SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2002

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from __________ to __________

Commission File Number: 000-23329

CHARLES & COLVARD, LTD.

(Exact name of Registrant as specified in its charter)

North Carolina **(State or other jurisdiction of incorporation or organization)**	**56-1928817** **(I.R.S. Employer Identification No.)**

3800 Gateway Boulevard, Suite 310, Morrisville, N.C. 27560
(Address of principal executive offices)

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

As of August 7, 2002 there were 13,334,714 shares of the Registrant's Common Stock, no par value per share, outstanding.

Table of Contents

CHARLES & COLVARD, LTD.

INDEX

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. ***Financial Statements***

CHARLES & COLVARD, LTD.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
Net sales	$ 4,075,602	$ 2,462,732	$ 8,225,748	$ 5,362,716
Cost of goods sold	1,632,901	1,084,089	3,671,855	2,346,788
Gross profit	2,442,701	1,378,643	4,553,893	3,015,928
Operating expenses:				
Marketing and sales	1,125,730	592,556	2,179,376	1,306,138
General and administrative	732,063	478,307	1,339,275	1,177,553
Other expense	—	46,999	—	94,103
Total operating expenses	1,857,793	1,117,862	3,518,651	2,577,794
Operating income	584,908	260,781	1,035,242	438,134
Interest income, net	52,879	98,263	102,755	168,084
Net income	**$ 637,787**	**$ 359,044**	**$ 1,137,997**	**$ 606,218**
Net income per share:				
Basic	**$ 0.05**	**$ 0.03**	**$ 0.09**	**$ 0.05**
Diluted	**$ 0.05**	**$ 0.03**	**$ 0.08**	**$ 0.05**
Weighted-average common shares:				
Basic	**13,377,484**	**13,447,714**	**13,375,626**	**11,662,933**
Diluted	**13,707,458**	**13,465,408**	**13,641,479**	**11,669,081**

See Notes to Condensed Consolidated Financial Statements.

CHARLES & COLVARD, LTD.

CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2002	December 31, 2001
	(Unaudited)	
ASSETS		
Current Assets:		
Cash and equivalents	$ 12,542,770	$ 10,236,319
Accounts receivable	2,814,005	2,803,117
Interest receivable	14,952	13,824
Inventory, net	20,370,726	21,341,071
Prepaid expenses	209,682	214,749
Total current assets	35,952,135	34,609,080
Equipment, net	405,450	342,281
Patent and license rights, net	292,656	290,569
Total assets	$ 36,650,241	$ 35,241,930
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable:		
Cree, Inc.	$ 421,244	$ 405,020
Other	224,845	154,831
Accrued payroll	323,294	202,012
Accrued expenses and other liabilities	306,264	272,490
Deferred revenue	90,303	129,801
Total current liabilities	1,365,950	1,164,154
Commitments		
Shareholders' Equity:		
Common stock	55,190,702	55,182,692
Additional paid-in capital—stock options	2,024,514	1,964,006
Accumulated deficit	(21,930,925)	(23,068,922)
Total shareholders' equity	35,284,291	34,077,776
Total liabilities and shareholders' equity	$ 36,650,241	$ 35,241,930

See Notes to Condensed Consolidated Financial Statements

Table of Contents

CHARLES & COLVARD, LTD.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months Ended June 30,	
	2002	2001
Operating Activities:		
Net income	$ 1,137,997	$ 606,218
Adjustments:		
Depreciation and amortization	63,537	84,377
Stock option compensation	62,358	25,267
Loss on disposal of long-term assets	—	90,295
Change in operating assets and liabilities:		
Net change in assets	963,396	1,072,921
Net change in liabilities	201,796	(1,765,503)
Net cash provided by operating activities	2,429,084	113,575
Investing Activities:		
Purchase of equipment	(116,319)	(21,351)
Patent and license rights costs	(12,474)	(2,339)
Proceeds from sale of long term assets	—	70,000
Net cash provided(used) by investing activities	(128,793)	46,310
Financing Activities:		
Stock options exercised	6,160	—
Proceeds from stock rights offering, net	—	6,031,995
Net cash provided by financing activities	6,160	6,031,995
Net change in cash and equivalents	2,306,451	6,191,880
Cash and equivalents, beginning of period	10,236,319	3,826,402
Cash and equivalents, end of period	$ 12,542,770	$ 10,018,282

See Notes to Condensed Consolidated Financial Statements.

CHARLES & COLVARD, LTD.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Basis Of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America for interim financial information. However, certain information or footnote disclosures normally included in complete financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed, or omitted, pursuant to the rules and regulations of the Securities and Exchange Commission. In the opinion of management, the financial statements include all normal recurring adjustments which are necessary for the fair presentation of the results of the interim periods presented. Interim results are not necessarily indicative of results for the year. Certain reclassifications have been made to prior year's financial statements to conform to the classifications used in fiscal 2002. These financial statements should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2001, as set forth in the Company's Form 10-K, filed with the Securities and Exchange Commission on March 25, 2002.

In preparing financial statements that conform with accounting principles generally accepted in the United States of America, management must make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and amounts of revenues and expenses reflected during the reporting period. Actual results could differ from those estimates.

In October 2000, the Company established a wholly-owned subsidiary in Hong Kong, Charles & Colvard HK Ltd. All inter-company accounts have been eliminated.

All the Company's activities are within a single business segment. During the three and six months ended June 30, 2002, export sales aggregated approximately $600,000 and $1,400,000 respectively. Export sales aggregated approximately $500,000 and $1,200,000 for the three and six months ended June 30, 2001, respectively.

2. Inventories

Inventories are stated at the lower of cost or market determined on a first in, first out basis. Based on current estimates and assumptions, the Company believes that a substantial amount of inventories will be sold or consumed during its operating cycle. However, to be prepared to react to possible customer demand for large purchases and for a variety of jewel styles, a significant amount of inventory must be maintained at all times.

The Company currently sells one grade of jewel. The grade is classified as "very good" and consists of near colorless jewels that meet certain standards. Only "very good" jewels are valued in inventory. There is a substantial amount of jewels, including colored jewels, that have not met the quality standards and are not valued in inventory. In the future, management might determine that there is a market for a portion of this unvalued inventory.

Finished goods are shown net of a reserve for excess jewelry inventory of $235,000 and $170,000 at June 30, 2002 and December 31, 2001, respectively. Test instruments are shown net of a reserve for excess inventory of $450,000 and $465,000 respectively.

	June 30, 2002	December 31, 2001
Moissanite:		
Raw materials	$ 40,748	$ 131,525
Work-in-process	2,190,559	1,604,699
Finished goods	18,122,483	19,588,295
	20,353,790	21,324,519
Test instruments	16,936	16,552
Total Inventory	$ 20,370,726	$ 21,341,071

3. Common Stock

In September 2001, the Board of Directors authorized the repurchase of up to 1,300,000 shares of the Company's common stock. At the discretion of management, the repurchase program can be implemented through open market or privately negotiated transactions at prevailing prices. The Company will determine the time and extent of repurchases based on its evaluation of market conditions and other factors. There were no shares repurchased during the six months ended June 30, 2002. During 2001, the Company repurchased 76,000 shares at a cost of $1 per share.

4. Stock Based Compensation

In accordance with Accounting Principles Board Opinion No. 25 and Statement of Financial Accounting Standards (FAS) No. 123, the Company recorded compensation expense due to stock options of $29,939 and $62,358 during the three and six months ended June 30, 2002, respectively. Compensation expense related to stock options for the three and six months ended June 30, 2001 was $21,050 and $25,267. This compensation expense is recorded in general and administrative expense in the Statements Of Operations.

5. Newly Adopted Accounting Pronouncements

In July 2001, FAS No. 142, *Goodwill and Other Intangible Assets*, was issued. This statement requires that goodwill and other intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually. This statement was effective for the Company on January 1, 2002. The Company does not have goodwill or other intangible assets with indefinite useful lives and the adoption of this statement did not have an effect on its consolidated financial statements.

6. Newly Issued Accounting Pronouncements

In August 2001, FAS No. 143, *Accounting For Asset Retirement Obligations*, was issued. This statement requires recording the fair value of a liability for an asset retirement obligation in the period in which it is incurred, and a corresponding increase in the carrying value of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, it is either settled for its recorded amount or a gain or loss upon settlement is recorded. FAS 143 is effective for the Company's year ended December 31, 2003. The Company does not have any asset retirement obligations and does not expect the adoption of FAS 143 to have an effect on its consolidated financial statements.

In August 2001, FAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* was issued. This statement addresses financial accounting and reporting for the impairment of disposal of long-lived assets. FAS 144 is effective for the Company's year ended December 31, 2003. The Company does not expect the adoption of FAS 144 to have an effect on its consolidated financial statements.

7. Subsequent Event

From July 1, 2002 through August 7, 2002, we repurchased 43,600 shares of our common stock through our repurchase program at an average cost of $3.86 per share. Therefore, since inception of this program in September 2001, we have repurchased 119,600 shares at an average cost of $2.04 per share.

Item 2: ***Management's Discussion And Analysis Of Financial Condition And Results of Operations***

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements represent our judgment on future events. Our business is subject to business and economic risks and uncertainties that could cause our actual performance and results to differ materially from those expressed or implied by any of the forward-looking statements included herein. These risks and uncertainties are described under the heading "Business Risks" in our Form 10-K for the year ended December 31, 2001, which was filed with the Securities and Exchange Commission on March 25, 2002.

Overview

We manufacture, market and distribute Charles & Colvard created moissanite jewels (also called moissanite) for sale in the worldwide jewelry market. Moissanite, also known by its chemical name, silicon carbide (SiC), is a rare, naturally occurring mineral found primarily in meteorites. As the sole manufacturer of scientifically-made moissanite jewels, our strategy is to create a unique brand image which positions moissanite as a jewel in its own right, distinct from all other jewels based on its fire, brilliance, luster, durability and rarity.

From our inception in June 1995 through June 30, 1998, we were a development stage enterprise, devoting our resources to fund research and development of colorless, scientifically made moissanite jewels. We began shipping moissanite to domestic retail jewelers and international distributors during the second quarter of 1998. At that time, we launched limited consumer-focused advertising and promotion activities. During the second quarter of 2000, we changed our domestic distribution model to sell through jewel distributors and jewelry manufacturers rather than direct to retail stores.

In March 2000, we entered into distribution agreements with Stuller Settings, Inc. (Stuller) and Rio Grande, two of the largest suppliers of jewelry-related products to the jewelry industry, for the North American distribution of moissanite. We have also entered into several agreements with domestic jewelry manufacturers. Through these agreements with Stuller, Rio Grande and jewelry manufacturers and the brand awareness created by our marketing program, we sought to rapidly increase the introduction of moissanite into the domestic jewelry market while maintaining average selling prices. Although these new distribution and marketing strategies enabled us to achieve profitability and positive cash flow in 2001 and through the first half of 2002, these strategic efforts are still in an early stage, and we have no assurance that they will be successful in the long-term.

In October 2000, we established a wholly-owned subsidiary in Hong Kong, Charles & Colvard HK Ltd., for the purpose of gaining better access to the important Far Eastern markets. The importance of having a presence in this market is twofold; Hong Kong is the headquarters city for a very large number of jewelry manufacturing companies with sales and distribution worldwide, and Hong Kong is the gateway to the markets of Mainland China. We do not anticipate establishing additional subsidiaries in the near future.

In 2001, we dramatically cut marketing and sales expenses, primarily by discontinuing significant advertising and promotion expenses in favor of lower cost public relations and media editorial initiatives. Additionally, general and administrative costs were lowered through personnel reductions, and significant savings were realized by suspending all research and development efforts with Cree. Domestic sales accounted for 82% of total sales in 2001 as we concentrated on growing our domestic business. Domestic distribution of moissanite expanded in 2001 into additional retail stores, including our first retail jewelry chain. Catalog sales of moissanite jewelry expanded significantly. We demonstrated that with appropriate product mix and product positioning, home shopping channels were a viable distribution channel for jewelry featuring moissanite. Primarily as a result of these efforts, we became profitable and generated positive cash flow from operations in 2001.

During the first half of 2002, we continued our focus on the domestic market, while investing limited resources in certain international markets that show the most potential. Our sales in the first half of 2002 were 53% higher than sales for the same period of last year, and we are hopeful that our sales will continue to increase as the distribution of moissanite jewels expands both domestically and internationally. Although our 2002 goals are to continue achieving increases in sales and sustain profitability, we cannot be sure that either goal will be achieved.

Results Of Operations

Three Months ended June 30, 2002 compared with Three Months ended June 30, 2001.

Net sales were $4,075,602 for the three months ended June 30, 2002 compared to $2,462,732 for the three months ended June 30, 2001, an increase of $1,612,870 or 65.5%. Shipments of moissanite jewels increased during the three months ended June 30, 2002 to approximately 25,300 carats from 12,500 carats in the same period of 2001. Domestic carat shipments increased by 115% and international carat shipments increased by 55%. It should be noted that a portion of the carats shipped to international customers are set in jewelry and distributed to retail markets in several countries, including the US. The average selling price per carat decreased by 14% primarily due to increased sales of smaller jewels which have a lower price per carat. Increased domestic sales are primarily attributable to direct marketing efforts on the television shopping channels ShopNBC and the ShopAtHome network. In addition, distribution has increased through our manufacturing partners at traditional retail stores, including Landau’s, a 60 store retail chain. One of our domestic manufacturing customers, K&G Creations, accounted for approximately 40% of our sales during the three months ended June 30, 2002. K&G Creations provides moissanite jewels and jewelry to a large and diversified customer base, including television shopping channels and Landau’s. While we believe our current relationship with this manufacturer is good and alternate manufacturers are available to serve their customer base, a loss of this manufacturer as a customer could cause a material adverse effect on our results of operations in a particular period. International sales also increased due to increased sales through television shopping channels. Specifically, moissanite jewels are now sold in the UK on Ideal World and by the infomercial company, Best Direct.

Our gross profit margin was 59.9% for the three months ended June 30, 2002 compared to 56.0% for the three months ended June 30, 2001. The increased gross margin percentage was primarily caused by improved yields of moissanite jewels from SiC crystals, partially offset by a 14% decrease in average selling prices.

Marketing and sales expenses were $1,125,730 for the three months ended June 30, 2002 compared to $592,556 for the three months ended June 30, 2001, an increase of $533,174 or 90.0%. The increase resulted primarily from $215,000 of print media advertising, $165,000 of increased costs associated with our co-op advertising program, and increased costs associated with our Hong Kong subsidiary. During the second quarter of 2002, we advertised in national magazines, jewelry trade publications, and newspapers in certain markets to support sales events. Our co-op advertising program reimburses a portion of our customers’ marketing costs based on the amount of their purchases from us. Marketing costs will increase during the remainder of the year as we expand our print and television advertising.

General and administrative expenses were $732,063 for the three months ended June 30, 2002 compared to $478,307 for the three months ended June 30, 2001, an increase of $253,756 or 53.1%. The increase resulted primarily from a $175,000 increase in bad debt expense and $140,000 of increased compensation costs, including $110,000 in additional costs associated with our Executive Compensation Plan, offset by $60,000 of decreased professional fees. The large increase in bad debt expense is primarily attributable to a $120,000 reduction in our allowance for bad debts during the second quarter of 2001.

Other expenses for the three months ended June 30, 2001 amounted to $46,999, which resulted from the write-off of certain patent costs.

Net interest income was $52,879 for the three months ended June 30, 2002 compared to $98,263 for the three months ended June 30, 2001, a decrease of $45,384 or 46.2%. This decrease resulted from a lower interest rate earned on our cash balances, partially offset by higher average cash balances.

Six Months ended June 30, 2002 compared with Six Months ended June 30, 2001.

Net sales were $8,225,748 for the six months ended June 30, 2002 compared to $5,362,716 for the six months ended June 30, 2001, an increase of $2,863,032 or 53.4%. Shipments of moissanite jewels increased during the six months ended June 30, 2002 to approximately 51,000 carats from 28,000 carats in the same period of 2001. Domestic carat shipments increased by 95%, and international carat shipments increased by 39%. It should be noted that a portion of the carats shipped to international customers are set in jewelry and distributed to retail markets in several countries, including the US. Average selling price per carat decreased by 15% primarily due to increased sales of smaller jewels which have a lower price per carat. Increased domestic sales are primarily attributable to direct marketing efforts on the television shopping channels ShopNBC and the ShopAtHome network. In addition, distribution has increased through our manufacturing partners at traditional retail stores, including Landau's, a 60 store retail chain. One of our domestic manufacturing customers, K&G Creations, accounted for approximately 40% of our sales during the six months ended June 30, 2002. K&G Creations provides moissanite jewels and jewelry to a large and diversified customer base, including television shopping channels and Landau's. While we believe our current relationship with this manufacturer is good and alternate manufacturers are available to serve their customer base, a loss of this manufacturer as a customer could cause a material adverse effect on our results of operations in a particular period. International sales also increased due to increased sales through television shopping channels. Specifically, moissanite jewels are now sold in the UK on Ideal World and by the infomercial company, Best Direct. International sales also increased into Hong Kong, China, and Italy.

The Company's gross profit margin was 55.4% for the six months ended June 30, 2002 compared to 56.2% for the six months ended June 30, 2001. The decreased gross margin percentage was primarily caused by a 15% decrease in average selling prices, partially offset by improved yields of moissanite jewels from SiC crystals.

Marketing and sales expenses were $2,179,376 for the six months ended June 30, 2002 compared to $1,306,138 for the six months ended June 30, 2001, an increase of $873,238 or 66.9%. The increase resulted primarily from $425,000 of print media advertising, $315,000 of increased costs associated with our co-op advertising program, and increased costs associated with our Hong Kong subsidiary. During the second quarter of 2002, we advertised in national magazines, jewelry trade publications, and newspapers in certain markets to support sales events. Our co-op advertising program reimburses a portion of our customers' marketing costs based on the amount of their purchases from us. Marketing costs will increase during the remainder of the year as we expand our print and television advertising.

General and administrative expenses were $1,339,275 for the six months ended June 30, 2002 compared to $1,177,553 for the six months ended June 30, 2001, an increase of $161,722 or 13.7%. The increase resulted primarily from $245,000 of increased compensation costs, including $175,000 in additional costs associated with our Executive Compensation Plan, and an $80,000 increase in bad debt expense, offset by $130,000 of decreased professional fees.

Other expenses for the six months ended June 30, 2001 amounted to $94,103, resulting from the write-off of certain patent costs and a loss on the disposition of certain other assets.

Net interest income was $102,755 for the six months ended June 30, 2002 compared to $168,084 for the six months ended June 30, 2001, a decrease of $65,329 or 38.9%. The decrease resulted from a lower interest rate earned on our cash balances, partially offset by higher average cash balances.

Liquidity And Capital Resources

At June 30, 2002, we had $12.5 million of cash and cash equivalents and $34.6 million of working capital. Cash and inventory account for over 90% of our current assets. Our principal sources of liquidity are cash on hand and cash generated by operations. During the six months ended June 30, 2002, $2,429,084 was generated by operations. The major components of the generated cash were net income of $1,137,997, a reduction in inventory of $970,345 and a $155,056 increase in accrued expenses. In addition, we used $116,000 of cash for the purchase of furniture and equipment. We believe our existing capital resources are adequate to satisfy our capital requirements for at least the next 12 months.

In January 2002, we agreed with Cree on a framework for purchases of SiC crystals during 2002. We will be obligated to purchase a minimum quantity of usable material on a quarterly basis if Cree meets certain minimum quality levels. Dependent upon the quality of material received, purchases from Cree during the last six months of 2002 are expected to be between $1,000,000 and $3,900,000. During the three and six months ended June 30, 2002, we purchased $913,000 and $1,678,000 of material from Cree, respectively.

The 4-year Development Agreement with Cree, as amended, requires us to fund a development program at Cree for $1.44 million annually through December 31, 2002. Either party may terminate the agreement if Cree does not meet the annual performance milestone or if the parties do not mutually agree on the performance milestones for the ensuing year. Our funding obligation under the Development Agreement was suspended from January 2001 through December 31, 2002, and based on current purchase levels is expected to be terminated in 2002.

On September 18, 2001, we announced that our Board of Directors authorized the repurchase of up to 1,300,000 shares of our common stock. At the discretion of management, the repurchase program can be implemented through open market or privately negotiated transaction at prevailing prices. We will determine the time and extent of repurchases based on our evaluation of market conditions and other factors. No shares were repurchased during the six months ended June 30, 2002. During 2001, we repurchased 76,000 shares at a cost of $1 per share. From July 1, 2002 through August 7, 2002, we repurchased 43,600 shares at an average cost of $3.86 per share. Therefore, since inception of this program, we have repurchased 119,600 shares at an average cost of $2.04 per share.

Newly Adopted Accounting Pronouncements

In July 2001, Statement of Financial Accounting Standards No. 142 ("FAS 142"), *Goodwill and Other Intangible Assets*, was issued. This statement requires that goodwill and other intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually. This statement was effective on January 1, 2002. We do not have goodwill or other intangible assets with indefinite useful lives, and the adoption of this statement did not have an effect on our consolidated financial statements.

Newly Issued Accounting Pronouncements

In August 2001, FAS No. 143, *Accounting For Asset Retirement Obligations*, was issued. This statement requires recording the fair value of a liability for an asset retirement obligation in the period in which it is incurred, and a corresponding increase in the carrying value of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, it is either settled for its recorded amount or a gain or loss upon settlement is recorded. FAS 143 is effective for our year ended December 31, 2003. We do not have any asset retirement obligations and do not expect the adoption of this statement to have an effect on our consolidated financial statements.

In August 2001, FAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, was issued. This statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets. FAS 144 is effective for our year ended December 31, 2003. We do not expect the adoption of FAS 144 to have an effect on our consolidated financial statements.

Item 3: ***Quantitative and Qualitative Disclosures About Market Risk***

We believe that our exposure to market risk for changes in interest rates is not significant because our investments are limited to highly liquid instruments with maturities of three months or less. At June 30, 2002, we had approximately $12.2 million of short-term investments classified as cash and equivalents. All of our transactions with international customers and suppliers are denominated in U.S. dollars.

[Table of Contents](#)

PART II—OTHER INFORMATION

Item 4: ***Submission of Matters to a Vote of Security Holders***

The Annual Meeting of Shareholders of Charles & Colvard Ltd. was held on May 20, 2002. At the meeting, the shareholders voted on the election of directors and the ratification of the selection of independent auditors. The following five nominees were each elected to the Board for a one-year term: Walter J. O'Brien, Jr., Chester L. F. Paulson, Frederick A. Russ, Robert S. Thomas, and George A. Thornton III. Additionally, the appointment of Deloitte & Touche LLP as independent auditors for the Company for the fiscal year ending December 31, 2002 was ratified. The number of votes cast for, against or withheld, as well as the number of abstentions, for each proposal are as follows:

A. *Election of Directors*

Director Nominee	Votes For	Votes Withheld
Walter J. O'Brien, Jr.	10,879,683	1,965,946
Chester L. F. Paulson	12,830,954	14,675
Frederick A. Russ	10,888,347	1,957,282
Robert S. Thomas	12,445,044	400,585
George A. Thornton III	12,821,810	23,819

B. *Ratification of Appointment of Deloitte & Touche LLP as auditors for fiscal year ending December 31, 2002.*

	Votes For	Votes Against	Abstentions
Ratification of Appointment of Deloitte & Touche LLP	12,823,231	10,675	11,723

Item 5: ***Other Information***

On July 15, 2002, Barbara L. Mooty joined the Company as Vice President, Brand Development & Industry Relations. She brings more than 25 years of jewelry industry experience to the management team of Charles & Colvard. Most recently, she was Vice President of Marketing for Kristall Classics, a Los Angeles based manufacturer of diamond jewelry and special cut Russian diamonds.

From July 1, 2002 through August 7, 2002, we repurchased 43,600 shares of our common stock through our repurchase program at an average cost of $3.86 per share.

Item 6: ***Exhibits And Reports On Form 8-K***

(a) *Exhibits*

Exhibit No.	Description
10.53	Charles & Colvard, Ltd. Fiscal Year 2001 Executive Compensation Plan, as amended 5/20/02.+
99.1	Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant To Section 906 Of The Sarbanes-Oxley Act of 2002.
99.2	Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant To Section 906 Of The Sarbanes-Oxley Act of 2002.

\+ Denotes a management contract or compensatory plan or arrangement.

(b) *Reports on Form 8-K*

None.

SIGNATURES

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

CHARLES & COLVARD, LTD.

By: /s/ ROBERT S. THOMAS

Robert S. Thomas
President & Chief Executive Officer
(Principal Executive Officer)

Date: August 8, 2002

By: /s/ JAMES R. BRAUN

James R. Braun
Vice President of Finance & Chief Financial Officer
(Principal Accounting Officer)

Date: August 8, 2002

Exhibit 10.53

CHARLES & COLVARD, LTD.
FISCAL YEAR 2001 EXECUTIVE COMPENSATION PLAN,
AS AMENDED MAY 20, 2002
PLAN SUMMARY

1. Purpose. The purpose of the 2001 Executive Compensation Plan, as amended May 20, 2002 (the "Plan"), is to provide selected key employees of Charles & Colvard, Ltd. (the "Company") with incentive awards in the form of cash payments and/or bonus option grants (each, an "award" and collectively, "awards") based upon attainment of performance goals, thereby promoting a closer identification of the participants' interests with the interests of the Company and its shareholders, and further stimulating such participants' efforts to enhance the efficiency, profitability, growth and value of the Company. The Plan was adopted in fiscal year 2001 and may continue in effect for future years, as modified by the Compensation Committee (the "Committee") of the Board of Directors (the "Board") or by the Board in its or their discretion. (For the purposes herein, the "Committee" shall be interpreted to mean the Board if in fact the Board takes the indicated action.)

2. Eligibility. Key employees of the Company selected by the Committee shall be eligible to participate (each, a "participant"). Eligible participants shall be selected to participate on an annual or other periodic basis as determined by the Committee. For the 2002 plan year, the key employees eligible to participate in the Plan shall be the Chief Executive Officer, Chief Financial Officer, Vice President of Sales and Marketing, Vice President of Manufacturing, Director of Marketing, Director of Domestic Sales, Director of International Sales, Director of Information Technology and such other key employees as may be selected by the Committee to participate in the Plan; provided, however, that the Committee shall have sole discretion to determine eligibility for Plan participation and participation in the Plan for any single plan year shall not guarantee eligibility to participate in any other plan year. Nothing contained in the Plan or the terms of any award will be construed as conferring upon any participant the right to continue in the employment of the Company or as imposing upon the Company the obligation to continue to employ a participant. Awards granted under the Plan may not be assigned or transferred by a participant to any other person or entity. (For the purposes of the Plan, a "plan year" shall coincide with the particular fiscal year of the Company.) A participant must be employed by the Company at December 31 of the applicable plan year to be eligible for a bonus for that plan year.

3. Administration of the Plan. The Plan will be administered by the Committee. The Committee is vested with the authority to determine eligibility, grant awards and establish and modify performance criteria. In addition, without limiting the foregoing, the Committee has full authority in its discretion to take any action with respect to the Plan including, without limitation, the authority (i) to determine all matters relating to awards, including selection of individuals to be granted awards, the types of awards, the

number of shares of the Company's common stock (the "Common Stock"), if any, subject to an award, and all terms, conditions, restrictions and limitations of an award; and (ii) to construe and interpret the Plan and any instruments evidencing awards granted under the Plan, to establish and interpret rules and regulations for administering the Plan and to make all other determinations deemed necessary or advisable for administering the Plan. All determinations of the Committee with respect to the Plan will be final and binding on the Company and all persons having or claiming an interest in any award granted under the Plan. No member of the Committee shall be liable while acting as administrator for any action or determination made in good faith with respect to the Plan or any award.

4. Nature of Awards. Awards granted under the Plan may consist of cash bonuses and/or bonuses in the form of option grants ("option bonuses"). The terms of option bonuses will be governed by the terms of the 1997 Omnibus Stock Plan of C3, Inc., as amended (the "1997 Plan"), or any other stock incentive plan which may apply to such option bonuses and shall be subject to the terms and conditions of such plan and the respective award agreement.

5. Determination of Awards. The Committee will establish those performance goals (each, a "goal") which shall apply to the determination of awards, if any, to be made with respect to a participant for any plan year. A participant's ability to earn an award for a particular plan year will be based on the Company's attainment of the goals for that plan year. The goals and any other factors which may apply with respect to the grant of awards during a plan year shall be determined by the Committee and may differ from the goals applicable in other plan years; provided, however, that, unless the Committee determines otherwise, all awards which may be earned by Plan participants during any particular plan year will be determined based on the same goals.

6. Determination of Cash Bonuses.

   (a) General. The Company shall establish a cash bonus pool (the "cash bonus pool"), which will be used to fund cash awards earned under the Plan. The cash bonus pool will be funded in the event that the Company achieves its annual operating goals for the particular plan year, which for 2002 shall consist of the operating income goal ("income goal") and carat shipments goal ("shipment goal") as set out in the Company's annual business plan, as approved by the Board. The maximum cash bonus to be earned in any plan year by a participant is $500,000 per year during the first three years of employment with the Company, $1,000,000 per year during the next succeeding three years of employment with the Company and $2,500,000 per year thereafter.

   (b) 2002 Plan Year. For the 2002 plan year, the provisions which follow shall apply with respect to the award of cash bonuses; provided, however, that the Committee shall have full discretion to modify the goals and any other performance or other factors applicable to the determination of Plan awards for any subsequent plan year and shall not be bound by the provisions applicable for the 2002 plan year.

(i) Following the 2002 plan year, if the Committee determines that the income goal has been met, five percent (5%) of the Company's operating income will be contributed to the cash bonus pool from which cash bonuses for the 2002 plan year may be distributed.

(ii) If both the income goal and the shipments goal have been met at the end of the 2002 plan year, an additional five percent (5%) of the Company's operating income will be added to the cash bonus pool.

(iii) If both the income goal and the shipments goal have been met at the end of the 2002 plan year, fifteen percent (15%) of all pre-bonus, operating income in excess of the income goal will be added to the cash bonus pool for the 2002 plan year.

(iv) If the income goal is not met at the end of the 2002 plan year, the Committee (based on recommendations by the CEO) may in its discretion determine what amount, if any, will be contributed to the cash bonus pool and be payable to any eligible participant.

(v) The cash bonus pool if earned and payable will be paid 40% to the CEO and 20% to each of the CFO, VP of Manufacturing and VP of Sales and Marketing.

(vi) Sales and Marketing Directors who are eligible for cash commission payments will not participate in cash bonuses, if any, in 2002.

7. Determination of Option Bonuses.

(a) General. The Company shall establish an option bonus pool (the "option pool") which will be used to fund option awards earned under the Plan. Options from the option pool shall be awarded in the event the Company achieves its income goal for the particular year. Nothing in the terms of the Plan shall limit the authority of the Company to grant stock options or other stock-based awards under the 1997 Plan or other applicable plan.

(b) 2002 Plan Year. For the 2002 plan year, the provisions which follow shall apply with respect to the award of option bonuses; provided, however, that the Committee shall have full discretion to modify the goals and any other performance or other factors applicable to the determination of Plan awards for any subsequent plan year and shall not be bound by the provisions applicable for the 2002 plan year.

(i) For the 2002 plan year, the option bonus pool shall consist of options for 130,000 shares of the Common Stock.

(ii) If the income goal has been met at the end of the 2002, the option pool will be distributed as follows: 40,000 options to the CEO, 20,000 options to each of the CFO, Vice President of Manufacturing and Vice President of Sales and Marketing, 9,000 options to the Director of Information Technology and 7,000 options to each of the Director of Marketing Director of Domestic Sales and Director of International Sales. Any options granted will have an option price equal to the closing sales price on the last trading day immediately prior to the Company's public announcement of the 2002 financial results, will vest immediately and will be exercisable over ten years.

(iii) If the income goal is not met at the end of the 2002 plan year, the Committee (based on recommendations by the CEO) may in its discretion determine the option grants, if any, that will be awarded to any eligible participant.

8. Timing of Awards. Unless the Committee determines otherwise, cash bonuses will be distributed as soon as practical following the completion of the annual audit for the respective preceding fiscal year by the Company's independent accountants. Except to the extent that the terms of the 1997 Plan (or other applicable plan) provide otherwise, and unless the Committee determines otherwise, option bonuses will be granted as of the last trading day immediately preceding the public announcement of the Company's financial performance for the respective preceding fiscal year.

9. Option Bonus Adjustments. Option bonuses will be adjusted proportionately in the event of any stock splits or similar adjustments occurring after the adoption of the Plan and prior to the end of fiscal year 2002 and may be subject to further adjustment in the event of any stock splits or other capital adjustments which occur after the end of the fiscal year, subject to the terms of the 1997 Plan or other applicable plan and the Committee's discretion thereunder.

10. Proration of Awards. To the extent a participant is employed by the Company for less than the full fiscal year, the bonus to which the participant is otherwise entitled shall be prorated to reflect the percentage of the fiscal year that the participant was employed by the Company.

11. Amendment. The Plan and any award granted under the Plan may be amended or terminated at any time by the Committee; provided, however, that (i) amendment or termination of an outstanding award may not, without the consent of the participant, adversely affect the rights of the participant with respect to such award; and (ii) approval of an amendment to the Plan by the shareholders of the Company shall be required in the event shareholder approval of such amendment is required by applicable law.

Exhibit 99.1

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

In connection with the Quarterly Report of Charles & Colvard, Ltd. (the "Company") on Form 10-Q for the period ending June 30, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I Robert S. Thomas, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. (S) 1350, as adopted pursuant to (S) 906 of the Sarbanes-Oxley Act of 2002, that:

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

(2) The information contained in the report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Robert S. Thomas
- --------------------
Robert S. Thomas
President and Chief Executive Officer
August 8, 2002

Exhibit 99.2

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

In connection with the Quarterly Report of Charles & Colvard, Ltd. (the "Company") on Form 10-Q for the period ending June 30, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I James R. Braun, Vice President of Finance and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. (S) 1350, as adopted pursuant to (S) 906 of the Sarbanes-Oxley Act of 2002, that:

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

(2) The information contained in the report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ James R. Braun
- ------------------
James R. Braun
Vice President of Finance and Chief Financial Officer
August 8, 2002