

NATIONAL BANKSHARES INC
Form SC 13G
February 14, 2014

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 13G

(Rule 13d-102)

INFORMATION TO BE INCLUDED IN STATEMENTS FILED PURSUANT TO
§ 240.13d-1(b), (c) AND (d) AND AMENDMENTS THERETO FILED
PURSUANT TO § 240.13d-2

UNDER THE SECURITIES EXCHANGE ACT OF 1934
(Amendment No. __)*

NATIONAL BANKSHARES, INC.
(Name of Issuer)

Common Stock
(Title of Class of Securities)

634865109
(CUSIP Number)

December 31, 2013
(Date of Event Which Requires Filing of this Statement)

Check the appropriate box to designate the rule pursuant to which this Schedule is filed:

- Rule
13d-1(b)
 Rule
13d-1(c)
 Rule
13d-1(d)

* The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter the disclosures provided in a prior cover page.

The information required in the remainder of this cover page shall not be deemed to be "filed" for the purpose of Section

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18 of the Securities Exchange Act of 1934 ("Act") or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

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1 Names of Reporting Persons

National Rural Electric Cooperative Association

2 Check the Appropriate Box if a Member of a Group* (a) (b)

3 SEC Use Only

4 Citizenship or Place of Organization

District of Columbia

Number of 5 Sole Voting Power

Shares 407,002

6 Shared Voting Power

Beneficially

0

Owned by Each 7 Sole Dispositive Power

Reporting 407,002

8 Shared Dispositive Power

Person With

0

9 Aggregate Amount Beneficially Owned By Each Reporting Person

407,002

10 Check if the Aggregate Amount in Row (9) Excludes Certain Shares

11 Percent of Class Represented by Amount in Row (9)

5.9%

12 Type of Reporting Person

EP

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Item Name of Issuer:

1(a).

National Bankshares, Inc.

Item Address of Issuer's Principal Executive Offices:

1(b).

101 Hubbard Street
P.O. Box 90002
Blacksburg, VA 24062

Item Name of Person Filing:

2(a).

National Rural Electric Cooperative Association

Item Address of Principal Business Office or, if None, Residence:

2(b).

4301 Wilson Boulevard
Arlington, VA 22203

Item Citizenship:

2(c).

District of Columbia

Item Title of Class of Securities:

2(d).

Common Stock

Item CUSIP Number:

2(e).

634865109

Item 3.If this statement is filed pursuant to §§ 240.13d-1(b) or 240.13d-2(b) or (c), check whether the person filing is a:

- (a) Broker or dealer registered under Section 15 of the Act (15 U.S.C. 78o);
- (b) Bank as defined in Section 3(a)(6) of the Act (15 U.S.C. 78c);
- (c) Insurance company as defined in Section 3(a)(19) of the Act (15 U.S.C. 78c);

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- (d) Investment company registered under Section 8 of the Investment Company Act of 1940 (15 U.S.C. 80a-8);
- (e) An investment adviser in accordance with § 240.13d-1(b)(1)(ii)(E);
- (f) An employee benefit plan or endowment fund in accordance with § 240.13d-1(b)(1)(ii)(F);
- (g) A parent holding company or control person in accordance with § 240.13d-1(b)(1)(ii)(G);
- (h) A savings association as defined in Section 3(b) of the Federal Deposit Insurance Act (12 U.S.C. 1813);
- (i) A church plan that is excluded from the definition of an investment company under Section 3(c)(14) of the Investment Company Act of 1940 (15 U.S.C. 80a-3);
- (j) A non-U.S. institution in accordance with § 240.13d-1(b)(1)(ii)(J);
- (k) Group, in accordance with § 240.13d-1(b)(1)(ii)(K).

If filing as a non-U.S. institution in accordance with § 240.13d-1(b)(1)(ii)(J), please specify the type of institution:

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Item 4. Ownership.

Amount beneficially owned: 407,002(1)

- (a) Percent of class: 5.9% (This percentage is calculated based on 6,947,974 shares of Common Stock (as of October 31, 2013) reported to be outstanding in the Issuer's Form 10-Q for the quarter ended September 30, 2013, as filed with the Securities and Exchange Commission on November 8, 2013.)
- (b) Number of shares as to which the person has:
 - (i) Sole power to vote or to direct the vote 407,002
 - (ii) Shared power to vote or to direct the vote 0
 - (iii) Sole power to dispose or to direct the disposition of 407,002
 - (iv) Shared power to dispose or to direct the disposition of 0

(1) The National Rural Electric Cooperative Association has ultimate voting and investment control over the shares reported herein, but disclaims beneficial ownership of such shares except to the extent of its pecuniary interest therein.

Item 5. Ownership of Five Percent or Less of a Class.

If this statement is being filed to report the fact that as of the date hereof the reporting person has ceased to be the beneficial owner of more than five percent of the class of securities, check the following []

Item 6. Ownership of More than Five Percent on Behalf of Another Person.

All securities reported in this Schedule 13G are owned by employee benefit plans sponsored by the Reporting Person and advisory clients of RE Advisers Corporation. The employee benefit plans and advisory clients of RE Advisers Corporation do not individually own more than 5% of the outstanding Shares.

Item 7. Identification and Classification of the Subsidiary which Acquired the Security Being Reported on by the Parent Holding Company or Control Person.

N/A

Item 8. Identification and Classification of Members of the Group.

N/A

Item 9. Notice of Dissolution of Group.

N/A

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Item 10. Certifications.

By signing below I certify that, to the best of my knowledge and belief, the securities referred to above were acquired and are held in the ordinary course of business and were not acquired and are not held for the purpose of or with the effect of changing or influencing the control of the issuer of the securities and were not acquired and are not held in connection with or as a participant in any transaction having that purpose or effect, other than activities solely in connection with a nomination under § 240.14a-11.

SIGNATURE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

NATIONAL
RURAL
ELECTRIC
COOPERATIVE
ASSOCIATION

February 14, 2014
(date)

/s/ Peter R. Morris
(Signature)

Peter R. Morris,
Vice President and
Chief Investment
Officer
(Name and Title)

B>Joint Ventures

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

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

Government Regulations

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

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

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

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

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

Research and Development

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

Environmental Regulations

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

Employees

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

Securities Exchange Act of 1934 Reports

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

ITEM 1A. RISK FACTORS.

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

Risks Related to Our Business

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

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

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

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

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

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

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

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

We will require additional funding.

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

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

- The rate at which we increase our production capacity;
- The rate at which we expand our sales and marketing operations;
- The rate at which we attract consumers, distributors and strategic relationships;
- The extent to which we are able to develop and upgrade the technology and infrastructure; and