

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of Report (Date of earliest event reported) **July 28, 2010**

**Charles & Colvard, Ltd.**

(Exact name of registrant as specified in its charter)

**North Carolina**  
(State or other jurisdiction of  
incorporation)

**000-23329**  
(Commission File  
Number)

**56-1928817**  
(I.R.S. Employer  
Identification No.)

**300 Perimeter Park Drive, Suite A**  
**Morrisville, North Carolina**  
(Address of principal executive offices)

**27560**  
(Zip Code)

**(919) 468-0399**  
(Registrant's telephone number, including area code)

**N/A**  
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

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

On July 28, 2010, Charles & Colvard, Ltd. (the “Company”) issued a press release regarding its financial results for the fiscal quarter ended June 30, 2010. A copy of this press release is attached hereto as Exhibit 99.1 and is incorporated herein by reference.

Pursuant to General Instruction B.2 of Current Report on Form 8-K, the information in Item 2.02 of this report, including the press release attached as Exhibit 99.1, is furnished and shall not be deemed to be “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities of that section. Furthermore, such information shall not be deemed to be incorporated by reference into the filings of the Company under the Securities Act of 1933, as amended.

**Item 9.01 Financial Statements and Exhibits.**

(d) Exhibits.

<b>Exhibit No.</b>	<b>Description of Document</b>
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99.1	Press Release dated July 28, 2010
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**SIGNATURE**

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

July 28, 2010

**Charles & Colvard, Ltd.**

By: /s/ Timothy L. Krist

Timothy L. Krist  
Chief Financial Officer

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**EXHIBIT INDEX**

<b>Exhibit No.</b>	<b>Description of Document</b>
99.1	Press Release dated July 28, 2010



## NEWS RELEASE

300 Perimeter Park Drive, Suite A  
Morrisville, North Carolina 27560  
919.468.0399

**Company Contact:**  
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Chief Financial Officer  
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FOR IMMEDIATE RELEASE

### CHARLES & COLVARD REPORTS SECOND QUARTER 2010 FINANCIAL RESULTS

- *Profitable Q2 2010 – net income of \$336,000*
- *152% net sales increase over Q2 2009*
- *\$8.12 million cash and investments, no long-term debt*
- *Positive cash flow from operations of \$141,000*

MORRISVILLE, N.C., July 28, 2010 - Charles & Colvard, Ltd. (NASDAQ: CTHR), the sole manufacturer of moissanite lab-created gemstones, The Most Brilliant Jewel in the World™, announced today its financial results for the second quarter ended June 30, 2010.

Net sales for the quarter were \$3.33 million, an increase of 152% from \$1.32 million in the second quarter of 2009 and an increase of 17% from \$2.85 million in the first quarter of 2010. Sales improved as a result of management's execution of its strategy to revitalize existing customer relationships as well as the addition of several new customers, domestically and internationally, during the quarter.

The Company recorded net income during the second quarter of \$336,000, or \$0.02 per diluted share, a \$1.58 million improvement over net loss "as adjusted" of \$1.24 million, or (\$0.07) per diluted share, in the second quarter of 2009.

Randy N. McCullough, Chief Executive Officer of Charles & Colvard, commented, "We have been hard at work during the first half of 2010 to increase sales, reduce expenses, and improve profitability. The financial and operational accomplishments during the second quarter are very gratifying to the team at Charles & Colvard, particularly when we can report a 152% increase in net sales over the second quarter of 2009 and our second consecutive profitable quarter." Mr. McCullough continued, "We added several new customers during the quarter, including one in Russia, which is a new market for our company. We also continue to partner closely with our customers to formulate strategies designed to increase consumer awareness of moissanite. Toward that end, during the quarter Charles & Colvard and its business partners around the globe increased the production of finished jewelry featuring moissanite. We are very excited about the progress we have made to date and look forward to continuing to execute on our strategy."

Contributing to net income was a reduction in operating expenses during the quarter of \$247,000, or 13%, when compared with the same period in 2009, due primarily to ongoing cost control initiatives that commenced in the latter part of 2009.

Prior year results are shown "as adjusted" due to a change in the Company's method of accounting for inventories from the first-in, first-out ("FIFO") method to the average cost method that was adopted January 1, 2010. As a result, cost of goods sold increased in the second quarter of 2009 by \$48,000.

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and net income decreased by the same amount. In addition, inventory decreased \$2.08 million as of June 30, 2009 due to the cumulative change in accounting principle.

### **Financial Position**

The Company had \$8.12 million in cash and liquid long-term investments at the end of the second quarter and generated approximately \$141,000 of cash from operations during the quarter. Net income of \$336,000, a net decrease in inventory of \$348,000, an increase in accounts payable of \$156,000, and an increase in accrued cooperative advertising of \$173,000 were the primary drivers for positive cash flow in the quarter, which more than offset an increase in trade accounts receivable of \$945,000.

Total inventory, including long-term and consignment inventory, was \$38.14 million at the end of the quarter, down from \$39.13 million at the end of fiscal year 2009 primarily as a result of sales, offset in part by purchases of silicon carbide and jewelry castings, findings, and other jewelry components. Trade accounts receivable were \$2.59 million at the end of the quarter, up from \$1.04 million at the end of fiscal year 2009 primarily as a result of increased sales during the quarter.

### **Second Quarter 2010 Financial Results Webcast**

Charles & Colvard will host a webcast to present second quarter 2010 results on Wednesday, July 28, 2010 at 4:30 p.m. EDT. The webcast can be accessed live and will be available for replay at [www.charlesandcolvard.com](http://www.charlesandcolvard.com).

### **About Charles & Colvard, Ltd.**

Charles & Colvard, Ltd. (NASDAQ: CTHR), based in the Research Triangle Park area of North Carolina, is the global sole source of moissanite, a unique, near-colorless lab-created gemstone that is distinct from other gemstones and jewels based on its exceptional fire, brilliance, luster, durability, and rarity. Charles & Colvard Created Moissanite is currently used in fine jewelry sold primarily through domestic and international retailers. For more information, please access [www.moissanite.com](http://www.moissanite.com) or [www.charlesandcolvard.com](http://www.charlesandcolvard.com).

Charles & Colvard and Charles & Colvard Created Moissanite are registered trademarks of Charles & Colvard, Ltd.

*This press release contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. Statements expressing expectations regarding our future and projections relating to products, sales, revenues, and earnings are typical of such statements and are made under the Private Securities Litigation Reform Act of 1995. These forward-looking statements include, but are not limited to, statements about our plans, objectives, representations, and contentions and are not historical facts and typically are identified by use of terms such as "may," "will," "should," "could," "expect," "plan," "anticipate," "believe," "estimate," "predict," "continue," and similar words, although some forward-looking statements are expressed differently.*

*All forward-looking statements are subject to the risks and uncertainties inherent in predicting the future. You should be aware that although the forward-looking statements included herein represent management's current judgment and expectations, our actual results may differ materially from those projected, stated, or implied in these forward-looking statements as a result of many factors including, but not limited to, the recent downturn in the worldwide economy and its ongoing impact on our business and the business of our customers and suppliers, any continued trends in the general economy that would adversely affect consumer spending, dependence on consumer acceptance of our products, dependence on Cree, Inc. as the current supplier of the raw material, ability to develop a material second source of supply, dependence on a limited number of customers, risks of conducting business in foreign countries, dependence on third parties for the sales and marketing of our products to end consumers, and the impact of significant changes in our management on our ability to execute our business strategy in the near-term, in addition to the other risks and uncertainties described in more detail in our filings with the Securities and Exchange Commission, or the SEC, including our Annual Report on Form 10-K for the fiscal year*

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*ended December 31, 2009 and subsequent reports filed with the SEC. Forward-looking statements speak only as of the date they are made. We undertake no obligation to update or revise such statements to reflect new circumstances or unanticipated events as they occur except as required by the federal securities laws, and you are urged to review and consider disclosures that we make in the reports that we file with the SEC that discuss other factors relevant to our business.*

*Financial Tables Follow*

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**Charles & Colvard, Ltd.**  
**Condensed Consolidated Statements of Operations**  
**(unaudited)**

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2010</u>	<u>2009*</u>	<u>2010</u>	<u>2009*</u>
Net sales	\$ 3,328,629	\$ 1,320,207	\$ 6,182,304	\$ 3,805,395
Costs and expenses:				
Cost of goods sold	1,399,264	697,623	2,458,245	1,797,712
Sales and marketing	575,015	496,425	1,161,613	830,391
General and administrative	1,021,802	1,220,650	2,045,467	3,329,042
Research and development	8,993	135,511	50,850	345,691
Total costs and expenses	<u>3,005,074</u>	<u>2,550,209</u>	<u>5,716,175</u>	<u>6,302,836</u>
Income (loss) from operations	323,555	(1,230,002)	466,129	(2,497,441)
Interest income	31,796	8,587	58,318	18,848
Interest expense	(1,089)	-	(1,765)	-
Income (loss) before income taxes	354,262	(1,221,415)	522,682	(2,478,593)
Income tax net benefit (expense)	(17,947)	(17,815)	112,018	(44,917)
Net income (loss)	<u>\$ 336,315</u>	<u>\$ (1,239,230)</u>	<u>\$ 634,700</u>	<u>\$ (2,523,510)</u>
Net income (loss) per common share:				
Basic	\$ 0.02	\$ (0.07)	\$ 0.03	\$ (0.14)
Fully diluted	\$ 0.02	\$ (0.07)	\$ 0.03	\$ (0.14)
Weighted average number of shares used in computing net income (loss) per common share:				
Basic	19,148,074	18,607,517	19,084,107	18,492,690
Fully diluted	19,409,154	18,607,517	19,321,801	18,492,690

\* As adjusted for the retroactive application to prior period financial statements resulting from a change in the Company's method of accounting for inventories from the first-in, first-out ("FIFO") method to the average cost method that was adopted January 1, 2010.

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**Charles & Colvard, Ltd.**  
 Condensed Consolidated Balance Sheets

	June 30, 2010 (unaudited)	December 31, 2009*
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 3,068,373	\$ 7,405,685
Accounts receivable, net	2,587,671	1,043,296
Interest receivable	22,607	65
Note receivable, net	-	54,627
Inventory, net	7,084,120	3,340,712
Prepaid expenses and other assets	320,592	188,812
Total current assets	<u>13,083,363</u>	<u>12,033,197</u>
Held-to-maturity investments	5,050,358	-
Inventory, non-current, net	31,055,303	35,785,205
Property and equipment, net	243,563	218,418
Patent and license rights, net	246,559	260,548
Deferred income taxes, non-current	102,443	-
Other assets, non-current	1,990	1,990
TOTAL ASSETS	<u>\$ 49,783,579</u>	<u>\$ 48,299,358</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 453,759	\$ 265,439
Accrued cooperative advertising	483,500	173,000
Accrued expenses and other liabilities	159,739	157,954
Total current liabilities	<u>1,096,998</u>	<u>596,393</u>
Long-term liabilities:		
Accrued income taxes	1,049,084	1,058,659
Total liabilities	<u>2,146,082</u>	<u>1,655,052</u>
Commitments and contingencies		
Shareholders' equity:		
Common stock, no par value	53,075,542	52,906,459
Additional paid-in capital – share-based compensation	6,601,135	6,411,727
Accumulated deficit	(12,039,180)	(12,673,880)
Total shareholders' equity	<u>47,637,497</u>	<u>46,644,306</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 49,783,579</u>	<u>\$ 48,299,358</u>

\* As adjusted for the retroactive application to prior period financial statements resulting from a change in the Company's method of accounting for inventories from the first-in, first-out ("FIFO") method to the average cost method that was adopted January 1, 2010.

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