party Transaction Policy, our Related Party Transaction Policy did not require that we obtain approval or ratification of this transaction by our Audit Committee (or other independent body of our Board of Directors) since at the time we entered into the transaction, LB I Group and each other of the purchasers of the new JPIC Notes were not related persons within the meaning of our Related Party Transaction Policy. Although KFN is affiliated with Kohlberg Kravis Roberts & Co. L.P., which is a related person within the meaning of our Related Party Transaction, KFN did not purchase any additional notes or warrants in the transaction, and KFN s participation in the transaction was limited to exchanging its Orphan Note for the same principal amount of JPIC Notes. Our Board of Directors was, however, aware of KFN s participation in the transaction when it approved the transaction.

In November 2009, we entered into an amendment and waiver agreement pursuant to which the holders of the JPIC Notes waived our prior events of default under the Senior Note Agreement and the other agreements related thereto, and pursuant to which the Senior Note Agreement was amended to, among other things, (i) require us to make certain scheduled principal payments on the JPIC Notes totaling $40.0 million commencing on March 31, 2010 and ending on March 31, 2011 and (ii) reduced the minimum cash balance required to be maintained by us under certain circumstances. Pursuant to the amendment and waiver agreement, the warrants to

purchase our common stock that we issued in connection with the issuance of the Orphan Notes and the JPIC Notes were each amended to reduce the respective exercise prices of such warrants, such that the exercise price of the warrants we issued in connection with the issuance of the Orphan Notes, or the Orphan Warrants, was reduced from $20.36 to $9.34 per share, and the exercise price of the warrants that we issued in connection with the issuance of the JPIC Notes, or the JPIC Warrants, was reduced from $14.23 to $9.34 per share. As of the date of the amendment and waiver agreement, KFN and LB I Group held Orphan Warrants exercisable for 70,156 shares and 550,010 shares, respectively, and LB I Group held a JPIC Warrant exercisable for 470,836 shares. The amendment and waiver agreement also provides for certain amendments to our registration obligations with respect to the JPIC Warrants. In addition, we agreed to pay to the holders of the JPIC Notes a restructuring fee totaling $500,000, payable on the maturity date of the JPIC Notes (or upon earlier repayment in full of the JPIC Notes), of which $28,500 and $374,500 is payable to KFN and LB I Group, respectively. The amendment and waiver agreement was reviewed and pre-approved in accordance with our Related Party Transaction Policy.

Indemnification Agreements

We have entered into indemnity agreements with each of our directors, executive officers and vice presidents that require us to indemnify such persons against any and all expenses (including attorneys fees), witness fees, judgments, fines, settlements and other amounts incurred (including expenses of a derivative action) in connection with any action, suit or proceeding or alternative dispute resolution mechanism, inquiry hearing or investigation, whether threatened, pending or completed, to which any such person may be made a party by reason of the fact that such person is or was a director, an officer or an employee of us or any of our affiliated enterprises, provided that such person s conduct did not constitute a breach of his or her duty of loyalty to us or our stockholders, and was not an act or omission not in good faith or which involved intentional misconduct or a knowing violation of laws. The indemnity agreements also set forth certain procedures that will apply in the event of a claim for indemnification thereunder. The indemnity agreements with certain of our directors further provide that, with respect to a director that is serving on our Board of Directors at the direction of a venture or other investment fund or entity, or fund, with respect to such indemnitee s service as a director, officer, employee, agent and/or fiduciary of Jazz Pharmaceuticals, our obligations under the indemnity agreement are the primary source of indemnification and advancement, we are required to make all expense advances, and we are liable for all of such indemnitee s expenses, to the extent required by the indemnity agreement, our amended and restated certificate of incorporation and amended and restated bylaws, without regard to any rights the indemnitee may have against the fund, and we irrevocably waive, relinquishes and releases any and all claims against the fund for contribution, subrogation or any other recovery of any kind in connection with our obligations under the indemnity agreement. We believe that these agreements are necessary to attract and retain qualified persons as officers and directors of Jazz Pharmaceuticals. We also maintain directors and officers liability insurance.

HOUSEHOLDING OF PROXY MATERIALS

The SEC has adopted rules that permit companies and intermediaries (such as brokers) to satisfy the delivery requirements for Notices and proxy materials with respect to two or more stockholders sharing the same address by delivering a single Notice or a single set of proxy materials, as applicable, addressed to those stockholders. This process, which is commonly referred to as householding, potentially means extra convenience for stockholders and cost savings for companies.

During the fiscal year ended March 31, 2013, we incurred total expenses of $8,176,622, compared to total expenses of $2,137,936 during the fiscal year ended March 31, 2012. The increase is primarily the result of our commencement of commercial operations and includes an increase in the cost of goods sold to $1,349,109 in the fiscal year ended March 31, 2013 from zero in the fiscal year ended March 31, 2013; $1,996,426 in expenses associated with awards made under our 2012 Share Incentive Plan, which was adopted during the fiscal year ended March 31, 2013; and $947,306 in expenses associated with indemnification of certain members of our Board of Directors as described in Item 13- Certain Relationships and Related Transactions and Director Independence.

We have had limited revenue to offset our expenses, and so we have incurred net losses. During the fiscal year ended March 31, 2013, we recorded revenue net of returns and allowances of $881,748 from the sale of materials produced and gemstones acquired from ADGC. During the fiscal year ended March 31, 2012, we received grant income of $75,000 which was included in other income on the statement of operations. Our net loss per share for the fiscal year ended March 31, 2013 was ($0.19) per share, compared to a net loss per share of ($0.12) per share for the fiscal year ended March 31, 2012. The weighted average number of shares outstanding was 37,971,035 and 17,401,174, respectively, for the fiscal years ended March 31, 2013 and 2012.

FINANCIAL CONDITION

At March 31, 2013, we had total assets of $15,256,450 compared to total assets of $14,323,173 at March 31, 2012. This increase in assets was primarily related to increases in accounts receivable, inventory, property, plant and equipment, and the ADGC Asset Purchase. We had cash of $223,257 at March 31, 2013 compared to $808,516 at March 31, 2012. The decrease is due to the continuing use of cash to support Company operations.

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Total liabilities at March 31, 2013 were $1,066,544 compared to total liabilities of $723,501 at March 31, 2012. Total liabilities as of March 31, 2013 were comprised primarily of accounts payable and accrued expenses. This increase is the result of the Company s initiation of operations during the fiscal year.

Total shareholders equity was $14,189,906 at March 31, 2013, compared to $13,599,672 at March 31, 2012. Shareholders equity increased during the year primarily due to issuance of stock in connection with the ADI and ADGC Asset Purchases. Other components of the change in stockholders equity related to sales and issuances of common stock, allocation of Company stock for indemnification purposes, and net losses during the period.

CASH FLOWS

Operating Activities

We have not generated positive cash flows from operating activities. For the year ended March 31, 2013, net cash flows used in operating activities were ($3,369,239), consisting primarily of a net loss of ($7,282,352) offset by non-cash stock cash stock based compensation in the amount of $1,996,426, allocation of stock for indemnification purposes in the amount of $830,000, depreciation and amortization of $859,983, and an increase in current liabilities of $430,370 offset by an increase in current assets ($362,899), compared to net cash flows used in operating activities for the year ended March 31, 2012 of ($1,375,519).

Investing Activities

For the year ended March 31, 2013, net cash flows used in investing activities were ($1,114,420), consisting primarily of the purchases of property, plant, and equipment. Net cash flows used in investing activities were ($1,396,520) for the year ended March 31, 2012.

Financing Activities

We have financed our operations primarily through advancements or the issuance of equity and debt instruments. For the years ended March 31, 2013 and March 31, 2012, we generated $3,861,400 and $3,579,622 from financing activities, respectively.

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. See Note 12- Subsequent Events for further details.

Existing cash of $223,257 as of March 31, 2013, is not expected to be adequate to fund our operations over the next fiscal year ending March 31, 2014. As of March 31, 2013, we had no lines of credit or other bank financing arrangements. Generally, we have financed operations through March 31, 2013 through the proceeds of sales of our common stock. Thereafter, we expect we will need to raise additional capital and generate revenues to meet operating requirements.

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.

OFF BALANCE SHEET ARRANGEMENTS

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

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

Not required because the Company is a smaller reporting company.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and

Shareholders of SCIO Diamond Technology Corporation

We have audited the accompanying balance sheets of SCIO Diamond Technology Corporation (the Company) as of March 31, 2013 and 2012, and the related statements of operations, shareholders equity, and cash flows for the years then ended. The Company s management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SCIO Diamond Technology Corporation as of March 31, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has generated limited revenue, incurred net losses and incurred negative operating cash flows since inception and will require additional financing to fund the continued development of products. The availability of such financing cannot be assured. These conditions raise substantial doubt about its ability to continue as a going concern. Management s plans regarding those matters also are described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Cherry Bekaert LLP

Greenville, South Carolina

June 28, 2013

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Scio Diamond Technology Corporation
(Formerly Krossbow Holding Corp.)

BALANCE SHEETS

As of March 31, 2013 and 2012

	March 31, 2013	March 31, 2012
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 223,257	$ 808,516
Accounts receivable, net	69,042	
Inventory	538,948	2,502
Prepaid expenses	34,455	23,295
Prepaid rent	23,050	
Total current assets	888,752	834,313
Property, plant and equipment		
Facility	883,246	145,301
Construction in progress		270,000
Manufacturing equipment	3,813,865	3,178,577
Other equipment	69,331	58,144
Total property, plant and equipment	4,766,442	3,652,022
Less accumulated depreciation	(493,533)	(3,397)
Net property, plant and equipment	4,272,909	3,648,625
Intangible assets, net	10,015,651	9,784,497
Prepaid rent, noncurrent	65,338	41,938
Other assets	13,800	13,800
TOTAL ASSETS	$ 15,256,450	$ 14,323,173
LIABILITIES AND SHAREHOLDERS EQUITY		
Current Liabilities:		
Notes payable	$	$ 125,000
Accounts payable	285,651	66,080
Accounts payable - related parties		131,984
Accrued expenses	730,698	400,437
Total current liabilities	1,016,349	723,501
Other liabilities	50,195	
TOTAL LIABILITIES	1,066,544	723,501
Common stock, $0.001 par value, 75,000,000 shares authorized; 47,736,812 and 26,013,070 shares issued and outstanding at March 31, 2013 and 2012, respectively	47,737	26,013

Additional paid-in capital		23,789,478		15,937,616
Accumulated deficit		(9,646,309)		(2,363,957)
Treasury stock, 1,000,000 and no shares, respectively		(1,000)		
Total stockholders equity		14,189,906		13,599,672
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$	15,256,450	$	14,323,173

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

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Scio Diamond Technology Corporation
(Formerly Krossbow Holding Corp.)

STATEMENTS OF OPERATIONS
For the years ended March 31, 2013 and 2012

	Year Ended March 31, 2013	Year Ended March 31, 2012
Revenue		
Revenue, net of returns and allowances	$ 881,748	$
Cost of goods sold		
Cost of goods sold	1,349,109	
Gross margin (loss)	(467,361)	
General, administrative, and pre-operating expenses		
Professional and consulting fees	2,635,069	1,534,518
Salaries and benefits	3,086,505	284,353
Rent, equipment lease and facilities expense	300,261	97,015
Marketing costs	48,403	28,347
Depreciation and amortization	393,010	3,397
Corporate general and administrative	364,265	190,306
Total general and administrative expenses	6,827,513	2,137,936
Loss from operations	(7,294,874)	(2,137,936)
Other income (expense)		
Interest income (expense)		(15,021)
Forgiveness of interest expense	12,522	
Gain on restructuring		11,057
Other income		75,000
Net loss	$ (7,282,352)	$ (2,066,900)
Loss per share		
Basic:		
Weighted average number of shares outstanding	37,971,035	17,401,174
Loss per share	$ (0.19)	$ (0.12)
Fully diluted:		
Weighted average number of shares outstanding	37,971,035	17,401,174
Loss per share	$ (0.19)	$ (0.12)

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

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Scio Diamond Technology Corporation
(Formerly Krossbow Holding Corp.)

STATEMENTS OF CASH FLOW
For the years ended March 31, 2013 and 2012

	Year Ended March 31, 2013	Year Ended March 31, 2012
Cash flows from operating activities:		
Net loss	$ (7,282,352)	$ (2,066,900)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	859,983	3,397
Gain on restructuring		(11,057)
Expense for warrants issued in exchange for services	121,560	192,007
Expense for stock issued in exchange for services	37,000	
Forgiveness of interest expense	(12,522)	
Expense for stock allocated for indemnification of directors	830,000	
Employee stock based compensation	1,996,426	
Changes in assets and liabilities:		
Increase in accounts receivable	(69,042)	
Increase in prepaid expenses and rent	(26,411)	(65,233)
Increase in inventory	(267,446)	(16,303)
Increase in accounts payable	87,587	198,065
Increase in accrued expenses	342,783	390,505
Increase in other liabilities	50,195	
Net cash used in operating activities	(3,332,239)	(1,375,519)
Cash flows from investing activities:		
Purchase of assets		(1,000,000)
Proceeds from disposal of property, plant and equipment		97,270
Purchase of property, plant and equipment	(1,114,420)	(493,790)
Net cash used in investing activities	(1,114,420)	(1,396,520)
Cash flows from financing activities:		
Services financed with a note payable		250,000
Proceeds from note payable - related party		9,000
Proceeds from sale of common stock and warrant exercise - net of fees	4,086,400	4,445,622
Payments on notes payable	(225,000)	(1,125,000)
Net cash provided by financing activities	3,861,400	3,579,622
Change in cash and cash equivalents	(585,259)	807,583
Cash and cash equivalents, beginning of period	808,516	933
Cash and cash equivalents, end of period	$ 223,257	$ 808,516

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

(continued)

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Scio Diamond Technology Corporation
(Formerly Krossbow Holding Corp.)

STATEMENTS OF CASH FLOW
For the years ended March 31, 2013 and 2012
(Continued)

	Year Ended March 31, 2013		Year Ended March 31, 2012	
Supplemental cash flow disclosures:				
Cash paid during the year for:				
Interest	$		$	3,000
Income taxes	$		$	
Non-cash investing and financing activities:				
Purchase of assets funded by note payable	$	100,000	$	1,000,000
Purchase of assets funded through warrant issue	$		$	11,040,000
Warrants issued for real property lease	$	39,000	$	
Warrants issued for consulting services	$	113,760	$	
Purchase of assets funded through ADGC subscription rights	$	770,000	$	
Common stock allocated for indemnification of directors	$	830,000	$	
Common stock issued for purchase of trade name	$		$	260,000

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

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Scio Diamond Technology Corporation
(Formerly Krossbow Holding Corp.)

STATEMENTS OF SHAREHOLDERS EQUITY
For the years ended March 31, 2013 and 2012

	Common Stock		Additional Paid in Capital	Treasury Stock		Accumulated Deficit	Total
	Shares	Amount		Shares	Amount		
Balance, March 31, 2011	6,400,000	$ 6,400	$ 19,600		$	$ (37,057)	$ (11,057)
Shares issued for purchase of trade name	13,000,000	13,000	247,000				260,000
Common stock issued for cash, net of fees, at $0.70 per share	6,613,070	6,613	4,439,009				4,445,622
Deemed distribution						(260,000)	(260,000)
Subscription rights issued for purchase of assets			11,040,000				11,040,000
Warrants issued for services to non-employees			192,007				192,007
Net loss for the period ended March 31, 2012						(2,066,900)	(2,066,900)
Balance, April 1, 2012	26,013,070	26,013	15,937,616			(2,363,957)	13,599,672
Common stock issued for cash, net of fees, at $0.80 per share	4,891,250	4,891	3,868,286				3,873,177
Common stock issued for cash, net of fees, at $0.01 per share	16,766,773	16,768	182,827				199,595
Common stock issued in exchange for services, at $0.80 per share	46,250	46	36,954				37,000
Warrants exercised for common stock, net of fees, at $0.70 per share	19,469	19	13,609				13,628
Treasury stock acquired			1,000	(1,000,000)	(1,000)		

Subscription rights issued for purchase of assets			770,000				770,000
Warrants issued for real property lease			39,000				39,000
Warrants issued in exchange for consulting services			113,760				113,760
Employee stock based compensation			1,996,426				1,996,426
Common stock allocated for indemnification of legal settlement			830,000				830,000
Net loss for the fiscal year ended March 31, 2013						(7,282,352)	(7,282,352)
Balance, March 31, 2013	47,736,812	$ 47,737	$ 23,789,478	(1,000,000)	$ (1,000)	$ (9,646,309)	$ 14,189,906

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

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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 original business plan of the Company was focused on offsetting carbon dioxide (C02) emissions through the creation and protection of forest-based carbon sinks. The Company has since abandoned its original business plan and restructured its business to focus on man-made diamond technology development and commercialization.

On July 13, 2011, the Board of Directors of the Company resolved to authorize a 2-for-1 forward split of its issued and outstanding common shares, whereby every one (1) old share of common stock was to be exchanged for two new shares of the Company s common stock, effective on August 5, 2011. As a result, the issued and outstanding shares of common stock increased from 3,200,000 prior to the forward split to 6,400,000 following the forward split. The forward split shares are payable upon surrender of certificates to the Company s transfer agent. The accompanying financial statements and notes give retroactive effect to the forward split for all periods presented.

Prior to October 1, 2012, the Company was a development stage company. Developmental activities have ceased and planned principal operations have commenced.

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:

- Focused efforts on the construction and start-up of its state-of-the-art manufacturing facility in South Carolina in order to begin production and generate revenues; and
- Ongoing solicitation of investment in the Company in the form of a private placement of common shares, secured and unsecured debt to accredited investors.

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

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

Fair Value of Financial Instruments

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

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Cash and Cash Equivalents

For purposes of the statement of cash flows, the Company considers highly liquid financial instruments purchased with an original maturity of three months or less when purchased to be cash equivalents. At March 31, 2013 and 2012, the Company held no cash equivalents.

Basic and Diluted Net Loss per Share

Net loss per share is presented under two formats: basic net loss per common share, which is computed using the weighted average number of common shares outstanding 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:

	March 31,	
	2013	**2012**
Common stock options and warrants	9,609,295	370,014

Allowance for Doubtful Accounts

An allowance for uncollectible accounts receivable is maintained for estimated losses from customers failure to make payment on accounts receivable due to the Company. Management determines the estimate of the allowance for uncollectible accounts receivable by considering a number of factors, including: (1) historical experience, (2) aging of accounts receivable and (3) specific information obtained by the Company on the financial condition and the current credit worthiness of its customers. The Company also maintains a provision for estimated returns and allowances based upon historical experience. The Company has determined that an allowance was not necessary at March 31, 2012 or 2013.

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:

	March 31, 2013		March 31, 2012	
Raw materials and supplies	$	64,255	$	
Work in process				
Finished goods		474,693		2,502
		538,948		2,502
Inventory reserves				
	$	538,948	$	2,502

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

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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. Manufacturing equipment was placed into service beginning July 1, 2012.

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 years ended March 31, 2013 or 2012. During the year ended March 31, 2013 intangible assets in the amount of $7,534,063 were assigned to specific patents and considered placed in service due to their inherent nature in the Company s manufacturing process. These patents are being amortized over a period ranging from 6.75 years to 15.67 years.

Income Taxes

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

Management has evaluated the potential impact in accounting for uncertainties in income taxes and has determined that it has no significant uncertain income tax positions as of March 31, 2012 or 2013. Income tax returns subject to review by taxing authorities include March 31, 2010, 2011, 2012 and 2013.

Stock-based Compensation

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

Concentration of Credit Risk

During the year ended March 31, 2013 the Company received a significant amount of its total revenues with two customers. One customer accounted for 84% of total revenues for the Company and purchased substantially all of the Company s production output. The second customer purchased a substantial portion of the Company s by-product inventory and accounted for 11% of total revenues for the Company and 94% of the Company s accounts receivable at March 31, 2013. No such concentration existed as of March 31, 2012 as the Company was not in operational status as of that time.

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.

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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.

In addition, GAAP requires the Company to disclose the fair value for financial assets on both a recurring and non-recurring basis. On August 31, 2011, the Company issued to certain current and former stockholders of Apollo Diamond Inc. (ADI) that were at that time accredited investors subscription rights valued at $11,040,000 for the purchase of ADI assets disclosed in Note 2 measured at fair value on a nonrecurring basis. The fair value of the ADI subscription rights was determined based on an appraisal which used the Black-Scholes model whose assumptions were considered by management to be a Level 3 input. During June 2012, the Company issued to certain current and former stockholders of Apollo Diamond Gemstone Corporation (ADGC) that are accredited investors subscription rights valued at $770,000 for the purchase of ADGC assets disclosed in Note 2 measured at fair value on a nonrecurring basis. The fair value of the ADGC subscription rights was determined using the Black-Scholes model whose assumptions were considered by management to be a Level 3 input.

Revenue Recognition

We recognize 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.

Recent Accounting Pronouncements

In September 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-08, Guidance on Testing Goodwill for Impairment. ASU 2011-08 gives entities testing goodwill for impairment the option of performing a qualitative assessment before calculating the fair value of a reporting unit in Step 1 of the goodwill impairment test. If entities determine, on the basis of qualitative factors, that the fair value of a reporting unit is more likely than not less than the carrying amount, the two-step impairment test would be required. Otherwise, further testing would not be needed. ASU 2011-08 is effective for fiscal and interim reporting periods within those years beginning after December 15, 2011. The adoption of this accounting standard did not have a material effect on the Company s financial statements.

In July 2012 the FASB issued ASU No. 2012-02, Testing Indefinite-Lived Intangible Assets for Impairment (the revised standard). The revised standard is intended to reduce the cost and complexity of testing indefinite-lived intangible assets other than goodwill for impairment. It allows companies to perform a qualitative assessment to determine whether further impairment testing of indefinite-lived intangible assets is necessary, similar in approach to the goodwill impairment test. The revised standard is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. Early adoption is permitted. The Company adopted this new standard in the fiscal year ended

March 31, 2013 and the adoption did not have a significant impact on its financial statements.

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 ASSET PURCHASES

The Company purchased certain assets from ADI on August 31, 2011, consisting primarily of diamond growing machines and certain intellectual property related thereto. The purchase price consisted of an aggregate of $2,000,000 in a combination of cash and a promissory note bearing interest at 4.00% annually, plus the subscription rights for certain current and former stockholders of ADI qualifying as accredited investors to acquire approximately 16 million shares of common stock of the Company for $0.01 per share (the ADI Offering). The Company has

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estimated the fair value of these ADI subscription rights to acquire shares of common stock of the Company for $0.01 per share to be $0.69 per right. At the date of the transaction, the fair value of the subscription rights was $11,040,000, and this amount was credited to additional paid-in capital. The fair value of the ADI subscription rights was determined using the Black-Scholes model with the following assumptions: estimated volatility of 100%, risk free interest rate of 0.1%, and an expected life of 1 year. The promissory note from this asset purchase was settled in full in December 2012.

The following table reflects our purchase price allocation of the assets at the time of acquisition:

Machinery and equipment	$	943,685
Reactors		2,311,818
In-process research and development		9,784,497
Total	$	13,040,000

The Company utilized a third-party valuation as part of its determination of the fair value of the assets acquired on the date of acquisition. The final amounts allocated to the ADI assets acquired are based upon the results of that valuation appraisal.

On June 5, 2012, the Company acquired certain of the assets of ADGC (the ADGC Asset Purchase), consisting primarily of lab-created diamond gemstone-related know-how, inventory, and various intellectual property, in exchange for $100,000 in cash and the right 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 the ADI Offering be conducted substantially concurrently with the ADGC Offering (collectively, the ADI/ADGC Stockholder Offering). The Company paid the $100,000 cash portion of the ADGC Asset Purchase during the month of December 2012. The ADI/ADGC Stockholder Offering began in June and was completed in March 2013. At the date of the transaction, the Company estimated the fair value of such subscription rights to be $0.79 per right and the aggregate fair value of such subscription rights was $790,000. This amount was credited to additional paid-in capital. The fair value of such rights to acquire shares of common stock of the Company was determined using the Black-Scholes model. Subsequent to the date of the transaction, the Company obtained a third-party valuation to support the fair value of the assets acquired. This valuation determined a slightly lower value of $770,000 for the subscription rights and adjusted the purchase price allocation between inventory and in-process research and development. Adjustments were made in the March 31, 2013 financial statements to reflect this modification of final purchase price and asset allocation. The final amounts allocated to the ADGC assets acquired are based upon the results of that valuation appraisal and the following table reflects our final purchase price allocation of the assets:

Inventory	$	269,000
In-process research and development		601,000
Total	$	870,000

The ADI/ADGC Stockholder 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.

NOTE 3 INTANGIBLE ASSETS

During the year ended March 31, 2013, the Company evaluated its patent portfolio and allocated $7,534,063 of the previously acquired in-process research and development to specific patents that are being used by the Company for its manufacturing operations. These patents were considered in service by the Company during the year and the values assigned are being amortized on a straight-line basis over the remaining effective lives of the patents.

Intangible assets consist of the following:

	Life		March 31, 2013		March 31, 2012
Patents, gross	6.75 15.67	$	7,534,063	$	
In-process research and development	Indefinite		2,851,435		9,784,497
			10,385,498		9,784,497
Accumulated amortization			369,847		
Net intangible assets		$	10,015,651	$	9,784,497

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Total amortization expense during the year ending March 31, 2013 was $369,847. There was no amortization expense for the year ended March 31, 2012.

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

Fiscal Year Ending		
March 31, 2014	$	739,694
March 31, 2015		739,694
March 31, 2016		739,694
March 31, 2017		739,694
March 31, 2018		739,694
Thereafter	$	3,465,746

NOTE 4 NOTES PAYABLE

In conjunction with the purchase of certain assets from ADI on August 31, 2011, the Company entered into a promissory note bearing interest at 4.00% annually and which was due and payable in full on September 1, 2012. As of March 31, 2012, $125,000 of the promissory note to ADI remained unpaid. The promissory note was paid in full during the fiscal year ended March 31, 2013.

NOTE 5 CAPITAL STOCK

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

During the fiscal year ended March 31, 2012 the Company had the following issuances of capital stock:

- On August 5, 2011, 3,200,000 shares were issued in a 2-for-1 forward split from Krossbow Holding Corp. stockholders.
- As part of a private placement, 2,517,570 shares were issued at a price of $0.70 per share for total cash proceeds, net of fees, of $1,679,064.
- 13,000,000 shares were issued at a market value price of $0.02 per share to purchase the name Scio Diamond Technology Corporation (the Scio Name) for a total purchase price of $260,000. The Company purchased the Scio name from a privately-held Nevada corporation named Scio Diamond Technology Corporation (Private Scio). The Company and Private Scio are entities under common control. ASC 805-50-30-5 states that when accounting for a transfer of assets between entities under common control, the entity that receives the asset shall initially measure the recognized asset at the carrying amount in the accounts of the transferring entity at the date of the transfer. As the Scio Name acquired had no carrying value, the value of the shares given to purchase the Scio name were recorded as a deemed distribution so that the accounting basis of the Scio name remained at zero.

- The Company issued 16 million subscription rights with an exercise price of $0.01 per share to certain current and former stockholders of ADI as part of the ADI asset purchases discussed in Note 2.

- During the three months ended December 31, 2011, the Company issued 3,908,000 shares at a price of $0.70 per share for total cash proceeds, net of fees, of $2,672,059.

- In January 2012, the Company issued 1,875,500 shares of common stock at a price of $0.70 for total net cash proceeds of $94,499.

During the fiscal year ended March 31, 2013 the Company had the following issuances of capital stock:

- The Company issued 1 million subscription rights with an exercise price of $0.01 per share to certain current and former stockholders of ADGC as part of the ADGC asset purchases discussed in Note 2.

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- The Company issued 4,891,250 units, each consisting of one share of common stock and one warrant for the purchase of a share of common stock at a strike price of $1.60 at a unit price of $0.80 for total net cash proceeds of $3,913,000.
- The Company issued 16,766,773 shares under the ADI and ADGC subscription rights.
- The Company issued 46,250 shares of common stock in lieu of cash payments to certain vendors.
- The Company issued 19,469 shares upon exercise of certain outstanding warrants;

The Company had 47,736,812 shares of common stock issued and outstanding as of March 31, 2013 of which 1,000,000 were held in treasury. This total does not include the 1,000,000 indemnity shares authorized for issuance by our Board of Directors on March 25, 2013.

As of March 31, 2013, the Company had 5,516,795 warrants outstanding. 425,545 warrants have exercise prices of $.70 per share and expire in 2016 and 2017. The warrants were issued by the Company as compensation for consulting work, placement agent services, and in exchange for cash discounts on facility rent and are valued at $0.52 per warrant using the Black-Scholes option pricing model. The Company had 4,891,250 of warrants outstanding with exercises prices of $1.60 that expire in 2015. These warrants were issued as part of the units issued during the year ended March 31, 2013. In addition, during the fiscal year ended March 31, 2013, the Company issued 200,000 warrants which remain outstanding with an exercise price of $1.60 that expire in 2018 in exchange for consulting services and are valued at $0.57 per warrant using the Black-Scholes option pricing model.

NOTE 6 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 share 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 March 31, 2013:

Options	**Shares**		**Weighted-Average Exercise Price**	**Weighted-Average Remaining Contractual Term**
Options Outstanding March 31, 2012		$		
Granted	11,417,500		0.85	
Exercised				
Expired/cancelled	7,325,000		0.84	
Options Outstanding March 31, 2013	4,092,500	$	0.87	2.54
Exercisable at March 31, 2013	1,626,333	$	0.81	2.29

The intrinsic value of options outstanding and of options exercisable at March 31, 2013 was $299,900 and $176,109, respectively.

A summary of the status of non-vested shares as of March 31, 2013 and changes during the year ended March 31, 2013 is presented below.

Non-vested Shares	**Shares**	**Weighted Average Grant-Date Fair Value**
Non-vested at March 31, 2012		$
Granted	11,417,500	0.59
Vested	(3,626,222)	0.55
Expired/cancelled: non-vested	(5,325,000)	0.59
Non-vested at March 31, 2013	2,466,278	$ 0.65

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- On May 7, 2012 the Company granted to five key management personnel options to purchase a total of 4,660,000 share of the Company s stock at $0.70 per share. 1,310,000 of the options vested immediately on the date of grant and the remaining options were to be earned based upon specific management objectives. The Black-Scholes model assumptions made to calculate the grant date fair value of the options are as follows: expected dividend yield- 0.0%, risk-free interest rate- 0.79%, expected life in years- 3, and expected volatility of 100%.

- On July 10, 2012, the Company granted to a non-executive employee options to purchase a total of 7,500 shares of the Company s stock at $0.80 per share. 1,500 of these options vested immediately and the remainder is to vest based upon specific management objectives. The Black-Scholes model assumptions made to calculate the grant date fair value of the options are as follows: expected dividend yield- 0.0%, risk-free interest rate- 0.63%, expected life in years- 3, and expected volatility of 100%.

- On August 3, 2012, the Company granted to three executive officers options to purchase a total of 1,100,000 shares of the Company s stock at $0.80 per share. The options will vest upon the achievement of specific management objectives. The Black-Scholes model assumptions made to calculate the grant date fair value of the options are as follows: expected dividend yield- 0.0%, risk-free interest rate- 0.67%, expected life in years- 3, and expected volatility of 100%.

- On November 30, 2012, the Company s former Chief Executive Officer and former Chief Financial Officer resigned from the Company. Pursuant to agreements entered into in connection with their respective resignations, an aggregate of 2,725,000 unvested and an aggregate of 1,400,000 vested stock options, for a total of 4,125,000 stock options, previously granted to these officers were forfeited. In addition, the Chief Executive Officer surrendered 1,000,000 shares of common stock with $0.001 par value to the Company, which are held in treasury.

- On December 5, 2012, the Company granted to Stephen D. Kelley, its then newly-appointed Chief Executive Officer, options to purchase a total of 3,200,000 shares of the Company s stock at $1.01 per share. On January 24, 2013, Mr. Kelley resigned from the Company. No options granted to Mr. Kelley had been exercised as of his date of resignation, and accordingly pursuant to his stock option award agreement, all his stock options were forfeited on that date. The Black-Scholes model assumptions made to calculate the grant date fair value of the options are as follows: expected dividend yield- 0%, risk-free interest rate- 0.61%, expected life in years- 5, and expected volatility of 100%.

- On December 14, 2012, the Company granted its four then existing members of the Board of Directors options to purchase a total of 250,000 shares of the Company s stock as compensation for serving on the Board during 2012. These options were fully vested on the date granted. The Black-Scholes model assumptions made to calculate the grant date fair value of the options are as follows: expected dividend yield- 0%, risk-free interest rate- 0.34%, expected life in years- 3, and expected volatility of 100%.

- On February 2, 2013, the Company granted to Mr. Michael McMahon, its newly-appointed Chief Executive Officer options to purchase a total of 1,500,000 shares of the Company s stock at $0.93 per share. Of the 1,500,000 stock options, 234,375 stock options vested immediately upon employment and 1,265,625 stock options to vest upon the achievement of specific management objectives including employment tenure, cumulative cash flow and cumulative revenue. As of the date of grant, management of the Company anticipated that the average term of the options granted to Mr. McMahon would be three years, and the Company reserved a pool of shares to be issued upon exercise of such options. Using the Black-Scholes option pricing model, management determined that the options issued on February 2, 2013 had a value of $0.60 per option on the date of the grant, and total compensation costs of $209,101 were recognized for certain of these options as of March 31, 2013. Compensation expense for the remaining options will be immediately recognized when management determines that the relevant objectives had become reasonably probable to occur.

The assumptions used and the calculated fair value of the February 2, 2013 options are as follows:

•	Expected dividend yield	0.00%
•	Risk-free interest rate	0.40%
•	Expected life in years	3.00
•	Expected volatility	106%

• Weighted average calculated value of options granted	$	0.60

• On March 25, 2013 the Company granted to Mr. Jonathan Pfohl, its newly-appointed Chief Financial Officer, options to purchase a total of 700,000 shares of the Company s stock at $0.83 per share. Of the 700,000 stock options, 126,583 stock options vested immediately upon employment and 573,417 stock options to vest upon the achievement of specific management objectives including employment tenure, cumulative cash flow and cumulative revenue. As of the date of grant, management of the Company anticipated that the average term of the options granted to Mr. Pfohl would be three years, and the Company reserved a pool of shares to be issued upon exercise of such options. Using the Black-Scholes option pricing model, management determined that the options issued on March 26, 2013 had a value of $0.53 per option on the date of the grant, and total compensation costs of $77,359 were recognized for certain of these options

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as of March 31, 2013. Compensation expense for the remaining options will be immediately recognized when management determines that the relevant objectives had become reasonably probable to occur.

The assumptions used and the calculated fair value of the March 25, 2013 options are as follows:

• Expected dividend yield		0.00%
• Risk-free interest rate		0.38%
• Expected life in years		3.00
• Expected volatility		106%
• Weighted average calculated value of options granted	$	0.53

On March 25, 2013, the Board of Directors authorized the issuance of 50,000 warrants at an exercise price of $1.60 per share to Theodorus Strous, a member of the Board, as compensation for Mr. Strous efforts in connection with the Company s largest customer and not as compensation in his capacity as a member of the Board. In addition, on March 25, 2013, the Board of Directors authorized the issuance of 150,000 warrants at an exercise price of $1.60 per share to an unaffiliated third party as compensation for his efforts in connection with the Company s largest customer. All such warrants were fully vested at the time of grant and have five years until expiration. The Company recognized $113,760 in expense as professional and consulting fees related to these warrant grants in the fiscal year ended March 31, 2013.

The assumptions used and the calculated fair value of the March 25, 2013 warrants are as follows:

• Expected dividend yield		0.00%
• Risk-free interest rate		0.80%
• Expected life in years		5.00
• Expected volatility		106%
• Weighted average calculated value of warrants granted	$	0.57

Also on March 25, 2013, the Board of Directors authorized the issuance of 500,000 shares of the Company s common stock to Edward S. Adams, Chairman of the Board, and 500,000 shares of the Company s common stock to Michael R. Monahan, a member of the Board, to indemnify Messrs. Adams and Monahan under applicable law and the Company s charter documents for shares of Company common stock transferred by them in May 2012 to certain individuals in settlement of a complaint filed by such individuals against Messrs. Adams and Monahan, their respective spouses, the law firm of Adams Monahan LLP, Mr. Joseph Lancia (our former President and Chief Executive Officer), the Company, and, as a nominal defendant, Private Scio. The Company recognized $830,000 as professional and consulting fees related to this authorization for indemnity. As of March 31, 2013 these shares had not been issued by the Company.

For the years ended March 31, 2013 and 2012, the Company recognized $1,996,426 and $0, respectively, as compensation cost for options issued, and recorded related deferred tax asset of $0 for all periods.

At March 31, 2013, unrecognized compensation cost related to non-vested awards was $1,265,827. This cost is expected to be recognized over a weighted average period of 2.71 years. The total fair value of shares vested during the years ended March 31, 2013 and 2012 was $1,873,609 and $0, respectively.

NOTE 7 OTHER INCOME

During the year ended March 31, 2012, the Company received grants totaling $75,000 as incentive for locating its production facilities in Greenville, South Carolina. At March 31, 2012, the Company had met all conditions with respect to the grants and accordingly has included them in other income for the period ended March 31, 2012. The Company recognized no other income for the period ended March 31, 2013.

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NOTE 8 OPERATING LEASES

The Company leases office space at locations in Hudson, Massachusetts and Greenville, South Carolina. Under the terms of the leases, the Company is obligated to pay escalation rentals for certain operating expenses and real estate taxes. The Company s lease in Hudson, Massachusetts expires in January 2014 and the Greenville, South Carolina lease expires in March 2019. The Company also leases electrical equipment in its production facility in South Carolina. The Company recognized $426,023 and $82,895 in lease expense for the fiscal years ending March 31, 2013 and 2012, respectively. Minimum future rental payments under the leases are summarized as follows:

2014	$	383,134
2015		347,851
2016		361,660
2017		224,410
2018		224,410
2019 and thereafter	$	224,411

NOTE 9 RELATED PARTIES

The Company incurred expenses of $106,229 and $239,988 for professional and consulting services provided by AdamsMonahan, LLP, a firm in which our Board members, Edward S. Adams and Michael R. Monahan, are partners, for the years ended March 31, 2013 and 2012, respectively.

On August 5, 2011, the Company executed the Scio Asset Purchase Agreement with 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. Our directors Edward S. Adams and Michael R. Monahan were directors of Private Scio and Joseph D. Lancia, our former Chief Executive Officer, was an officer of Private Scio, and they owned 31.5%, 31.5% and 15.4%, respectively, of Private Scio. At the time that the Scio Asset Purchase Agreement was executed, Mr. Adams and Mr. Monahan had control of the Company. Mr. Adams and Mr. 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.

The Company purchased certain assets from ADI on August 31, 2011, consisting primarily of diamond growing machines and intellectual property related thereto. The purchase price consisted of an aggregate of $2,000,000 in a combination of cash and a promissory note bearing interest at 4.00% annually and due and owing in full on September 1, 2012, plus the right for certain current and former stockholders of ADI to acquire approximately 16 million shares of common stock of the Company for $0.01 per share. These rights were valued at $11,040,000 in total using the Black-Scholes model. 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 ADGC, consisting primarily of lab-created 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. These rights were valued at $770,000 based on an independent third-party appraisal. Mr. Adams and Mr. Monahan served in various capacities with ADGC through early 2011.

Robert C. Linares was elected to the Board of Directors in January 2013. Dr. Linares is the father-in-law of Edward S. Adams, the Chairman of our Board of Directors. The ADI/ADGC Stockholder 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.

On January 29, 2013, the Board of Directors approved an arrangement under which the Company and two of our board members, Edward S. Adams and Michael R. Monahan, have jointly engaged outside counsel to pursue a complaint against a former Company service provider. Claims being considered include both claims on behalf of the Company and claims on behalf of Messrs. Adams and Monahan individually. The terms of the engagement include an agreement for the Company, on the one hand, and Messrs. Adams and Monahan, on the other, to split the costs of pursuing this matter, and to split any recoveries obtained from the service provider. In the event the complaint is unsuccessful, the Board has agreed that the Company will indemnify Messrs. Adams and Monahan for all monies paid by them in pursuit of the complaint. The Company recognized $100,000 in expense during the fiscal year ending March 31, 2013 to reflect fees paid to the outside counsel to pursue this complaint, of which $50,000 was paid to the outside counsel by the Company and $50,000 was accrued by the Company as a potential liability for the indemnification. The Company is unable to determine the aggregate costs it will ultimately incur or the aggregate recoveries it will ultimately obtain, if any.

On March 6, 2013, the Board of Directors retained two directors, Mr. Michael Monahan and Mr. Theo Strous, to provide consulting services for the Company at a total cost of $11,000 and $4,000 respectively, per month. The Company recognized $15,000 in consulting expense for these services during the fiscal year ended March 31, 2013.

On May 7, 2012, Kristoffer Mack and Paul Rapello, shareholders of Loblolly, Inc. (f/k/a Scio Diamond Technology Corporation) (referred to in this report as Private Scio), derivatively and on behalf of nominal defendant Private Scio (collectively, the Plaintiffs) filed a claim in the U.S. District Court for the District of Minnesota against Edward S. Adams (our Chairman), Denise L. Adams, Michael R. Monahan (our director), Julie C. Monahan, the law firm of Adams Monahan LLP (AMLLP), Joseph Lancia (our former Chief Executive Officer) and the

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Company (collectively, the Defendants) and Private Scio, as a Nominal Defendant. The complaint alleged (i) against Messrs. Adams, Monahan and Lancia, AMLLP and the Company, violations of Sections 10(b) and 20(a) of the Exchange Act and Rule 10b-5 thereunder and violation of Minnesota Statutes §§ 80A.68 and 80-A.76, (ii) against Messrs. Adams, Monahan and Lancia and AMLLP, breach of fiduciary duty, (iii) against Messrs. Adams and Monahan and AMLLP, malpractice, (iv) against all Defendants, rescission of the transactions set forth in the Scio Asset Purchase Agreement and (v) against Adams, Monahan and AMLLP, usurpation of a corporate opportunity. Each allegation relates to, among other things, certain actions taken in connection with the asset purchase contemplated in the Scio Asset Purchase Agreement, the ADGC Asset Purchase, and the ADI/ADGC Stockholder Offering.

The Plaintiffs sought direct and consequential damages in an amount to be established through proof at trial, plus pre-judgment and post-judgment interest and reasonable attorneys fees and costs, rescission of the alleged improper corporate transactions, a constructive trust in favor of Private Scio based on the alleged usurpation of corporate opportunities, and other appropriate equitable and other relief. On May 11, 2012, four days after the complaint was filed, the Plaintiffs voluntarily dismissed the complaint with prejudice. This voluntarily dismissal was the result of a settlement agreement whereby Messrs. Adams and Monahan transferred to the Plaintiffs 1,000,000 shares of common stock of the Company held by them, and Mr. Adams transferred to the Plaintiffs a cash payment in the amount of $90,000.

On March 25, 2013, the Board of Directors reviewed the facts of the litigation described above and the settlement, and agreed to accept liability for the settlement and authorized the following to indemnify Messrs. Adams and Monahan, members of the Board, under applicable law and the Company s charter documents for expenses incurred and shares of Company common stock and cash transferred by them in settlement of the litigation: (i) the issuance of 500,000 shares of the Company s common stock to each of Messrs. Adams and Monahan, (ii) the payment of $90,000 to Mr. Adams for amounts paid by him to settle the complaint, and (iii) any other amounts and expenses paid in connection with stockholder litigation matters involving certain current and former stockholders of the Company. During the fiscal year ended March 31, 2013, the Company recognized $946,555 in expense related to the foregoing indemnification. Of this amount, $830,000 represents non-cash expenses related to the value of the Company common stock to be issued

Also on March 25, 2013, the Board of Directors authorized the issuance of a warrant to purchase 50,000 shares of our common stock at an exercise price of $1.60 per share to Theodorus Strous, a member of the Board, as compensation for Mr. Strous efforts in connection with the Company s largest customer and not as compensation in his capacity as a member of the Board. These warrants were fully vested at the time of grant and the Company recognized $28,440 in expense related to these warrants in the fiscal year ended March 31, 2013.

NOTE 10 INCOME TAXES

There was no current or deferred tax expense (benefit) for the years ended March 31, 2013 and 2012.

The deferred tax asset (liability) at March 31, 2013 and 2012 consists of the following types of temporary differences and their related tax effects:

	At March 31, 2013	At March 31, 2012
Accrued expenses	$ 187,640	$ 27,659

Property and equipment	(112,563)	(3,321)
Capitalized startup/acquisition costs	633,713	679,697
Federal and state net operating loss carry-forward	2,122,402	15,302
Trade name	92,572	97,888
Intangible assets	(55,685)	
Nonqualified Options	59,029	72,440
Valuation allowance	(2,927,108)	(889,665)
Total	$	$

The Company recorded a valuation allowance against its net deferred tax asset at March 31, 2013 and March 31, 2012, as the Company believes that it is more likely than not that this asset will not be realized.

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	At March 31, 2013			At March 31, 2012		
		Amount	%		Amount	%
Tax at statutory federal income tax rate	$	(2,476,000)	(34.0)%	$	(702,746)	(34.0)%
Increase (decrease) resulting from:						
State income tax expense			0.0%		(69,190)	(3.3)%
Change in valuation allowance		1,846,204	25.3%		779,177	37.7%
Incentive stock options		625,235	8.6%			0.0%
Other, net		4,561	0.1%		(7,241)	(0.4)%
Total	$		0.0%	$		0.0%

The Company had federal and state net operating loss carry-forwards (carry-forward) of $5,646,000 and $41,000 at March 31, 2013 and 2012 respectively. These carry-forwards start to expire in the year 2031.

NOTE 11 LITIGATION

In the course of ordinary business operations, the Company at times may be subject to, or involved in, certain legal disputes or actions arising out of claims from third parties or by claims made on behalf of the Company itself. As of March 31, 2013 there were no outstanding claims by the Company or against the Company.

NOTE 12 SUBSEQUENT EVENTS

On May 13, 2013, Mr. Bernard McPheely a member of our Board of Directors tendered his resignation from the Board. As of June 17, 2013, no one has been appointed to replace Mr. McPheely.

On June 4, 2013 the Company engaged Arque Capital LTD., Maxwell Simon, Inc., and Stonegate Securities, Inc. to assist the Company in future capital raising activities. The Company agreed to issue 165,000, 162,500 and 200,000 shares of its common stock to each of Arque Capital LTD., Maxwell Simon, Inc. and Stonegate Securities Inc. respectively as partial compensation for these engagements.

On June 21, 2013, the Company entered into a loan agreement with Platinum Capital Partners, LP providing for a $1 million secured revolving line of credit that the Company may draw on to fund working capital and other corporate purposes. On June 21, 2013, $910,000 was drawn on the facility. The Company plans to utilize these funds and amounts drawn in the future 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 credit facility matures on June 20, 2014. 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.

END NOTES TO FINANCIALS

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

None.

ITEM 9A. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures refer to controls and other procedures designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms, and that such information is accumulated and communicated to the Company s management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. As of March 31, 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 March 31, 2013.

Management s Annual Report on Internal Control over Financial Reporting

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

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

Management, including our Chief Executive Officer and Chief Financial Officer, conducted an assessment of the effectiveness of our internal control over financial reporting as of March 31, 2013 based on the criteria set forth in the Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. During that assessment, management identified the following material weaknesses and significant deficiencies in our internal control over financial reporting, which are common in small companies. These material weaknesses were identified by our Chief Executive Officer and Chief Financial Officer following the end of the fiscal year covered by this report:

- Lack of a functioning audit committee due to a lack of a majority of independent members and a lack of a majority of outside directors on our board of directors, resulting in ineffective oversight in the establishment and functioning of required internal controls and procedures;
- Insufficient communication process in connection with period end financial disclosure and reporting; and
- Lack of implementation of adequate written documentation of our internal control policies and procedures; 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 annual report on Form 10-K, 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 changes in the Company s outside law firm and 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, and we plan to take additional steps during our fiscal year ending March 31, 2014.

To further remediate such weaknesses, we hope to implement the following changes during our fiscal year ending March 31, 2014:

- Adding one or more independent directors and establishing an audit committee;
- Implementation of documented control structure and related procedures

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

Changes in Internal Controls

Other than described above, there were no significant changes in our internal controls over financial reporting that occurred during our fiscal year ended March 31, 2013, that materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

ITEM 9B. OTHER INFORMATION.

NONE

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PART II

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE.

Directors and Executive Officers

The following table sets forth the names and ages of our directors and executive officers as of June 17, 2013:

Name	Age	Position with the Company	Since
Directors			
Edward S. Adams	50	Chairman	August 5, 2011
Michael R. Monahan	46	Director	August 5, 2011
Theodorus Strous	62	Director	December 21, 2011
Robert C. Linares	77	Director	January 29, 2013
Non-Director Executive Officers			
Michael W. McMahon	62	Chief Executive Officer	January 29, 2013
Jonathan Pfohl	46	Chief Financial Officer	March 4, 2013

Our bylaws provide that each director is to be elected at our annual meeting by the stockholders and serve until his or her successor is elected and qualified at the next annual meeting, unless he or she resigns or is removed earlier. The Company has not held an annual meeting and each member of our Board was initially appointed by vote of the Board in existence immediately prior to his appointment and has continued to serve since that time. Directors serve until his or her successor is duly elected and qualified, or until he or she is earlier removed from office or resigns.

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

Edward S. Adams and Michael R. Monahan make up the Executive Committee of the Board of Directors.

EDWARD S. ADAMS. Edward S. Adams serves as non-executive chairman of the board of directors of the Company. Mr. Adams has nearly twenty years of experience in corporate finance and founded and operated a FINRA and SEC licensed boutique investment banking firm from 2007-2012. Mr. Adams is a founding partner in the corporate law firm of Adams Monahan, LLP. Mr. Adams holds an endowed chair in finance and law at the University of Minnesota Law School and teaches courses at both the Law School and in the graduate MBA program at the Carlson School at the University of Minnesota. His financial and legal experience qualifies him to serve as a director.

MICHAEL R. MONAHAN. Michael R. Monahan is a non-executive director of the Company. Mr. Monahan has nearly ten years of experience in corporate finance and founded and operated a FINRA and SEC licensed boutique investment banking firm from 2007-2012. Mr. Monahan is a founding partner in the corporate law firm of Adams Monahan, LLP with more than twenty years of legal experience. His financial and legal experience qualifies him to serve as a director.

THEODORUS STROUS. Theodorus Strous has served as a non-executive director of the Company s Board of Directors since December 2011. Since March 2013 Mr. Strous has served as a Director of Rough to Ready ICC, a company which structures alternative investment vehicles, where he is responsible for investment strategy. Mr. Strous previously served, from October 2010 until March 2013, as a Senior Advisor to the Board of Diamond Asset Advisors AG, a company active in developing alternative investment structures, related to the diamond

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industry, for institutional and other qualified investors. Before that, Mr. Strous was a managing director and a member of the executive committee of the Antwerp Diamond Bank from 1999 until 2010, and from 2007 until May 2010 he was Chairman of the board of directors of ADB Private Equity Ltd. Prior to that, Mr. Strous ran a diamond industry consultancy business. As an executive with ABN Amro Bank, Mr. Strous held numerous management positions from 1988 to 1997. From 1985 to 1988, Mr. Strous was employed by Amro Bank (Belgium) to help salvage and restructure the bank s diamond credit portfolio. Mr. Strous extensive diamond industry experience provides him with relevant insight as a director.

ROBERT C. LINARES. Dr. Robert C. Linares was appointed to our Board of Directors on January 29, 2013. Dr. Linares is a co-founder of the Diamond Technology and is the former Chairman and Chief Executive Officer of ADI and ADGC. Dr. Linares brings extensive and diverse experience in the field of crystal growth technologies, having held positions with Bell Laboratories, Perkin Elmer, M/A-COM (now part of Tyco Electronics) and Spectrum Technology, Inc., a company he founded and was sold to NERCO Advanced Materials (NYSE: NER). Dr. Linares holds a doctorate in chemical engineering as well as a master s in business administration. His extensive knowledge of the Diamond Technology and crystal materials qualifies him as a director.

MICHAEL W. MCMAHON. Michael W. McMahon was appointed to serve as our Chief Executive Officer on January 29, 2013. Prior to that time, from May 2006 until September 2011, Mr. McMahon was the President of Unique Solutions, LLC, a company that provides expertise in the control of engineering and construction projects, and from September of 2001 until May of 2006 he served as a Senior Vice President with Fluor Corporation, a leading engineering construction company. From August 1994 until August of 2001, Mr. McMahon was a Senior Vice President with Jacobs Engineering Corporation, a provider of technical, professional and construction services.

JONATHAN M. PFOHL. Jonathan M. Pfohl was appointed to serve as our Chief Financial Officer on March 4, 2013 and had been serving as Interim Chief Financial Officer of the Company since January 16, 2013. Before that time he had served since December 19, 2012 as an independent contractor providing accounting, finance and related services to the Company through his consulting company Rose Creek Associates LLC. Mr. Pfohl has more than 25 years of financial and management experience. Before joining the Company, he served as CEO of Wireless Express LLC, one of Sprint s largest independent distribution partners, from December 2009 to October 2013. Prior to Wireless Express, Mr. Pfohl was CFO of Main Street Broadband LLC, a privately held wireless broadband service provider, from June 2009 to December 2009; CFO of Movida Cellular LLC, a mobile virtual network provider, from April 2007 to March 2008; and a Vice President with AirGate PCS, Inc., a provider of wireless personal communications services, from 1999 to 2005. Mr. Pfohl has a BS-Management and an MBA-Finance from the State University of New York at Buffalo.

Family Relationships. Dr. Linares was elected to the Board of Directors in January 2013. Dr. Linares is the father-in-law of Mr. Adams. Other than that relationship, we currently do not have any directors or executive officers of our Company who are related to each other.

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

The rules of the SEC require our directors, executive officers and holders of more than 10 percent of our common stock to file reports of stock ownership and changes in ownership with the SEC. Based on the Section 16 reports filed by our directors, executive officers and greater than 10 percent beneficial owners, and written representations of our directors and executive officers, we believe there were no late or inaccurate filings for transactions occurring during 2012 and 2013, except as follows:

Name	Number of Late Reports	Number of Late Transactions	Number of Missed Reports	Number of Missed Transactions
Edward S. Adams	2	2	0	0
Thomas P. Hartness	1	1	0	0
Stephen D. Kelley			2	2
Joseph Lancia	1	1	0	0
Robert Linares	1	1	0	0
Michael W. McMahon	3	3	0	0
Bernard McPheely	1	1	0	0
Michael Monahan	2	2	0	0
Charles Nichols	2	2	0	0
Jonathan Pfohl	2	2	0	0
Theodorus Strous	2	3	0	0

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Code of Ethics and Business Conduct

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

Audit Committee and Audit Committee Financial Expert

The Company does not have an audit committee or an audit committee financial expert (as defined in Item 407 of Regulation S-K) serving on its Board of Directors. All current members of the Board of Directors lack sufficient financial expertise for overseeing financial reporting responsibilities. The Company has not appointed an audit committee financial expert on its Board because the Company has only recently ceased to be a development stage company and has not yet added a substantial number of independent directors or any directors who would qualify as an audit committee financial expert (as defined in Item 407 of Regulation S-K).

ITEM 11. EXECUTIVE COMPENSATION.

The following table shows the compensation awarded to, earned by or paid to (i) each individual who served as our chief executive officer during the fiscal year ended March 31, 2013 and (ii) two additional individuals for whom disclosure would have been provided but for the fact that the individual was not serving as an executive officer as of March 31, 2013. We had no executive officers serving as of March 31, 2013 other than our Chief Executive Officer and our Chief Financial Officer.

Summary Compensation Table

Name and Principal Position	Fiscal Year Ended March 31,	Salary	Bonus	Option Awards(1)	All Other Compensation	Total
Michael W. McMahon(2)	2013	$ 163,461	$	$ 1,538,300	$	$ 1,701,761
Chief Executive Officer	2012	40,384			33,350(3)	73,734
Stephen D. Kelley(4)	2013	$ 42,308		$ 2,400,000	$ 11,227(5)	$ 2,453,535
Former Chief Executive Officer	2012					
Joseph D. Lancia(6)	2013	$ 212,192(7)	$ 100,000	$ 1,535,000	$ 239,400(8)	$ 2,086,592
Former President and Chief Executive Officer	2012	97,827(7)			190,668(9)	288,495
Jonathan M. Pfohl	2013	$ 10,769	$	$ 448,000	$ 49,764(10)	$ 508,534

Chief Financial Officer	2012					
Charles G. Nichols	2013	$ 120,000	$	$ 339,330	$ 26,403(11)	$ 452,752
Former Chief Financial Officer	2012	25,962				25,962

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(1) In accordance with FASB ASC Topic 718, we chose the Black-Scholes option pricing model to determine the aggregate grant date fair value of the options set forth in this table. Our use of this model should not be construed as an endorsement of its accuracy at valuing options. All stock option valuation models, including the Black-Scholes model, require a prediction about the future movement of the stock price. Assumptions made to calculate the grant date fair value of the options reported are as follows: (a) for options to purchase 3,000,000, 600,000 and 425,000 shares granted to Messrs. Lancia, McMahon and Nichols in May 2012: expected dividend yield- 0%, risk-free interest rate- 0.79%, expected life in years- 3, and expected volatility of 100%; (b) for options to purchase 500,000, 300,000 and 300,000 shares granted to Messrs. Lancia, McMahon and Nichols in August 2012: expected dividend yield- 0%, risk-free interest rate- 0.67%, expected life in years- 3, and expected volatility of 100%; (c) for options granted to Mr. Kelley: expected dividend yield- 0%, risk-free interest rate- 0.61%, expected life in years- 5, and expected volatility of 100%; and (d) for options to purchase 1,500,000 and 700,000 shares granted to Messrs. McMahon and Pfohl in February 2013 and March 2013, respectively: the assumptions set forth in Item 8, Note 9 (Share Based Compensation) of this Annual Report on Form 10-K.

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(2) Mr. McMahon was appointed Chief Executive Officer on January 29, 2013. During fiscal 2012 and fiscal 2013 until such appointment, Mr. McMahon served as our Chief Operating Officer.

(3) Includes $31,250, plus $2,100 in expenses, paid to Unique Solutions, LLC, of which Mr. McMahon is the president, for consulting services provided to the Company.

(4) Mr. Kelley was appointed Chief Executive Officer of the Company effective December 5, 2012, and left the Company on January 24, 2013. He is included in the table in accordance with applicable SEC rules. Because Mr. Kelley was not a named executive officer in fiscal 2012, his information is only provided for fiscal 2013. Mr. Kelley s options were forfeited upon his departure from the Company.

(5) Represents $11,227 for reimbursement of temporary living expenses.

(6) Mr. Lancia left the Company on November 30, 2012 and is included in the table in accordance with SEC rules. Mr. Lancia s options were forfeited upon his departure from the Company.

(7) Includes $38,250 and $37,250 paid to Mr. Lancia as director and member of the executive committee of the board of directors in accordance with our director compensation policy described below for fiscal years 2013 and 2012 respectively.

(8) Represents $239,400 of accrued severance payments for Mr. Lancia after his departure from the Company on November 30, 2012

(9) Includes $187,500, plus $3,168 in expenses, paid to SCA, Ltd., of which Mr. Lancia is a consultant, for consulting services provided to the Company.

(10) Includes $42,875, plus $6,889.31 in expenses, paid to Rose Creek Associates, LLC, of which Mr. Pfohl is the president, for consulting services provided to the Company.

(11) Mr. Nichols left the Company on November 30, 2012 and is included in the table in accordance with to SEC rules. He was paid $26,403 in severance payments upon his departure from the Company. With the exception of 100,000 vested options, all of Mr. Nichols options were forfeited upon his departure from the Company. The exercise date of the options retained by Mr. Nichols was extended until May 31, 2013 per his separation agreement with the Company. The Company recognized and this table reflects $9,580 in option expense related to this extension. These options expired unexercised on May 31, 2013.

Narrative Disclosure to Summary Compensation Table

Current Executive Officers

Michael W. McMahon In connection with his appointment as our Chief Executive Officer effective on February 1, 2013, Michael W. McMahon entered into an employment letter with us that supersedes the employment letter and change of control agreement he had previously entered into in connection with his employment as our Chief Operating Officer. Under his current employment letter, Mr. McMahon is paid a base annual salary of $249,999, subject to potential increases in connection with an annual salary review by the Board of Directors. The Board of Directors, in its discretion, may award Mr. McMahon an annual bonus, which for fiscal 2013 may be up to $100,000 for achieving performance targets in our 2013 fiscal year plan following acceptance of such plan by the Board, and for performance in excess of the plan the Board may in its discretion award an additional bonus of up to $50,000.

Under his employment letter Mr. McMahon is entitled during his term of employment to participate in all employee benefit plans and programs available to similarly situated employees (subject to eligibility) that we have in force from time to time, and is entitled to 20 days paid vacation each calendar year. Mr. McMahon is also entitled to options, granted on February 2, 2013 pursuant to our 2012 Share Incentive Plan, to purchase a total of 1,500,000 shares of our common stock at $0.93 per share (the closing price of our common stock on the date of grant), vesting as follows: options to purchase 271,250 shares vested immediately upon commencement of employment; options to purchase 234,375 shares will vest upon the six-month anniversary of his start date; options to purchase 468,750 shares will vest when we achieve cumulative revenues of $5 million (cumulative from January 1, 2013); options to purchase 234,375 shares will vest when we achieve cumulative EBITDA of $1 million (cumulative from January 1, 2013); and options to purchase 291,250 shares will vest when we achieve cumulative EBITDA of $2.5 million

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(cumulative from January 1, 2013); subject to the terms of the Plan. Mr. McMahon is subject to a proprietary information and inventions agreement, and is an employee-at-will.

Mr. McMahon s employment letter also provides that if Mr. McMahon s employment is terminated for any reason other than for Cause (as defined in the Employment Letter) or his voluntary resignation, in exchange for a general release by Mr. McMahon of us and our officers, directors, employees, shareholders, and agents from liability, as well as one-year non-solicitation and non-competition covenants from Mr. McMahon, Mr. McMahon will be entitled to receive, for twelve months following his date of termination, (i) his base salary plus (ii) $2,000 per month to offset his potential medical, dental and life insurance expenses and any premiums required under COBRA comparable state law, each paid in accordance with our payroll and benefit policies. In addition, we will (also in exchange for a general release by Mr. McMahon of us and our officers, directors, employees, shareholders, and agents from liability) (1) extend the period during which Mr. McMahon may exercise his option with respect to any portion or all of his vested options to purchase shares to within twelve months following his date of separation, and (2) agree not to exercise any right of repurchase. All granted options will automatically vest in the event of a change in control of us, which will be deemed to have occurred on the date of closing of any of the following: (i) a merger in which we are not the surviving entity, (ii) a sale of all of the outstanding shares of our stock or (iii) a sale by us of substantially all of our assets)). In this case, the employment letter provides that the options will be exercisable for five years from the vesting date, subject to approval of the Board, provided that no options may be exercised after ten years following the date of grant. If Mr. McMahon s employment is terminated for Cause or due to his voluntary resignation, he will not be entitled to severance or benefit payments.

In addition, under the employment letter, in the event Mr. McMahon s employment is terminated, for any reason other than for Cause or his voluntary resignation, during the four-month period before or the twelve-month period after a change in control that implies a Company value of $50,000,000 or more, Mr. McMahon will be entitled to (i) a lump-sum cash payment equal to the sum of (a) 2.0 times his annual base salary on the day before the change in control or the day before termination, whichever is higher, plus (b) any base salary or bonus earned or accrued through the date of termination and not previously paid, and (ii) payment of $2,000 per month for 24 months, which payments are intended to offset potential medical, dental and life insurance expenses. Mr. McMahon would also remain subject to the terms of our proprietary information and inventions agreement.

For purposes of Mr. McMahon s employment letter, Cause means: (i) conviction of, or plea of guilty or no contest by Mr. McMahon of a felony or crime of dishonesty or moral turpitude; (ii) Mr. McMahon s commission, as determined by the Board, of an intentional act, or an act of fraud, dishonesty, or theft affecting our property, reputation, or business; (iii) Mr. McMahon s willful and persistent neglect of the duties and responsibilities of his position; (iv) failure or refusal to carry out the lawful directives of the Board; (v) diverting any of our or our affiliates business opportunities for his own personal gain; (vi) misrepresentation of a significant fact on his employment application and/or resume; (vii) misuse of alcohol or drugs affecting work performance, or (viii) death or disability that prevents him from performing the essential functions of his position with or without reasonable accommodation.

On May 7, 2012, we entered into an option grant agreement with Mr. McMahon during his service as our Chief Operating Officer under which we granted to Mr. McMahon an option to purchase up to 300,000 shares of common stock at an exercise price of $0.70 per share, subject to the achievement of certain performance milestones by us as set forth below, and an option to purchase up to 300,000 shares of common stock at an exercise price of $0.70 per share, vesting immediately. The incrementally vesting options vest upon the achievement of certain performance milestones by us as set forth below:

Percentage of Option Vested	**Performance Milestone**
10%	Delivery of ten machines to South Carolina production
20%	Production of 1,000 gross carats

30%	Achievement of one-month positive operating cash flow
40%	Achievement of two consecutive quarters of profitability

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On August 13, 2012, we entered into an option grant agreement with Mr. McMahon during his service as our Chief Operating Officer under which we granted to Mr. McMahon an option to purchase up to 300,000 shares of common stock at an exercise price of $0.80 per share, subject to the achievement of certain performance milestones by us as set forth below:

Percentage of Option Vested	Performance Milestone
20%	Implementation of laser operation in South Carolina
40%	Achievement of $1M in EBITDA cumulative from July 1, 2012
40%	Achievement $5M in revenue cumulative from July 1, 2012

Jonathan M. Pfohl. Mr. Pfohl was appointed as our Chief Financial Officer on March 4, 2013. In connection with his appointment, Mr. Pfohl entered into an employment letter with us under which he is paid a base annual salary of $200,000, subject to potential increases in connection with an annual salary review by the Board of Directors. The Board of Directors, in its discretion, may award Mr. Pfohl an annual bonus, which for fiscal 2013 may be up to $60,000 for achieving performance targets in our 2013 fiscal year plan following acceptance of such plan by the Board, and for performance in excess of the plan the Board may in its discretion award an additional bonus of up to $30,000. Mr. Pfohl is also entitled to a lump sum payment of $3,000 per month for temporary living expenses in Greenville, South Carolina for a period of twelve months, subject to extension upon the approval of our Chief Executive Officer.

Under his employment letter Mr. Pfohl is entitled during his term of employment to participate in all employee benefit plans and programs available to similarly situated employees (subject to eligibility) that we have in force from time to time, and is entitled to 20 days paid vacation each calendar year. Mr. Pfohl is also entitled to receive options, granted on March 25, 2013 pursuant to our 2012 Share Incentive Plan, to purchase a total of 700,000 shares of our common stock at $0.83 per share (the closing price of our common stock on the date of grant), vesting as follows: options to purchase 126,583 shares vested immediately upon commencement of employment; options to purchase 109,375 shares will vest upon the six-month anniversary of his start date; options to purchase 218,750 shares will vest when we achieve cumulative revenues of $5 million (cumulative from January 1, 2013); options to purchase 109,375 shares will vest when we achis cumulative EBITDA of $1 million (cumulative from January 1, 2013); and options to purchase 135,917 shares will vest when the Company achieves cumulative EBITDA of $2.5 million (cumulative from January 1, 2013); subject to the terms of the Plan. Mr. Pfohl is subject to a proprietary information and inventions agreement, and is an employee-at-will.

Mr. Pfohl s employment letter also provides that if Mr. Pfohl s employment is terminated for any reason other than for Cause (as defined below) or his voluntary resignation, in exchange for a general release by Mr. Pfohl of us and our officers, directors, employees, shareholders, and agents from liability, we agreed (i) to extend the period during which Mr. Pfohl may exercise his option with respect to any portion or all of his vested options to purchase shares to within twelve months following his date of separation, and (ii) not to exercise any right of repurchase. All granted options will automatically vest in the event of a change in control of us, which will be deemed to have occurred on the date of closing of any of the following: (i) a merger in which we are not the surviving entity, (ii) a sale of all of the outstanding shares of our stock or (iii) a sale by us of substantially all of our assets)). In this case, the employment letter provides that the options will be exercisable for five years from the vesting date, subject to approval of the Board, provided that no options may be exercised after ten years following the date of grant. If Mr. Pfohl s employment is terminated for Cause or due to his voluntary resignation, he will not be entitled to severance or benefit payments.

In addition, under the employment letter, in the event Mr. Pfohl s employment is terminated, for any reason other than for Cause or his voluntary resignation, during the four-month period before or the twelve-month period after a change in control that implies a Company value of $50,000,000 or more, Mr. Pfohl will be entitled to (i) a lump-sum cash payment equal to the sum of (a) 1.0 times his annual base salary on the day before the change in control or the day before termination, whichever is higher, plus (b) any base salary or bonus earned or accrued through the date of termination and not previously paid, and (ii) payment of $2,000 per month for 24 months, which payments are intended to offset potential medical, dental and life insurance expenses. Mr. Pfohl would also remain subject to the terms of our proprietary information and

inventions agreement.

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For purposes of Mr. Pfohl s employment letter, Cause means: (i) conviction of, or plea of guilty or no contest by Mr. Pfohl of a felony or crime of dishonesty or moral turpitude; (ii) Mr. Pfohl s commission, as determined by the Board, of an intentional act, or an act of fraud, dishonesty, or theft affecting our property, reputation, or business; (iii) Mr. Pfohl s willful and persistent neglect of the duties and responsibilities of his position; (iv) failure or refusal to carry out the lawful directives of the Board; (v) diverting any of our or our affiliates business opportunities for his own personal gain; (vi) misrepresentation of a significant fact on his employment application and/or resume; (vii) misuse of alcohol or drugs affecting work performance, or (viii) death or disability that prevents him from performing the essential functions of his position with or without reasonable accommodation.

Former Executive Officers

Stephen D. Kelley. Mr. Kelley was appointed our Chief Executive Officer effective December 5, 2012, and voluntarily resigned on January 24, 2013. In connection with his appointment he entered into an employment letter with us pursuant to which, among other things, he was: (i) paid a base annual salary of $275,000, subject to potential increase in connection with a salary review by the Board, (ii) entitled to reimbursement of actual relocation expenses in an amount not to exceed $30,000, and (iii) entitled to certain severance and change of control payments, none of which applied in connection with a voluntary resignation by Mr. Kelley. Mr. Kelley was also granted options to purchase 3,200,000 shares of common stock at an exercise price of $1.01 per share, vesting as follows: options to purchase 600,000 shares of common stock vested on December 5, 2012; options to purchase 500,000 shares of common stock were to vest on the six month anniversary of Mr. Kelley s start date (if he remained employed); options to purchase 1,000,000 shares were to vest when the Company achieved cumulative revenue of $5 million (cumulative from January 1, 2013 forward); options to purchase 500,000 shares of common stock were to vest when the Company achieved cumulative EBITDA of $1 million (cumulative from January 1, 2013 forward); and options to purchase 600,000 shares of common stock were to will when the Company achieved cumulative EBITDA of $2.5 million (cumulative from January 1, 2013 forward). No options had been exercised as of Mr. Kelley s resignation date and accordingly, under the terms of his stock option award agreement, all of these options were forfeited on his resignation date.

Joseph D. Lancia. Mr. Lancia served as our President and Chief Executive Officer, as well as a member of our Board of Directors, from August 5, 2011 until his resignation on November 30, 2012. On that date, Mr. Lancia entered into an Agreement of Separation, Waiver, and Release (the Lancia Release). Pursuant to the Lancia Release, we agreed to pay Mr. Lancia (i) a gross amount of $225,000 payable over the twelve-month period commencing in December 2012, and (ii) the gross amount of $1,200 per month for each of the twelve consecutive months commencing with December 2012. In addition, pursuant to the Lancia Release: (a) Mr. Lancia transferred 1,000,000 shares of our common stock held by him back to us; (ii) Mr. Lancia granted an irrevocable proxy to Mr. Adams, our Chairman, to vote 500,000 shares of our common stock retained by Mr. Lancia, which 500,000 shares are also subject to a restriction on transfer and sale for one year following his resignation; and (iii) options to purchase 3,500,000 shares of our common stock held by Mr. Lancia were immediately canceled. In addition, for a period of six months after the date of the Lancia Release, Mr. Lancia agreed to provide certain transition assistance as may be reasonably needed and requested by us. The Lancia Release includes a mutual release provision and mutual non-disparagement provision. Mr. Lancia continues to be subject to the confidentiality, non-compete and customer and employee non-solicitation restrictions and other restrictive covenants contained in his employment agreement.

The following describes the vesting terms for options granted to Mr. Lancia during fiscal 2013. On May 7, 2012, the Company entered into a qualified stock option grant agreement with Mr. Lancia under which he was granted options to purchase shares of our common stock under the terms of our 2012 Share Incentive Plan as follows: an option to purchase up to 2,500,000 shares of common stock at an exercise price of $0.70 per share, subject to the achievement of certain performance milestones by the Company; and an option to purchase up to 500,000 shares of common stock at an exercise price of $0.70 per share, vesting immediately. The incrementally vested options were to have vested upon the achievement of certain performance milestones by the Company, as set forth below, and were to have remained vested provided that Mr. Lancia remained in the continuous employ of, or in a service relationship with, the Company from the grant date through the applicable vesting date. The vesting schedule is as follows:

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Percentage of Option Vested	Performance Milestone
10%	Delivery of ten machines to South Carolina production
20%	Production of 1,000 gross carats
30%	Achievement of one-month positive operating cash flow
40%	Achievement of two consecutive quarters of profitability

On August 13, 2012, we entered into an option grant agreement with Mr. Lancia during his service as our Chief Executive Officer under which we granted to Mr. Lancia an option to purchase up to 500,000 shares of common stock at an exercise price of $0.80 per share, subject to the achievement of certain performance milestones by us as set forth below:

Percentage of Option Vested	Performance Milestone
20%	Implementation of laser operation in South Carolina
40%	Achievement of $1M in EBITDA cumulative from July 1, 2012
40%	Achievement $5M in revenue cumulative from July 1, 2012

As disclosed above, all of the options granted to Mr. Lancia were forfeited upon his resignation

Charles G. Nichols. Mr. Nichols served as our Chief Financial Officer from January 9, 2012 until his resignation on November 30, 2012. In connection with his resignation, Mr. Nichols entered into an Agreement of Separation, Waiver, and Mutual Release (the Nichols Release). Pursuant to the Nichols Release, we agreed to pay Mr. Nichols (i) an amount equal to $20,833.33, and (ii) an amount equal to two months of health insurance premiums that would become due as a result of Mr. Nichols election to continue his health insurance coverage under applicable South Carolina law. In addition, pursuant to the Nichols Release, options to purchase 625,000 shares of our common stock held by Mr. Nichols were immediately canceled and could not be exercised, but Mr. Nichols continued to hold options to purchase 100,000 shares of our common stock for an additional six-month period. None of such options were exercised and accordingly were cancelled as of May 31, 2013. The Nichols Release includes a mutual release provision and mutual non-disparagement provision. In general and in accordance with the terms of the Nichols Release, Mr. Nichols continues to be subject to the confidentiality, non-compete and customer and employee non-solicitation restrictions and other restrictive covenants contained in his amended and restated employment agreement (including in his proprietary information and inventions agreement incorporated into his amended and restated employment agreement).

The following describes the vesting terms for options granted to Mr. Nichols during fiscal 2013. On May 7, 2012, the Company entered into a qualified stock option grant agreement with Mr. Nichols under which he was granted options to purchase shares of our common stock under the terms of our 2012 Share Incentive Plan as follows: an option to purchase up to 250,000 shares of common stock at an exercise price of $0.70 per share, subject to the achievement of certain performance milestones by the Company; and an option to purchase up to 175,000 shares of common stock at an exercise price of $0.70 per share, vesting immediately. The incrementally vested options were to have vested upon the achievement of certain performance milestones by the Company, as set forth below, and were to have remained vested provided that Mr. Nichols remained in the continuous employ of, or in a service relationship with, the Company from the grant date through the applicable vesting date. The vesting schedule is as follows:

Percentage of Option Vested	Performance Milestone
10%	Delivery of ten machines to South Carolina production
20%	Production of 1,000 gross carats

30%	Achievement of one-month positive operating cash flow
40%	Achievement of two consecutive quarters of profitability

On August 13, 2012, we entered into an option grant agreement with Mr. Nichols during his service as our Chief Financial Officer under which we granted to Mr. Nichols an option to purchase up to 300,000 shares of common stock at an exercise price of $0.80 per share, subject to the achievement of certain performance milestones by us as set forth below:

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Percentage of Option Vested	Performance Milestone
20%	Implementation of laser operation in South Carolina
40%	Achievement of $1M in EBITDA cumulative from July 1, 2012
40%	Achievement $5M in revenue cumulative from July 1, 2012

Outstanding Equity Awards at Fiscal Year-End

The following table summarizes the outstanding equity award holdings held by our named executive officers at March 31, 2013. All awards represent options to purchase shares of our common stock, granted under our 2012 Share Incentive Plan.

Outstanding Equity Awards at 2013 Fiscal Year-End

	Option awards				
Name	**Number of Securities Underlying Unexercised Options (#) Exercisable**	**Number of Securities Underlying Unexercised Options (#) Unexercisable**		**Option Exercise Price ($)**	**Option Expiration Date**
Michael W. McMahon	390,000	210,000(1)	$	0.70	5/16/2015
	60,000	240,000(2)	$	0.80	8/13/2015
	271,250	1,228,750(3)	$	0.93	2/01/2016
Stephen D. Kelley					
Joseph D. Lancia					
Jonathan M. Pfohl	126,583	573,417(4)	$	0.83	3/25/2016
Charles G. Nichols	100,000(5)		$	0.70	5/31/2013

(1) Of the number reported, 90,000 options vest based on the Company achieving positive operating cash flow and 120,000 options vest based on the Company attaining two consecutive quarters of profitability.

(2) Of the number reported, 120,000 options vest based on the Company attaining $1 million in cumulative EBITDA from July 1, 2012forward and 120,000 options vest based on the Company attaining $5 million in cumulative revenue from July 1, 2012 forward.

(3) Of the number reported, 234,375 options vest on the 6-month anniversary of his start date as Chief Executive Officer; 468,750 options vest upon the Company attaining $5 million in cumulative revenue from January 1, 2013; 234,375 options vest upon the Company attaining $1 million in cumulative EBITDA from January 1, 2013 forward; and 291,250 options vest upon the Company attaining $2.5 million in cumulative EBITDA from January 1, 2013 forward.

(4) Of the number reported, 109,375 options vest on the 6-month anniversary of his employment start date; 218,750 options vest upon the Company attaining $5 million in cumulative revenue from January 1, 2013; 109,375 options vest upon the Company attaining $1 million in cumulative EBITDA from January 1, 2013 forward; and 135,917 options vest upon the Company attaining $2.5 million in cumulative EBITDA from January 1, 2013 forward.

(4) All options disclosed expired on May 31, 2013.

Director Compensation

The following table shows the compensation paid to individuals who served on our Board of Directors, none of whom are named executive officers, during the fiscal year ended March 31, 2013.

Name	Fees Earned or Paid in Cash ($)(1)	Option Awards ($)(2)(3)	All Other Compensation ($)(4)	Total ($)
Edward S. Adams	$ 76,750	$ 47,250	$	$ 124,000
Robert C. Linares	2,500			2,500
Bernard M. McPheely (5)	10,000	19,687		29,687
Michael R. Monahan	76,750	47,250	11,000	135,000
Theodorus Strous	30,000	43,312	32,440	105,752

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(1) Includes board meeting and executive committee fees and bonus payments. On December 14, 2012 the Board authorized bonus payments as follows as compensation for extraordinary work performed: Mr. Adams: $11,250; Mr. McPheely: $3,750; Mr. Monahan: $11,250; and Mr. Strous: $11,250. These bonuses were paid in January 2013. Mr. McPheely returned his payment to the Company on February 26, 2013.

(2) The amounts in this column represent the aggregate grant date fair value computed in accordance with FASB ASC Topic 718, based on the Black-Scholes model of option valuation. The assumptions used to arrive at the Black-Scholes value are disclosed in Note 6 to our consolidated financial statements for the interim period ended December 31, 2012 included in our Quarterly Report on Form 10-Q filed on February 14, 2013. These assumptions include: expected dividend yield- 0%, risk-free interest rate- 0.34%, expected life in years- 3, and expected volatility of 100%.

(3) Options outstanding at March 31, 2013 are as follows: Mr. Adams: 75,000; Mr. Lancia 0: Dr. Linares: 0; Mr. McPheely: 0; Mr.Monahan: 76,750; Mr. Strous: 67,750. In addition, Mr. Strous holds 112.500 outstanding warrants.

(4) Includes compensation for consulting services rendered to the Company in the amount of $11,000 for Mr. Monahan and $4,000 for Mr. Strous. For Mr. Strous, the amount reported also includes $28,440, representing the grant date fair value (computed in accordance with FASB ASC Topic 718, based on the Black-Scholes model of option valuation) of warrants to purchase 50,000 shares of our common stock granted to Mr. Strous for non-director consulting work for the Company. The assumptions used to arrive at the Black-Scholes value are disclosed in Note 8 to our consolidated financial statements included in this Annual Report on Form 10-K. See Item 13 for additional information regarding these warrants.

(5) Mr. McPheely resigned from the Board of Directors on May 14, 2013.

Our directors receive $1,250, plus related expenses, per board meeting. In addition, each of Messrs. Adams and Monahan receive $4,000 per month for serving on our executive committee.

Compensation Committee

We currently do not have a compensation committee of the Board of Directors. The Board of Directors as a whole determines executive compensation.

Compensation Committee Interlocks and Insider Participation

As disclosed above, the Board of Directors as a whole determines executive compensation. During the fiscal year ended March 31, 2013, the following individuals served on our Board of Directors: Edward S. Adams, Joseph D. Lancia, Robert C. Linares, Bernard M. McPheely, Michael R. Monahan and Theodorus Strous. Messrs. Lancia and McPheely resigned from the Board on November 30, 2012 and May 14, 2013, respectively. Mr. Lancia served both as a director and as our Chief Executive Officer until his resignation on November 30, 2012. No other director who served on our Board during the fiscal year ended March 31, 2013 is a former or current officer of the Company, or has other interlocking relationships, as defined by the SEC.

Please see Item 13 of this Annual Report on Form 10-K for disclosure of certain transactions involving Messrs. Adams, Lancia, Linares, Monahan and Strous that are required to be disclosed pursuant to Item 404 of Regulation S-K promulgated by the SEC.

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

Security Ownership of Certain Beneficial Owners and Management

The following table sets forth, as of March 31, 2013, the beneficial ownership of the outstanding common stock by: (i) the persons or groups known to us to be the beneficial owners of more than five (5%) percent of the shares of our outstanding common stock; (ii) each of our named executive officers and current directors; and (iii) our current directors and executive officers as a group. Unless otherwise indicated, each of the stockholders named in the table below has sole voting and dispositive power with respect to such shares of common stock.

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Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership(1)(2)(3)	Percentage of Beneficial Ownership
Directors and Named Executive Officers		
Edward S. Adams *411 University Ridge, Suite D, Greenville, SC 29601*	4,965,000(4)	10.6%
Michael R. Monahan *411 University Ridge, Suite D, Greenville, SC 29601*	4,965,000(5)	10.6%
Michael W. McMahon *411 University Ridge, Suite D, Greenville, SC 29601*	725,795	1.5%
Jonathan M. Pfohl *411 University Ridge, Suite D, Greenville, SC 29601*	126,583	0.3%
Theodorus Strous *411 University Ridge, Suite D, Greenville, SC 29601*	180,250(6)	0.4%
Robert C. Linares *411 University Ridge, Suite D, Greenville, SC 29601*	950,000(7)	2.0%
Stephen D. Kelley *411 University Ridge, Suite D, Greenville, SC 29601*	0	0.0%
Joseph D. Lancia *411 University Ridge, Suite D, Greenville, SC 29601*	1,000,000	2.1%
Charles G. Nichols *411 University Ridge, Suite D, Greenville, SC 29601*	100,000	0.2%
All directors and named executive officers as a group (9 persons)	13,012,628	27.8%
Other 5% Stockholders		
Thomas P. Hartness Revocable Trust dated July 30, 2010 *1200 Garlington Road, Greenville, SC 29615*	5,000,000(8)	10.2%

(1) Includes shares for which the named person has sole voting and investment power, has shared voting and investment power, or holds in an IRA or other retirement plan and shares held by the named person s spouse.

(2) For purposes of this table, a person or group of persons is deemed to have beneficial ownership of any shares of common stock which that person has the right to acquire within 60 days following March 31, 2013. For purposes of computing the percentage of outstanding shares of common stock held by each person or group of persons named above, any shares which that person or persons has or have the right to acquire within 60 days following March 31, 2013, is deemed to be outstanding, but is not deemed to be outstanding for the purpose of computing the percentage ownership of any other person.

(3) Includes shares that may be acquired within 60 days of the date hereof by exercising stock options. In calculating the number of shares beneficially owned by an individual and the percentage ownership of that individual, shares underlying options held by that individual that are

either currently exercisable or exercisable within 60 days from March 31, 2013 are deemed outstanding. These shares, however, are not deemed outstanding for the purpose of computing the percentage ownership of any other individual or entity. Numbers reported includes the following shares subject to options exercisable currently or within 60 days of March 31, 2013: Mr. Adams: 75,000; Mr. Monahan: 75,000; Mr. McMahon: 721,250; Mr. Nichols: 100,000; Mr. Pfohl: 126,250; Mr. Strous: 130,250; and Dr. Linares: 0.

(4) Includes 2,000,000 shares owned by Mr. Adams wife, for which Mr. Adams disclaims beneficial ownership. Includes 790,000 shares owned by the Edward S. Adams Revocable Trust, for which Mr. Adams disclaims beneficial ownership.

(5) Includes 1,000,000 shares owned by Mr. Monahan s wife, for which Mr. Monahan disclaims beneficial ownership.

(6) Includes 61,500 warrants granted to Mr. Strous pursuant to the terms of the consulting agreement entered between the Company and Mr. Strous prior to Mr. Strous election to the Board of Directors and 50,000 warrants granted as compensation for efforts in connection with the Company s largest customer.

(7) Includes 250,000 shares owned by Dr. Linares s wife, for which Dr. Linares disclaims beneficial ownership.

(8) Based on information contained in a Schedule 13D filed with the SEC on November 28, 2012 by Thomas P. Hartness, the trustee and settler of the Thomas P. Hartness Revocable Trust u/a DTD July 30, 2010 (the Trust). The number reported includes 2,500,000 Warrants issued to the Trust in connection with its purchase from the Company of units consisting of one share of common stock and one warrant for the purchase of a share of common stock. All shares reported are held by Thomas P. Hartness as trustee of the Trust, and in that capacity Mr. Hartness has sold voting and dispositive power with respect to such shares.

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Securities Authorized for Issuance under Equity Compensation Plans

The following table summarizes the sole equity compensation plan under which shares of the Company s common stock may be issued as of March 31, 2013.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in Column (a))
Equity compensation plans approved by security holders			
Equity compensation plans not approved by security holders:			
2012 Share Incentive Plan	4,092,500	$ *0.81*	907,500(1)
Total	4,092,500	$ *0.81*	907,500

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

The Scio Diamond Technology Corp. 2012 Share Incentive Plan (the 2012 Share Incentive Plan) was adopted by the Company s Board of Directors on May 7, 2012. The 2012 Share Incentive Plan permits the granting of stock options, stock appreciation rights, restricted or unrestricted stock awards, phantom stock, performance awards, other stock-based awards, or any combination of the foregoing. Up to 5,000,000 shares of the Company s common stock are authorized for issuance pursuant to awards granted under the 2012 Share Incentive Plan to the Company s directors, officers, employees and consultants providing bona fide services to or for the Company. We did not have an equity compensation plan in effect as of the end of our fiscal year ended March 31, 2012.

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

Related Party Transactions

The law firm of Adams & Monahan LLP, of which our directors Mr. Adams and Mr. Monahan are partners, has been paid approximately $106,229 since April 1, 2012, by the Company for legal services. Adams & Monahan LLP may continue to provide legal services to the Company.

The Company purchased certain assets from ADI on August 31, 2011, consisting primarily of diamond growing machines and intellectual property related thereto. The purchase price consisted of an aggregate of $2,000,000 in a combination of cash and a promissory note bearing interest at 4.00% annually and due and owing in full on September 1, 2012, plus the opportunity for certain current and former stockholders of ADI to acquire approximately 16 million shares of common stock of the Company for $0.01 per share. Both Mr. Adams, in an executive role, and Mr. Monahan previously served in various capacities with ADI through early 2011. ADI applied $275,000 of the cash proceeds from this asset sale to pay AdamsMonahan LLP for legal services.

On June 5, 2012, the Company acquired substantially all of the assets of ADGC pursuant to the ADGC Asset Purchase, which assets consisted primarily of lab-created 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

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common stock of the Company for $0.01 per share pursuant to the ADGC Offering. Mr. Adams and Mr. Monahan served in various capacities with ADGC through early 2011.

The Company understands that most of the outstanding shares of ADI and ADGC were redeemed prior to and in anticipation of the Company s purchase of assets from ADI and ADGC. Mr. Adams and his spouse owned approximately 2% of the common stock of ADI and 11% of the common stock of ADGC (prior to the stock repurchases by such companies in 2011). Neither Mr. Adams nor his spouse participated in the ADI/ADGC Stockholder Offering. Mr. Monahan held no stock of ADI and approximately 4% of the stock of ADGC (prior to the stock repurchases by ADGC in 2011). Mr. Monahan did not participate in the ADI/ADGC Stockholder Offering. Mr. Adams and Mr. Monahan and their law firm have provided legal services to each of ADI, ADGC and the Company.

Dr. Robert C. Linares, a member of our Board of Directors, the father-in-law of Mr. Adams, is the former Chairman of the Board of each of ADI and ADGC, and was also the largest stockholder of each of ADI and ADGC.

On January 29, 2013, the Board of Directors approved an arrangement under which the Company and two of our board members, Edward S. Adams and Michael R. Monahan, have jointly engaged outside counsel to pursue a complaint against a former Company service provider. Claims being considered include both claims on behalf of the Company and claims on behalf of Messrs. Adams and Monahan individually. The terms of the engagement include an agreement for the Company, on the one hand, and Messrs. Adams and Monahan, on the other, to split the costs of pursuing this matter, and to split any recoveries obtained from the service provider. In the event the complaint is unsuccessful, the Board has agreed that the Company will indemnify Messrs. Adams and Monahan for all monies paid by them in pursuit of the complaint. The Company recognized $100,000 in expense during the fiscal year ending March 31, 2013 to reflect fees paid to the outside counsel to pursue this complaint, of which $50,000 was paid to the outside counsel by the Company and $50,000 was accrued by the Company as a potential liability for the indemnification. The Company is unable to determine the aggregate costs it will ultimately incur or the aggregate recoveries it will ultimately obtain, if any.

On March 6, 2013, Mr. Monahan and Mr. Strous were retained by the Board of Directors to provide consulting services to the Company related to the diamond gemstone industry in amounts equal to $11,000 and $4,000 per month, respectively. As of March 31, 2013, Mr. Monahan had been paid $11,000 and Mr. Strous $4,000.

On March 25, 2013, the Board of Directors authorized the issuance of a warrant to purchase 50,000 shares of our common stock at an exercise price of $1.60 per share to Mr. Strous, a member of the Board, as compensation for Mr. Strous efforts in connection with the Company s largest customer and not as compensation in his capacity as a member of the Board. These warrants were fully vested at the time of grant and the Company recognized $28,440 in expense related to these warrants in the fiscal year ending March 31, 2013

On May 7, 2012, Kristoffer Mack and Paul Rapello, shareholders of Loblolly, Inc. (f/k/a Scio Diamond Technology Corporation) (referred to in this report as Private Scio), derivatively and on behalf of nominal defendant Private Scio (collectively, the Plaintiffs) filed a claim in the U.S. District Court for the District of Minnesota against Edward S. Adams (our Chairman), Denise L. Adams, Michael R. Monahan (our Director), Julie C. Monahan, the law firm of Adams Monahan LLP, Joseph Lancia (our former Chief Executive Officer) and the Company (collectively, the Defendants) and Private Scio, as a Nominal Defendant. The complaint alleged (i) against Messrs. Adams, Monahan and Lancia, AMLLP and the Company, violations of Sections 10(b) and 20(a) of the Exchange Act and Rule 10b-5 thereunder and violation of Minnesota Statutes §§ 80A.68 and 80-A.76, (ii) against Messrs. Adams, Monahan and Lancia and AMLLP, breach of fiduciary duty, (iii) against Messrs. Adams and Monahan and AMLLP, malpractice, (iv) against all Defendants, rescission of the transactions set forth in the Scio Asset Purchase Agreement and (v) against Adams, Monahan and AMLLP, usurpation of a corporate opportunity. Each allegation relates to, among other things, certain

actions taken in connection with the asset purchase contemplated in the Scio Asset Purchase Agreement, the ADGC Asset Purchase, and the ADI/ADGC Stockholder Offering.

The Plaintiffs sought direct and consequential damages in an amount to be established through proof at trial, plus pre-judgment and post-judgment interest and reasonable attorneys fees and costs, rescission of the alleged improper corporate transactions, a constructive trust in favor of Private Scio based on the alleged usurpation of corporate opportunities, and other appropriate equitable and other relief. On May 11, 2012, four days after the complaint was filed, the Plaintiffs voluntarily dismissed the complaint with prejudice. This voluntarily dismissal was the result of a settlement agreement whereby Messrs. Adams and Monahan transferred to the Plaintiffs 1,000,000 shares of common stock of the Company held by them, and Mr. Adams transferred to the Plaintiffs a cash payment in the amount of $90,000 in cash.

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On March 25, 2013, the Board of Directors reviewed the facts of the litigation described above and the settlement, the Company s by-laws and relevant laws of the State of Nevada and agreed the Company would accept liability for the settlement. As such, the Board of Directors authorized the following to indemnify Messrs. Adams and Monahan, members of the Board, under applicable law and the Company s charter documents for expenses incurred and shares of Company common stock and cash transferred by them in settlement of the litigation: (i) the issuance of 500,000 shares of the Company s common stock to each of Messrs. Adams and Monahan, (ii) the payment of $90,000 to Mr. Adams for amounts paid by him to settle the complaint, and (iii) any other amounts and expenses paid in connection with stockholder litigation matters involving certain current and former stockholders of the Company. The Company recognized $946,555 in expense related to the indemnification. Of this amount $830,000 represents non-cash expenses related to the value of the Company common stock to be issued.

Director Independence

Our Board of Directors has determined that Mr. Strous is an independent director, based upon the independence criteria set forth in the corporate governance listing standards of The NASDAQ Stock Market, the exchange that the Board selected in order to determine whether our directors and committee members meet the independence criteria of a national securities exchange, as required by Item 407(a) of Regulation S- K. No other directors are considered to be independent under those standards.

Our Board has no standing audit, compensation or nominating committees, and accordingly the full Board fulfills the functions that would otherwise be filled by such committees. None of Messrs. Adams, Monahan, or Linares meets the independence criteria applicable to members of such committees as set forth in the corporate governance listing standards of The NASDAQ Stock Market, nor did Mr. McPheely during his service on the Board of Directors.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.

On March 22, 2012, the Board of Directors engaged Cherry Bekaert LLP (formerly Cherry, Bekaert & Holland, L.L.P.) to serve as the Company s independent auditor for the fiscal year ended March 31, 2012, after dismissing Gruber & Company, LLC, who had been engaged by the Company on October 27, 2011.

The following table shows the fees that we incurred for services performed in fiscal years ended March 31, 2013 and 2012:

	Fiscal Year Ended March 31, 2013	2012
Audit Fees	$ 78,600	$ 80,650
Audit-Related Fees		
Tax Fees		4,500
All Other Fees	5,400	
Total	$ 84,000	$ 85,150

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Audit Fees

This category includes the aggregate fees billed for professional services rendered by the independent auditors during the Company s 2013 and 2012 fiscal years for the audit of the Company s annual financial statements and quarterly reports on Form 10-Q.

Tax Fees

This category includes the aggregate fees billed for professional services rendered by the independent auditors during the Company s 2013 and 2012 fiscal years for preparation of tax returns and related advisory services.

All Other Fees

This category includes the aggregate fees billed for professional services rendered by the independent auditors during the Company s 2013 and 2012 fiscal years for employee compensation related advisory services.

Oversight of Accountants; Approval of Accounting Fees

The Company does not have an audit committee. All of the accounting services and fees reflected in the table above were reviewed and approved by the whole Board of Directors, and none of the services were performed by individuals who were not employees.

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PART III

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) (1) Financial Statements

The following financial statements are located in Item 8 of this Report:

Report of Independent Registered Public Accounting Firm

Balance Sheets as of March 31, 2013 and 2012

Statements of Operations for the years ended March 31, 2013 and 2012

Statements of Cash Flow for the years ended March 31, 2013 and 2012

Statements of Shareholders Equity for the years ended March 31, 2013 and 2012

Notes to the Financial Statements

(3) Exhibits

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

3.1 Articles of Incorporation (incorporated by reference to the Form S-1/A filed with the Securities and Exchange Commission on May 13, 2010).

3.2 Certificate of Amendment to Articles of Incorporation (incorporated by reference to the Form 8-K filed with the SEC on August 11, 2011).

3.3 Bylaws (incorporated by reference to the Form S-1/A filed with the Securities and Exchange Commission on May 13, 2010).

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

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

10.3 Asset Purchase Agreement by and among Scio Diamond Technology Corporation and Apollo Diamond, Inc. (incorporated by reference to Exhibit 10.3 to the Form 10-Q/A for the fiscal quarter ended September 30, 2011 filed with the SEC on August 16, 2012).

10.4 Asset Purchase Agreement by and among Scio Diamond Technology Corporation and Apollo Diamond Gemstone Corporation (incorporated by reference to Exhibit 10.3 to the Form 10-K for the fiscal year ended March 31, 2012 filed with the SEC on August 16, 2012).

10.5 Amended and Restated Employment Agreement by and between Scio Diamond Technology Corporation and Joseph D. Lancia (incorporated by reference to the Form 8-K filed with the SEC on August 8, 2012). (1)

10.5A Change in Control Agreement by and between Scio Diamond Technology Corporation and Joseph D. Lancia (incorporated by reference to the Form 8-K filed with the SEC on August 8, 2012). (1)

10.5B Agreement of Separation, Waiver, and Release of Joseph D. Lancia (incorporated by reference to Exhibit 10.1 to the Form 8-K filed with the SEC on December 7, 2012). (1)

10.6 Amended and Restated Employment Agreement by and between Scio Diamond Technology Corporation and Charles G. Nichols (incorporated by reference to the Form 8-K filed with the SEC on August 8, 2012). (1)

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10.6A Change in Control Agreement by and between Scio Diamond Technology Corporation and Charles G. Nichols (incorporated by reference to the Form 8-K filed with the SEC on August 8, 2012). (1)

10.6B Agreement of Separation, Waiver, and Mutual Release of Charles G. Nichols (incorporated by reference to Exhibit 10.2 to the Form 8-K filed with the SEC on December 7, 2012). (1)

10.7 Amended and Restated Employment Agreement by and between Scio Diamond Technology Corporation and Michael W. McMahon (incorporated by reference to the Form 8-K filed with the SEC on August 8, 2012). (1)

10.7A Employment Letter with Michael McMahon (incorporated by reference to Exhibit 10.1 to the Form 8-K filed with the SEC on February 4, 2012). (1)

10.7B Change in Control Agreement by and between Scio Diamond Technology Corporation and Michael W. McMahon (incorporated by reference to the Form 8-K filed with the SEC on August 8, 2012). (1)

10.8 Subscription Agreement dated May 4, 2012 (incorporated by reference to Exhibit 10.11 to the Form 10-K for the fiscal year ended March 31, 2012 filed with the SEC on August 16, 2012).

10.9 Form of Warrant by and between Scio Diamond Technology Corporation and certain Investors (incorporated by reference to the Form 8-K filed with the SEC on May 10, 2012).

10.10 Scio Diamond Technology Corp. 2012 Share Incentive Plan (incorporated by reference to Exhibit 10.2 to the Form 8-K filed with the SEC on February 4, 2012). (1)

10.10A Form of Qualified Stock Option Grant Agreement by and between Scio Diamond Technology Corporation and certain Executive Officers (incorporated by reference to the Form 8-K filed with the SEC on August 8, 2012). (1)

10.10B Form of Stock Option Grant Agreement (Non-Qualified Stock Option) (for Non-Employee Directors) (incorporated by reference to Exhibit 10.6 to the Form 10-Q filed with the SEC on February 14, 2013). (1)

10.11 Lease with Innovation Center (incorporated by reference to Exhibit 10.01 to the Form 10-Q for the fiscal quarter year ended March 31, 2012 filed with the SEC on August 16, 2012).

10.11A Supplemental Notice to Lease dated October 14, 2011, by and between Scio Diamond Technology Corporation and Innovation Center, LLC (incorporated by reference to Exhibit 10.14 to the Form 10-K for the fiscal year ended March 31, 2012 filed with the SEC on August 16, 2012).

10.12 Employment Letter Agreement of Stephen D. Kelley (incorporated by reference to Exhibit 10.3 to the Form 8-K filed with the SEC on December 7, 2012). (1)

10.13 Employment Letter Agreement dated March 4, 2013 between Scio Diamond Technology Corporation and Jonathan Pfohl (incorporated by reference to Exhibit 10.1 to the Form 8-K filed with the SEC on March 7, 2013). (1)

10.14 Code of Ethics and Business Conduct (incorporated by reference to the Form 8-K filed with the SEC on August 8, 2012).

10.15 Warrant dated March 25, 2013 by and between Scio Diamond Technology Corporation and Theodorus Strous. *(1)

10.16 Warrant dated March 25, 2013 by and between Scio Diamond Technology Corporation and Filip De Weerdt.*

10.17 Consulting Agreement dated March 6, 2013 by and between Scio Diamond Technology Corporation and Theodorus Strous.* (1)

10.18 Consulting Agreement dated March 6, 2013 by and between Scio Diamond Technology Corporation and Michael R. Monahan.* (1)

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

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

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

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

101 The following materials from the Company s Annual Report on Form 10-K for the fiscal year ended March 31, 2013, formatted in eXtensible Business Reporting Language (XBRL); (i) Balance Sheets as of March 31, 2013 and 2012; (ii) Statements of Operations for the years ended March 31, 2013 and 2012; (iii) Statements of Shareholders Equity for the years ended March 31, 2013 and 2012; (iv) Statements of Cash Flow for the years ended March 31, 2013 and 2012; and (v) Notes to the Financial Statements*

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* Filed herewith.

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

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: June 28, 2013

SCIO DIAMOND TECHNOLOGY CORPORATION
/s/ Michael McMahon
Chief Executive Officer

POWER OF ATTORNEY

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

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

Date: June 28, 2013

/s/ MICHAEL MCMAHON
Michael McMahon
Chief Executive Officer
(Principal Executive Officer)

Date: June 28, 2013

/s/ JONATHAN M. PFOHL
Jonathan M. Pfohl
Chief Financial Officer
(Principal Accounting and Financial Officer)

Date: June 28, 2013

/s/ EDWARD S. ADAMS
Edward S. Adams
Chairman and Director

Date: June 28, 2013	/s/ ROBERT C. LINARES Robert C. Linares *Director*
Date: June 28, 2013	/s/ MICHAEL R. MONAHAN Michael R. Monahan *Director*
Date: June 28, 2013	/s/ THEODORUS STROUS Theodorus Strous *Director*

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EXHIBIT INDEX

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