SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)
[x] Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended March 31, 2001

[ ] 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	56-1928817
(State or other jurisdiction of incorporation or organization)	(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 X No__

As of April 30, 2001 there were 13,447,714 shares of the Registrant's Common Stock, no par value per share, outstanding.

Charles & Colvard, Ltd.

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Part I. Financial Information

Item 1. Financial Statements

Charles & Colvard, Ltd.
Condensed Consolidated Statements Of Operations
(Unaudited)

	Three Months Ended March 31, 2001	Three Months Ended March 31, 2000
Net sales	$ 2,899,984	$ 3,011,250
Cost of goods sold	1,262,699	1,376,748
Gross profit	1,637,285	1,634,502
Operating expenses:		
Marketing and sales	713,582	2,456,176
General and administrative	699,246	989,329
Research and development	1,033	439,632
Other expense	46,071	---
Total operating expenses	1,459,932	3,885,137
Operating income (loss)	177,353	(2,250,635)
Interest income, net	69,821	140,474
Net income (loss)	$ 247,174	$(2,110,161)
Net income (loss) per share:		
Basic	$ 0.03	$ (0.30)
Diluted	$ 0.03	$ (0.30)
Weighted-average common shares:		
Basic	9,838,489	7,109,304
Diluted	9,860,216	7,109,304

See Notes to Condensed Consolidated Financial Statements.

Charles & Colvard, Ltd.
Condensed Consolidated Balance Sheets

	March 31, 2001	December 31, 2000
Assets	(Unaudited)	
Current Assets:		
Cash and equivalents	$ 9,070,288	$ 3,826,402
Accounts receivable	1,566,616	1,468,041
Interest receivable	34,375	18,890
Inventory, net	22,418,669	23,071,416
Prepaid expenses and other assets	226,036	301,267
Total current assets	33,315,984	28,686,016
Equipment, net	473,354	552,272
Patent and license rights, net	365,041	369,706
Total assets	$ 34,154,379	$ 29,607,994
Liabilities and Shareholders' Equity		
Current Liabilities:		
Accounts payable:		
Cree, Inc.	$ ---	$ 1,147,718
Other	439,165	847,428
Accrued expenses and other liabilities	486,261	640,068
Deferred revenue	85,783	112,996
Total current liabilities	1,011,209	2,748,210
Commitments		
Shareholders' Equity:		
Common stock	55,258,692	49,226,697
Additional paid-in capital - stock options	1,930,961	1,926,744
Accumulated deficit	(24,046,483)	(24,293,657)
Total shareholders' equity	33,143,170	26,859,784
	$ 34,154,379	$ 29,607,994

See Notes to Condensed Consolidated Financial Statements

Charles & Colvard, Ltd.
Condensed Consolidated Statements Of Cash Flows
(Unaudited)

	Three Months Ended March 31,	
	2001	2000
Operating Activities:		
Net income (loss)	$ 247,174	$ (2,110,161)
Adjustments:		
Depreciation and amortization	48,879	256,831
Stock option compensation	4,217	52,666
Loss on disposal of long-term assets	46,071	835
Change in provision for uncollectible accounts	100,000	145,000
Change in operating assets and liabilities:		
Net change in assets	513,918	(2,412,898)
Net change in liabilities	(1,737,001)	(1,713,356)
Net cash used in operating activities	(776,742)	(5,781,083)
Investing Activities:		
Purchase of equipment	(10,221)	(5,127)
Patent and license rights costs	(1,146)	(22,769)
Net cash used in investing activities	(11,367)	(27,896)
Financing Activities:		
Stock options exercised	---	98,894
Proceeds from stock rights offering, net	6,031,995	---
Net cash provided by financing activities	6,031,995	98,894
Net change in cash and equivalents	5,243,886	(5,710,085)
Cash and equivalents, beginning of period	3,826,402	13,161,665
Cash and equivalents, end of period	$ 9,070,288	$ 7,451,580

See Notes to Condensed Consolidated Financial Statements.

Charles & Colvard, Ltd.
Notes To Condensed Consolidated Financial Statements
(Unaudited)

1. Basis Of Presentation

The accompanying unaudited 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 2001. These financial statements should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2000, as set forth in the Company's Form 10-K, filed with the Securities and Exchange Commission on March 29, 2001.

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., for the purpose of gaining better access to the important Far Eastern markets. All inter-company accounts have been eliminated. The Company does not anticipate establishing additional subsidiaries in the near future.

All the Company's activities are within a single business segment. Export sales aggregated approximately $700,000 and $1,300,000 for the three months ended March 31, 2001 and 2000, respectively.

2. Inventories

Inventories are stated at the lower of cost or market determined on a first in, first out basis. Finished goods are shown net of a reserve for excess jewelry inventory of $285,000 and $270,000 respectively. Test instruments are shown net of a reserve for excess inventory of $465,000 and $500,000 respectively.

	December 31	
	2001	2000
Moissanite		
Raw materials	$ 916,926	$ 1,482,969
Work-in-process	1,571,510	3,105,096
Finished goods	19,865,252	18,411,563
	22,353,688	22,999,628
Test instruments	64,981	71,788
Total Inventory	$ 22,418,669	$ 23,071,416

3. Common Stock

On February 21, 2001, the Company completed a Rights Offering to its shareholders. The Company issued an aggregate of 6,246,735 shares of common stock at $1 per share. Net proceeds from the offering, after expenses, were $6,031,995. These proceeds will be used for working capital purposes.

4. Stock Based Compensation

During the quarter ended March 31, 2001, in accordance with Accounting Principles Board Opinion No. 25 and Statement of Financial Accounting Standards (FAS) No. 123, the Company recorded compensation expense of $4,217 relating to stock options. Compensation expense related to stock options for the quarter ended March 31, 2000 was $52,666. This compensation expense is recorded in general and administrative expense in the statements of operations.

5. Newly Adopted Accounting Pronouncements

In June 1998, FAS No. 133, Accounting for Derivative Instruments and Hedging Activities, was issued. This statement establishes standards for valuing and reporting at fair value all derivative instruments as either assets or liabilities. FAS 133, as amended by FAS 137, was effective January 1, 2001. The adoption of FAS 133 did not have a material effect on the Company's consolidated financial statements.

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, 2000, which was filed with the Securities and Exchange Commission on March 29, 2001.

Overview

We manufacture, market and distribute Charles & Colvard created moissanite jewels (also called moissanite or moissanite jewels) 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. At the same time, we assembled a management team, conducted market research and developed our strategic business plans. We began shipping moissanite to authorized retail jewelers in Atlanta and Miami/Ft. Lauderdale during the second quarter of 1998. At that time, we launched limited consumer-focused advertising and promotion activities in those areas. In addition, we entered into exclusive distribution agreements with a number of international distributors.

Through the first half of 1999, we limited our efforts to expand the distribution of moissanite jewels as a result of limited product availability and our lack of confidence in the quality of the SiC crystals we were receiving. Late in the second quarter of 1999, we began to receive indications that the quality of the SiC crystals was improving rapidly. The rate of improvement in the quality of the SiC crystals continued to accelerate through the end of 1999, far exceeding our expectations. At the same time, we experienced a decline in shipments of moissanite jewels during the third quarter of 1999 as a result of the following:

- a slow growth in the addition of domestic retailers;
- lack of targeted retailer-driven marketing programs abroad; and
- poor overall jewelry market performance in certain international markets.

The improved supply of SiC crystals along with the decrease in sales led to a significant increase in inventories of moissanite jewels. In December 1999, we agreed with Cree to reschedule approximately 50% of the expected shipments of SiC crystals from the first half of 2000 to the second half of 2000.

With the improvements in the supply of saleable moissanite jewels, we launched our strategic global marketing program in the fourth quarter of 1999 to spur consumer awareness of moissanite jewels. During 2001, this program is being refocused to emphasize use of public relations activities to increase consumer brand awareness while reducing higher cost print and media advertising. In addition, in March 2000, we entered into distribution agreements with Stuller Settings, Inc. 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, our goal is to rapidly increase the introduction of moissanite into the domestic jewelry market while maintaining average selling prices. However, because of the early stage of development of these strategic efforts, we have no assurance that these efforts will be successful.

We made significant investments in our branding program and in developing our manufacturing and operational infrastructures during the fourth quarter of 1999 and through 2000, all in anticipation of future significant and rapid growth. During the third and fourth quarters of 2000, we restructured our operations to reduce our overall general and administrative expense levels in order to conserve cash and attempt to position the Company to achieve profitability in the future. Additionally, research and development expenses under the Development Agreement with Cree were suspended effective as of January 2001.

Our strategy for 2001 is to remain profitable and conserve cash by achieving modest growth in sales while maintaining our lower marketing and advertising costs, maintaining our lower general and administrative expense levels, continuing to curtail research and development expenses and reducing inventories. We believe that our sales can increase as the distribution of moissanite jewels expands domestically and internationally. We believe that our current infrastructure and stage of product development can support a significant growth in sales. Although we attained our goal to achieve profitability in the first quarter of 2001, we cannot be sure that we will ever be able to achieve increased sales or sustain profitability.

As discussed below, the shift in our domestic distribution strategy may affect our historical relationships between revenues and expenses as well as our liquidity and capital requirements.

Results Of Operations

Three Months ended March 31, 2001 compared with Three Months ended March 31, 2000.

Net sales were $2,899,984 for the three months ended March 31, 2001 compared to $3,011,250 for the three months ended March 31, 2000, a decrease of $111,266 or 3.7%. Shipments of moissanite jewels increased in the first quarter of 2001 to approximately 15,400 carats from 15,300 carats in the first quarter of 2000. This marginal increase in shipments of moissanite jewels was offset by a reduction in the average selling price due to volume purchase discounts offered to our new domestic distribution and manufacturing partners. Our new partners began their distribution efforts during the second quarter of 2000. Our distribution goal is to increase carat shipments to these distributors significantly over time while keeping average selling prices stable with any variation dependant upon the mix of sizes sold.

Although there was a small decrease in sales, domestic sales increased to approximately $2,200,000 for the three months ended March 31, 2001 compared to approximately $1,700,000 for the three months ended March 31, 2000. This increase was offset by a decrease in international sales. International sales were approximately $700,000 for the three months ended March 31, 2001 compared to approximately $1,300,000 for the three months ended March 31, 2000. The decrease in international sales can be attributed to the strong dollar and the lack of substantial advertising and public relations activities.

Our gross profit margin was 56.5% for the three months ended March 31, 2001 compared to 54.3% for the three months ended March 31, 2000. The increased gross margin rate relates to improved yield of moissanite jewels from SiC crystals, which was partially offset by a reduction in the per carat average selling price of moissanite jewels.

Marketing and sales expenses were $713,582 for the three months ended March 31, 2001 compared to $2,456,176 for the three months ended March 31, 2000, a decrease of $1,742,594 or 70.9%. The decrease resulted primarily from a $1.5 million reduction in marketing and advertising costs consistent with our new strategy to increase consumer impressions through lower cost approaches such as public relations activities and media editorial coverage, as well as decreased compensation costs.

General and administrative expenses were $699,246 for the three months ended March 31, 2001 compared to $989,329 for the three months ended March 31, 2000, a decrease of $290,083 or 29.3%. The decrease resulted from a $130,000 decrease in compensation costs, as well as decreases in rent, bad debt expense, production costs of our annual report, and other general overhead items consistent with our efforts to cut costs

Research and development expenses were $1,033 for the three months ended March 31, 2001 compared to $439,632 for the three months ended March 31, 2000, a decrease of $438,599 or 99.8%. The decrease resulted from the suspension of development efforts with Cree effective January 1, 2001.

Other expenses for the three months ended March 31, 2001 amounted to $46,071 which resulted from the write-down to market of certain fixed assets scheduled for disposal.

Net interest income was $69,821 for the three months ended March 31, 2001 compared to $140,474 for the three months ended March 31, 2000, a decrease of $70,653 or 50.3%. This decrease resulted from lower interest income earned on lower average cash balances.

Liquidity And Capital Resources

At March 31, 2001, we had $9.1 million of cash and cash equivalents and $32.3 million of working capital. During the three months ended March 31, 2001, we used $777,000 to fund operations; the decrease can be attributed to the satisfaction of all outstanding liabilities to Cree. In addition, we completed a Rights Offering to our shareholders on February 21, 2001, raising $6 million of net proceeds. These proceeds will be used for working capital purposes. We believe our existing capital resources are adequate to satisfy our capital requirements for at least the next 12 months.

In December 2000, we agreed with Cree on a framework for purchase of SiC crystals during 2001. Under the terms of the Agreement, we will be obligated to purchase SiC crystals only upon issuance and Cree's acceptance of purchase orders. We have committed to purchase approximately $400,000 of SiC crystals during the second quarter of 2001. The price paid to Cree will be based upon a set price per gram for specified SiC crystals.

The 4-year Development Agreement with Cree, as amended, requires us to fund a development program at Cree for $1.44 million annually through June 30, 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. Effective January 1, 2001, our funding obligation under the Development Agreement was suspended through June 30, 2001.

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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 March 31, 2001, we had approximately $8.6 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.

Part II - Other Information

Item 6: Exhibits And Reports On Form 8-K

(a) Exhibits

Exhibit No.	Description
10.45	Letter Agreement dated December 7, 2000 between Cree, Inc. and Charles & Colvard, Ltd., incorporated by reference to exhibit 99.2 of the Company's current report on Form 8-K dated January 9, 2001.*
10.46	Fifth Amendment to Agreement, dated December 29, 2000 between John M. Bachman Inc. and Charles & Colvard, Ltd.*

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

* The Company has requested that certain portions of this exhibit be given confidential treatment.

(b) Report on Form 8-K

Date	Subject	
January 9, 2001	Item 5:	Announcement of Shipments and Revenue Expectations for The Fourth Quarter of 2000
February 9, 2001	Item 5:	Announcement of the resignation of Mark W. Hahn as Chief Financial, Secretary and Treasurer
February 15, 2001	Item 5:	Announcement of Extension of Rights Offering to February 16, 2001
February 22, 2001	Item 5:	Announcement of Completion of Rights Offering

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.

C3, Inc.

Date: May 4, 2001

/s/ Robert S. Thomas

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

Date: May 4, 2001

/s/ Earl R. Hines

Earl R. Hines
Vice President Manufacturing
(Principal Accounting Officer)

EXHIBIT 10.46

REDACTED - OMITTED MATERIAL HAS BEEN FILED SEPARATELY WITH THE COMMISSION AND IS DENOTED HEREIN BY *****.

FIFTH AMENDMENT TO AGREEMENT

THIS FIFTH AMENDMENT TO AGREEMENT (this "Amendment") is entered into as of December 29, 2000 by and among Charles & Colvard, Ltd. (Formerly C3, Inc.) a North Carolina corporation, and JOHN M. BACHMAN, INC. ("JMB").

Statement of Purpose

Charles & Colvard and JMB entered into an Agreement dated September 24, 1997 (the "Agreement") to formalize the terms upon which JMB will cut moissanite gemstones for CHARLES & COLVARD, a First Amendment to the Agreement dated March 23, 1998 (the "First Amendment"), a Second Amendment to the Agreement dated September 28, 1998 (the "Second Amendment") and a Third Amendment to the Agreement dated June 16, 1999 (the "Third Amendment") and a Fourth Amendment to the Agreement dated October 5, 1999 (the "Fourth Amendment").

Therefore, in consideration of the foregoing, the mutual covenants and agreements contained herein, and other good and valuable consideration the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

1. Expansion Funds The total expansion funds advanced by Charles & Colvard to JMB equal XXXXXXXX (the "Expansion Funds"), which funds have been utilized by JMB solely to expand its affiliate's production facility and procure additional equipment and labor as needed to enable JMB and its affiliate to satisfy the production volumes contemplated by the Agreement. The entire amount of the Expansion Funds is an advance against production charges payable by Charles & Colvard pursuant to Section 2, below, and Charles & Colvard will be credited against production charges for the entire amount of the Expansion Funds pursuant to Section 2, below.

2. Cutting Charges. Charles & Colvard will pay JMB for Moissanite Gemstone cutting services at rates as set forth on Exhibit A to the Second Amendment. For cutting services provided by JMB, the amount payable to JMB by CHARLES & COLVARD reflected on each invoice will be reduced by XXX until the aggregate amount of such reductions prior to and after this Amendment equals XXXXXXXX and CHARLES & COLVARD has received full credit against production charges for the amount of the Expansion Funds. In all other respects the cutting charges and payment procedures in the Agreement, the First Amendment and the Second Amendment are hereby confirmed.

3. Extension of Term. The initial term of the Agreement will be extended from the date first set forth in the Agreement through December 31, 2003, however, CHARLES & COLVARD may terminate the Agreement at any time with 90 days prior written notice. Production Volumes in Paragraph 4 may be adjusted throughout the contract period.

4. <u>Production Procedures: Standards</u>

a. The monthly production volumes (in finished pieces) will be as follows:

Jan 2001	XXXXX
Feb 2001	XXXXX
March 2001	XXXXX
April 2001	XXXXX
May 2001	XXXXX
Jun 2001	XXXXX
July 2001	XXXXX
Aug 2001	XXXXX
Sep 2001	XXXXX
Oct 2001	XXXXX
Nov 2001	XXXXX
Dec 2001-Dec 2003	XXXXX

b. In all other respects the production procedures and standards in the Agreement, the First Amendment and the Second Amendment are hereby confirmed.

5. <u>Confirmation of Agreement</u>. In all other respects the parties hereto confirm the terms of the Agreement, the First Amendment, the Second Amendment, the Third Amendment and the Fourth Amendment. JMB will obtain in writing, and provide to CHARLES & COLVARD, the consent of its affiliate to be bound by the terms of this Amendment.

IN WITNESS WHEREOF, each of the parties has executed and delivered this Amendment by its duly authorized officer, as of the date first above written.

CHARLES & COLVARD, LTD.

By: /s/Mark W. Hahn

Name: Mark W. Hahn

Title: Chief Financial Officer

JOHN M. BACHMAN, INC.

By: /s/John Bachman

Name: John Bachman

Title: President

CONSENT

Beehive Industries PVT, Ltd. has reviewed the Fifth Amendment dated December 29, 2000 to the Agreement dated September 24, 1997 by and between Charles & Colvard and John M. Bachman, Inc. and agrees to be bound by the terms as set out therein.

This the 30 day of December 2000.

Beehive Industries PVT, Ltd.

By: ______________________

Its: Managing Director