

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, 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 No

As of August 6, 2001 there were 13,447,714 shares of the Registrant's Common Stock, no par value per share, outstanding.

Charles & Colvard, Ltd.
Index

Part I. Financial Information

Item 1. Financial Statements

Condensed Consolidated Statements of Operations - Three Months and Six Months Ended June 30, 2001 and 2000

Condensed Consolidated Balance Sheets - June 30, 2001 and December 31, 2000

Condensed Consolidated Statements of Cash Flows - Six Months Ended June 30, 2001 and 2000

Notes to Condensed Consolidated Financial Statements

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Part II. Other Information

Item 4. Submission of Matters to a Vote of Security Holders

Item 5. Other Information

Item 6. Exhibits and Reports on Form 8-K

Signatures

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,	
	2001	2000	2001	2000
Net sales	\$ 2,462,732	\$ 3,647,621	\$ 5,362,716	\$ 6,658,871
Cost of goods sold	1,084,089	1,656,431	2,346,788	3,033,179
Gross profit	1,378,643	1,991,190	3,015,928	3,625,692
Operating expenses:				
Marketing and sales	592,556	1,559,753	1,306,138	4,015,930
General and administrative	478,307	1,126,993	1,177,553	2,116,322
Research and development	2,775	416,159	3,808	855,791
Other expense	44,224	252,577	90,295	253,201
Total operating expenses	1,117,862	3,355,482	2,577,794	7,241,244
Operating income (loss)	260,781	(1,364,292)	438,134	(3,615,552)
Interest income, net	98,263	113,782	168,084	254,880
Net income (loss)	\$ 359,044	\$ (1,250,510)	\$ 606,218	\$ (3,360,672)
Basic and diluted net income (loss) per share:	\$ 0.03	\$ (0.17)	\$ 0.05	\$ (0.47)
Weighted-average common shares:				
Basic	13,447,714	7,157,671	11,662,933	7,133,487
Diluted	13,465,408	7,157,671	11,669,081	7,133,487

See Notes to Condensed Consolidated Financial Statements.

Charles & Colvard, Ltd.
Condensed Consolidated Balance Sheets

	June 30, 2001 ----- (Unaudited)	December 31, 2000 -----
Assets		
Current Assets		
Cash and equivalents	\$ 10,018,282	\$ 3,826,402
Accounts receivable	1,133,619	1,468,041
Interest receivable	29,489	18,890
Inventory, net	22,440,201	23,071,416
Prepaid expenses	183,384	301,267
	-----	-----
Total current assets	33,804,975	28,686,016
Equipment, net	386,471	552,272
Patent and license rights, net	314,525	369,706
	-----	-----
Total assets	\$ 34,505,971	\$ 29,607,994
	=====	=====
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable:		
Cree, Inc.	\$ 230,698	\$ 1,147,718
Other	261,513	847,428
Accrued expenses	398,639	640,068
Deferred revenue	91,857	112,996
	-----	-----
Total current liabilities	982,707	2,748,210
Commitments		
Shareholders' Equity		
Common stock	55,258,692	49,226,697
Additional paid-in capital - stock options	1,952,011	1,926,744
Accumulated deficit	(23,687,439)	(24,293,657)
	-----	-----
Total shareholders' equity	33,523,264	26,859,784
	-----	-----
Total liabilities and shareholders' equity	\$ 34,505,971	\$ 29,607,994
	=====	=====

See Notes to Condensed Consolidated Financial Statements

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

	Six Months Ended June 30,	
	2001	2000
Operating Activities:		
Net income (loss)	\$ 606,218	\$ (3,360,672)
Adjustments:		
Depreciation and amortization	84,377	462,005
Stock option compensation	25,267	111,211
Loss on disposal of long-term assets	90,295	266,963
Change in provision for uncollectible accounts	(20,000)	260,000
Change in operating assets and liabilities:		
Net change in assets	1,092,921	(3,307,839)
Net change in liabilities	(1,765,503)	(2,246,578)
Net cash provided (used) in operating activities	113,575	(7,814,910)
Investing Activities:		
Purchase of equipment	(21,351)	(14,971)
Patent and license rights costs	(2,339)	(40,444)
Proceeds from sale of long term assets	70,000	---
Net cash provided (used) in investing activities	46,310	(55,415)
Financing Activities:		
Stock options exercised	---	281,819
Proceeds from stock rights offering, net	6,031,995	---
Net cash provided by financing activities	6,031,995	281,819
Net change in cash and equivalents	6,191,880	(7,588,506)
Cash and equivalents, beginning of period	3,826,402	13,161,665
Cash and equivalents, end of period	\$ 10,018,282	\$ 5,573,159

Supplemental non-cash investing activity:

In May 2000, the Company sold its crystal growth equipment to Cree, Inc. (Cree) for \$5,000,000. The \$5 million receivable from this transaction was eliminated by purchases from Cree, completed in November, 2000.

Supplemental non-cash operating activity:

During the six months ended June 30, 2000, there was \$1,726,718 of inventory purchases financed by the receivable from Cree.

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. During the three and six months ended June 30, 2001, export sales aggregated approximately \$500,000 and \$1,200,000, respectively. Export sales aggregated approximately \$1,200,000 and \$2,500,000 for the three and six months ended June 30, 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 \$265,000 at June 30, 2001 and \$270,000 at December 31, 2000. Test instruments are shown net of a reserve for excess inventory of \$465,000 and \$500,000 respectively.

	June 30, ----- 2001 -----	December 31, ----- 2000 -----
Moissanite		
Raw materials	\$ 743,714	\$ 1,482,969
Work-in-process	1,201,705	3,105,096
Finished goods	20,457,435	18,411,563
	-----	-----
	22,402,854	22,999,628
Test instruments	37,347	71,788
	-----	-----
Total Inventory	\$ 22,440,201 =====	\$ 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.

4. Stock Based Compensation

During the three and six months ended June 30, 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 \$21,050 and \$25,267, respectively, relating to stock options. Compensation expense related to stock options for the three and six months ended June 30, 2000 were \$58,545 and \$111,211, respectively. 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.

6. Newly Issued Accounting Pronouncements

In July 2001, Statement of Financial Accounting Standards No. 141 ("FAS 141"), Business Combinations, was issued. This statement prospectively prohibits the pooling-of-interest method of accounting for business combinations initiated after June 30, 2001. Management believes the adoption of FAS 141 will not have a material effect on its financial statements.

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. Management believes the adoption of FAS 142 will not have a material effect on its 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 during the second quarter of 1998. At that time, we launched limited consumer-focused advertising and promotion activities in the targeted areas.

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.

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 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 through June 30, 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 and that our current infrastructure and stage of product development can support a significant increases in sales. We attained our goal to achieve profitability in both the first and second quarters of 2001, however, we did not achieve sales increases in the second quarter of 2001, and we cannot be sure that we will ever be able to achieve increased sales or sustain profitability. In addition, although we have had additional discussion with Cree regarding extending the suspension of research and development expenses under our Development Agreement beyond June 30, 2001, there can be no assurance that such a definitive agreement will be reached nor that profitability will not be adversely impacted by any significant resumption of research and development spending.

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 June 30, 2001 compared with Three Months ended June 30, 2000.

Net sales were \$2,462,732 for the three months ended June 30, 2001 compared to \$3,647,621 for the three months ended June 30, 2000, a decrease of \$1,184,889 or 32.5%. Shipments of moissanite jewels decreased in the three months ended June 30, 2001 to approximately 12,500 carats from 19,000 carats in the same period of 2000. Average selling prices were slightly higher in the three months ended June 30, 2001 when compared to the three months ended June 30, 2000. North American sales amounted to approximately \$2,000,000 in the three months ended June 30, 2001 compared to \$2,500,000 in the three months ended June 30, 2000. International sales amounted to approximately \$500,000 and \$1,200,000 for the three months ended June 30, 2001 and 2000, respectively.

In April of 2000, we implemented a price increase to our jewelry store customers in North America. Subsequently, during the three months ended June 30, 2000, we changed our method of distribution from selling directly to jewelry stores to selling via distributors. Therefore, in addition to the economy's negative effects on the jewelry industry, lower sales in the three months ended June 30, 2001, when compared to the same quarter of 2000, can be attributed to the fact that in 2000 new distributors purchased their initial inventory from the company and a number of jewelry store customers purchased jewels prior to a price increase. 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 56.0% for the three months ended June 30, 2001 compared to 54.6% for the three months ended June 30, 2000. The increased gross margin rate results from better efficiencies in the manufacturing process.

Marketing and sales expenses were \$592,556 for the three months ended June 30, 2001 compared to \$1,559,753 for the three months ended June 30, 2000, a decrease of \$967,197 or 62.0%. The decrease resulted primarily from a \$600,000 reduction in marketing and advertising expenses 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 (including severance costs recorded in 2000).

General and administrative expenses were \$478,307 for the three months ended June 30, 2001 compared to \$1,126,993 for the three months ended June 30, 2000, a decrease of \$648,686 or 57.6%. The decrease was primarily a result of decreased bad debt expense, compensation costs (including severance costs recorded in 2000), and other general overhead expenses consistent with our efforts to cut costs.

Research and development expenses were \$2,775 for the three months ended June 30, 2001 compared to \$416,159 for the three months ended June 30, 2000, a decrease of \$413,384 or 99.3%. The decrease resulted from the suspension of development efforts with Cree effective January 1, 2001.

Other expenses for the three months ended June 30, 2001 amounted to \$44,224, resulting from the write-off of certain patent costs. Other expenses for the three months ended June 30, 2001 amounted to \$252,577, resulting from

a loss on the sale of crystal growth equipment to Cree and the disposition of certain other assets.

Net interest income was \$98,263 for the three months ended June 30, 2001 compared to \$113,782 for the three months ended June 30, 2000, a decrease of \$15,519 or 13.6%. This decrease is due to approximately \$28,000 of interest earned during the three months ended June 30, 2000 on a receivable due from Cree that was completely paid during 2000.

Six Months ended June 30, 2001 compared with Six Months ended June 30, 2000.

Net sales were \$5,362,716 for the six months ended June 30, 2001 compared to \$6,658,871 for the six months ended June 30, 2000, a decrease of \$1,296,155 or 19.5%. Shipments of moissanite jewels decreased during the six months ended June 30, 2001 to approximately 28,000 carats from 34,500 carats for the six months ended June 30, 2000. Average selling prices were slightly lower for the six months ended June 30, 2001 compared to the six months ended June 30, 2000. North American sales amounted to approximately \$4,100,000 for the six months ended June 30, 2001 compared to \$4,200,000 for the six months ended June 30, 2000. International sales amounted to approximately \$1,200,000 and \$2,500,000 for the six months ended June 30, 2001 and 2000, respectively.

During the six months ended June 30, 2001, increased carat shipments in North America were offset by a reduction in the average selling price due to volume purchase discounts offered to our new customers. In addition, carat shipments in North America were hampered by the negative effect the economy is having on retail jewelry sales. The decrease in international sales can be attributed to the strong dollar and the lack of substantial advertising and public relations activities.

The Company's gross profit margin was 56.2% for the six months ended June 30, 2001 compared to 54.4% for the six months ended June 30, 2000. The increased gross margin rate results from better efficiencies in the manufacturing process

Marketing and sales expenses were \$1,306,138 for the six months ended June 30, 2001 compared to \$4,015,930 for the six months ended June 30, 2000, a decrease of \$2,709,792 or 67.5%. The decrease resulted primarily from a \$2,100,000 reduction in marketing and advertising expenses 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 \$1,177,553 for the six months ended June 30, 2001 compared to \$2,116,322 for the six months ended June 30, 2000, a decrease of \$938,769 or 44.4%. The decrease resulted primarily from decreased compensation costs (including severance costs recorded in 2000), bad debt expense, and other general overhead expenses consistent with our efforts to cut costs.

Research and development expenses were \$3,808 for the six months ended June 30, 2001 compared to \$855,791 for the six months ended June 30, 2000, a decrease of \$851,983 or 99.6%. The decrease resulted from the suspension of development efforts with Cree effective January 1, 2001.

Other expenses for the six months ended June 30, 2001 amounted to \$90,295, resulting from the write-off of certain patent costs and a loss on the disposition of certain other assets. Other expenses for the six months ended June 30, 2000 amounted to \$253,201, resulting from a loss on the sale of crystal growth equipment to Cree and the disposition of certain other assets.

Net interest income was \$168,084 for the six months ended June 30, 2001 compared to \$254,880 for the six months ended June 30, 2000, a decrease of \$86,796 or 34.1%. This decrease resulted from a lower interest rate earned on our cash balances, as well as approximately \$28,000 of interest earned during the second quarter of 2000 on a receivable from Cree that was completely paid in 2000.

Liquidity And Capital Resources - - - - -

At June 30, 2001, we had \$10.0 million of cash and cash equivalents and \$32.8 million of working capital. During the three months ended June 30, 2001, we generated \$890,317 from operations. In addition, \$57,677 was provided

from investing activities, resulting from the sale of certain fixed assets. During the six months ended June 30, 2001, we generated \$113,575 from operations and \$46,310 from investing activities. In addition, we completed a Rights Offering to our shareholders on February 21, 2001, raising \$6 million of net proceeds. 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 are obligated to purchase SiC crystals only upon issuance and Cree's acceptance of purchase orders. We purchased approximately \$400,000 of SiC crystals during the three months ended June 30, 2001. We have committed to purchase approximately \$400,000 of SiC crystals during the three months ending September 30, 2001.

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. Research and development expenses under the Development Agreement with Cree were suspended effective as of January 2001 through June 30, 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 and that our current infrastructure and stage of product development can support a significant growth in sales. We attained our goal to achieve profitability in both the first and second quarters of 2001, however we did not achieve sales increases in the second quarter of 2001, and we cannot be sure that we will ever be able to achieve increased sales or sustain profitability. In addition, although we have had additional discussions with Cree regarding extending the suspension of research and development expenses under our Development Agreement beyond June 30, 2001, there can be no assurance that such a definitive agreement will be reached nor that profitability will not be adversely impacted by any significant resumption of research and development spending.

Newly Adopted Accounting Pronouncements

In June 1998, Statement of Financial Accounting Standards (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 our consolidated financial statements

Newly Issued Accounting Pronouncements

In July 2001, Statement of Financial Accounting Standards No. 141 ("FAS 141"), Business Combinations, was issued. This statement prospectively prohibits the pooling-of-interest method of accounting for business combinations initiated after June 30, 2001. We believe the adoption of FAS 141 will not have a material effect on our financial statements.

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. We believe the adoption of FAS 142 will not have a material effect on our 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, 2001, we had approximately \$9.7 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 4. Submission Of Matters To A Vote Of Security Holders

The Annual Meeting of Shareholders of Charles & Colvard Ltd. was held on May 14, 2001. At the meeting, the shareholders voted on the number of directors of the Company to be elected to the Board of Directors, the election of directors, and the ratification of the selection of independent auditors. The number of directors of the Company to be elected to the Board of Directors was set at 5. 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, 2001 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. Proposal to set the number of directors of the Company to be elected to the Board of Directors at five.

	Votes For	Votes Against	Abstentions
Set Number of Directors at 5	12,175,655	26,220	31,197

B. Election of Directors

Director Nominee	Votes For	Votes Withheld
Walter J. O'Brien, Jr.	11,769,149	463,923
Chester L. F. Paulson	12,148,963	84,109
Frederick A. Russ	11,779,229	453,843
Robert S. Thomas	12,141,613	91,459
George A. Thornton III	12,144,013	89,059

C. Ratification of Appointment of Deloitte & Touche LLP as auditors for fiscal year ending December 31, 2001.

	Votes For	Votes Against	Abstentions
Ratification of Appointment of Deloitte & Touche LLP	12,208,916	20,000	4,156

Item 5: Other Information

On June 4, 2001, James R. Braun joined the Company as its Chief Financial Officer. From November 1997, to prior to joining the Company, he served as executive vice president and chief financial officer of Webcraft, Inc., a manufacturing and database company specializing in direct marketing. From June 1997 to November 1997, Mr. Braun was vice president of Smith Technology. From February 1988 to June 1997, Mr. Braun was executive vice president and chief financial officer/treasurer of Safeguard Business Systems, Inc.

Item 6: Exhibits And Reports On Form 8-K

(a) Exhibits

Exhibit No.	Description
10.47	2001 Executive Bonus Plan
10.48	Employment Agreement, dated June 4, 2001, between James R. Braun and Charles & Colvard, Ltd.+

+ Denotes a management contract or compensatory plan or arrangement.

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.

Date: August 10, 2001

/s/ Robert S. Thomas

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

Date: August 10, 2001

/s/ James R. Braun

James R. Braun
Chief Financial Officer
(Principal Accounting Officer)

CHARLES & COLVARD, LTD.
FISCAL YEAR 2001 EXECUTIVE COMPENSATION PLAN
PLAN SUMMARY

1. Purpose. The purpose of the 2001 Executive Compensation Plan (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 shall be in effect for 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 2001 plan year, the key employees eligible to participate in the Plan shall be the Chief Executive Officer, Chief Financial Officer, Vice President of Manufacturing, Director of Marketing, Director of Domestic Sales, Director of International Sales 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.)

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 2001 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) 2001 Plan Year. For the 2001 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 2001 plan year.
 - (i) Following the 2001 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 2001 plan year may be distributed.

- (ii) If both the income goal and the shipments goal have been met at the end of the 2001 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 2001 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 2001 plan year.
- (iv) If the income goal is not met at the end of the 2001 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 50% to the CEO and 25% to each of the CFO and VP of Manufacturing.
- (vi) Sales and Marketing Directors who are eligible for cash commission payments will not participate in cash bonuses, if any, in 2001.

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) 2001 Plan Year. For the 2001 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 2001 plan year.
 - (i) For the 2001 plan year, the option bonus pool shall consist of options for 100,000 shares of the Common Stock.
 - (ii) If the income goal has been met at the end of the 2001 the option bonus pool will be awarded 39% to the CEO and 20% to each of the CFO and VP of Manufacturing and 7% 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 2001 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 2001 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 2001 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. 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.

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (the "Agreement") is made and entered into effective as of June 4, 2001 by and between Charles & Colvard, Ltd., a North Carolina company with its principal office at 3800 Gateway Boulevard, Suite 310, Morrisville, North Carolina, 27560 (the "Company"), and James R. Braun, an individual currently residing at 2243 Ayreshire Drive, Lansdale, PA 19446 ("Employee").

Statement of Purpose

The Company wishes to obtain the services of Employee on the terms and conditions and with the benefits set forth in this Agreement. Employee desires to be employed by the Company on such terms and conditions and to receive such additional consideration as set out herein.

Therefore, in consideration of the mutual covenants contained in this Agreement, the grant of certain options to purchase common stock of the Company and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Company and Employee agree as follows:

1. Employment. The Company hereby agrees to employ Employee, and Employee

hereby accepts such employment, on the terms and conditions set forth in this Agreement.

2. Term of Employment. The term of Employee's employment under this

Agreement shall commence as of the date of this Agreement and shall continue for one year. Termination of employment shall be governed by Paragraph 7 of this Agreement, and unless terminated by either party as provided in Paragraph 7, this Agreement shall automatically, at the expiration of each then existing term, renew for successive additional one year terms (such annual period being hereinafter referred to as the "Term").

3. Position and Duties. The Employee shall serve as Chief Financial

Officer of the Company. Employee will, under the direction of the President and CEO of the Company, faithfully and to the best of his ability perform the duties as set out on Exhibit A hereto and such additional duties as may be reasonably assigned by the President and Board of Directors. Employee agrees to devote his entire working time, energy and skills to the Company while so employed.

4. Compensation and Benefits. Employee shall receive compensation and

benefits for the services performed for the Company under this Agreement as follows:

(a) Base Salary. Employee shall receive a base salary of \$150,000.00,

payable in regular and equal semi-monthly installments ("Base Salary").

(b) Employee Benefits. Employee shall receive such benefits as are

made available to the other employees of the Company, including, but not limited to, life,

medical and disability insurance, retirement benefits and such vacation as is provided to the other employees of the Company (the "Employee Benefits"). Employer reserves the right to reduce, eliminate or change such Employee Benefits, in its sole discretion, subject to any applicable legal and regulatory requirements.

(c) Incentive Compensation. Employee may participate in such

incentive plans as may be approved by the Board of Directors from time-to-time. The specific incentive compensation plans for 2001 are as set out on Exhibit B hereto.

(d) Initial Option Grant. Employee shall be granted 30,000 incentive

stock options (the "ISO's") exercisable for shares of Charles & Colvard's common stock. Such ISO's shall vest over a three year period in accordance with the 1997 Omnibus Stock Plan of Charles & Colvard (the "Plan") and the Stock Option Agreement set out as Exhibit C hereto (the "Option Agreement"). All terms pertaining in the ISO's, their execution and termination, shall be governed by the Plan and the Option Agreement.

(e) Moving Expenses. The Company will reimburse the Employee's actual

moving related expenses, include but not limited to the cost of house hunting visits to North Carolina, temporary living expenses, costs of moving personal property and real estate commissions on the sale of your current house, up to a maximum reimbursement of \$30,000. Any savings effectuated by Employee resulting in the aggregate of moving related expenses not reaching \$30,000 will be shared with Employee with one half of the difference between actual moving related expenses and \$30,000 being paid as a one time bonus to Employee. Such bonus will be payroll earnings, subject to all applicable taxes and withholding requirements and will be paid within 30 days of the completion of the move and submission of a final reimbursement request.

5. Reimbursement of Expenses. The Company shall reimburse Employee for

all reasonable out-of-pocket expenses incurred by Employee specifically and directly related to the performance by Employee of the services under this Agreement

6. Withholding. The Company may withhold from any payments or benefits

under this Agreement all federal, state or local taxes or other amounts as may be required pursuant to applicable law, government regulation or ruling.

7. Termination of Employment.

(a) Death of Employee. If the Employee shall die during the Term,

this Agreement and the employment relationship hereunder will automatically terminate on the date of death.

(b) Termination for Just Cause. The Company shall have the right to

terminate the Employee's employment under this Agreement at any time for Just Cause, which termination shall be effective immediately. Termination for "Just Cause" shall include termination for the Employee's personal dishonesty, gross incompetence, willful

misconduct, breach of a fiduciary duty involving personal profit, intentional failure to perform stated duties, willful violation of any law, rule, regulation (other than traffic violations or similar offenses), written Company policy or final cease-and-desist order, conviction of a felony or of a misdemeanor involving moral turpitude, unethical business practices in connection with the Company's business, misappropriation of the Company's assets (determined on a reasonable basis), disability or material breach of any other provision of this Agreement. The determination of whether "Just Cause" exists for termination shall be made by the Board of Directors of the Company in its sole discretion. For purposes of this subsection, the term "disability" means the inability of Employee, due to the condition of his physical, mental or emotional health, to satisfactorily perform the duties of his employment hereunder for a continuous three month period; provided further that if the Company furnishes long term disability insurance for the Employee, the term "disability" shall mean that continuous period sufficient to allow for the long term disability payments to commence pursuant to the Company's long term disability insurance policy. In the event the Employee's employment under this Agreement is terminated for Just Cause, the Employee shall have no right to receive compensation or other benefits under this Agreement for any period after such termination.

(c) Termination Without Cause. The Company may terminate the

Employee's employment other than for "Just Cause," as described in Subsection (b) above, at any time upon written notice to the Employee, which termination shall be effective immediately. In the event the Company terminates Employee pursuant to this Subsection (c), the Employee will continue to receive the compensation due him hereunder ("Termination Compensation") until the end of the Term, so long as the Employee complies with Sections 8, 9 and 10 of the Agreement. Such amounts shall be payable at the times such amounts would have been paid in accordance with Section 4. In addition, Employee shall continue to participate in the same group hospitalization plan, health care plan, dental care plan, life or other insurance or death benefit plan, and any other present or future similar group employee benefit plan or program for which officers of the Company generally are eligible, on the same terms as were in effect prior to Employee's termination, either under the Company's plans or comparable coverage, for all periods Employee receives Termination Compensation. Notwithstanding anything in this Agreement to the contrary, if Employee breaches Sections 8, 9 or 10 of this Agreement, the Employee will not be entitled to receive any further compensation or benefits pursuant to this Section 7(c).

(d) Change of Control Situations. In the event of a Change of Control

of the Company at any time after the date hereof, Employee may voluntarily terminate employment with Company up until six (6) weeks after the Change of Control for "Good Reason" and, subject to Section 7(f), (y) be entitled to receive in a lump sum (i) any compensation due but not yet paid through the date of termination and (ii) in lieu of any further salary payments from the date of termination to the end of the then existing term, an amount equal to the Termination Compensation times 2.99, and (z) shall continue to participate in the same group hospitalization plan, health care plan, dental care plan, life

or other insurance or death benefit plan, and any other present or future similar group employee benefit plan or program for which officers of the Company generally are eligible, or comparable plans or coverage, for a period of two years following termination of employment by the Employee, on the same terms as were in effect either (A) at the date of such termination, or (B) if such plans and programs in effect prior to the Change of Control of Company are, considered together as a whole, materially more generous to the officers of Company, then at the date of the Change of Control. Any equity based incentive compensation (including but not limited to stock options, SARs, etc.) shall fully vest and be immediately exercisable in full upon a Change in Control, notwithstanding any provision in any applicable plan. Any such benefits shall be paid by the Company to the same extent as they were so paid prior to the termination or the Change of Control of Company.

"Good Reason" shall mean the occurrence of any of the following events without the Employee's express written consent:

(i) the assignment to the Employee of duties inconsistent with the position and status of the Employee with the Company immediately prior to the Change of Control;

(ii) a reduction by the Company in the Employee's pay grade or base salary as then in effect, or the exclusion of Employee from participation in Company's benefit plans in which he previously participated as in effect at the date hereof or as the same may be increased from time to time during the Term;

(iii) an involuntary relocation of the Employee more than 50 miles from the location where the Employee worked immediately prior to the Change in Control or the breach by the Company of any material provision of this Agreement; or

(iv) any purported termination of the employment of Employee by Company which is not effected in accordance with this Agreement.

A "Change of Control" shall be deemed to have occurred if (i) any person or group of persons (as defined in Section 13(d) and 14(d) of the Securities Exchange Act of 1934) together with its affiliates, excluding employee benefit plans of Company, becomes, directly or indirectly, the "beneficial owner" (as defined in Rule 13d-3 promulgated under the Securities Exchange Act of 1934) of securities of Company representing 20% or more of the combined voting power of Company's then outstanding securities; or (ii) during the then existing term of the Agreement, as a result of a tender offer or exchange offer for the purchase of securities of Company (other than such an offer by the Company for its own securities), or as a result of a proxy contest, merger, consolidation or sale of assets, or as a result of any combination of the foregoing, individuals who at the beginning of any year period during such term constitute the Company's Board of Directors, plus new directors whose election by Company's

shareholders is approved by a vote of at least two-thirds of the outstanding voting shares of the Company, cease for any reason during such year period to constitute at least two-thirds of the members of such Board of Directors; or (iii) the shareholders of the Company approve a merger or consolidation of the Company with any other corporation or entity regardless of which entity is the survivor, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or being converted into voting securities of the surviving entity) at least 60% of the combined voting power of the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation; or (iv) the shareholders of the Company approve a plan of complete liquidation or winding-up of the Company or an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets; or (v) any event which the Company's Board of Directors determines should constitute a Change of Control.

(e) Employee's Right to Payments. In receiving any payments pursuant

to this Section 7, Employee shall not be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to the Employee hereunder, and such amounts shall not be reduced or terminated whether or not the Employee obtains other employment.

(f) Reduction in Agreement Payments. Notwithstanding anything in this

Agreement to the contrary, if any of the payments provided for under this Agreement (the "Agreement Payments"), together with any other payments that the Employee has the right to receive (such other payments together with the Agreement Payments are referred to as the "Total Payments"), would constitute a "parachute payment" as defined in Section 280G(b)(2) of the Internal Revenue Code of 1986, as amended (the "Code") (a "Parachute Payment"), the Agreement Payments shall be reduced by the smallest amount necessary so that no portion of such Total Payments would be Parachute Payments. In the event the Company shall make an Agreement Payment to the Employee that would constitute a Parachute Payment, the Employee shall return such payment to the Company (together with interest at the rate set forth in Section 1274(b)(2)(B) of the Code). For purposes of determining whether and the extent to which the Total Payments constitute Parachute Payments, no portion of the Total Payments the receipt of which Employee has effectively waived in writing shall be taken into account.

8. Covenant Not to Compete. Employee agrees that during his employment

with the Company and for a period of one (1) year following the termination of his employment with the Company, for whatever reason:

(a) Employee shall not, directly or indirectly, own any interest in, manage, operate, control, be employed by, render advisory services to, or participate in the management or control of any business that operates in the same business as the Company, which Employee and the Company specifically agree as the business of fabricating (wafering, preforming and faceting), marketing and distributing moissanite

gemstones or other diamond simulants to the gem and jewelry industry (the "Business"), unless Employee's duties, responsibilities and activities for and on behalf of such other business are not related in any way to such other business's products which are in competition with the Company's products. For purposes of this section, "competition with the Company" shall mean competition for customers in the United States and in any country in which the Company is selling the Company's products at the time of termination. Employee's ownership of less than one percent of the issued and outstanding stock of a corporation engaged in the Business shall not by itself be deemed to be a violation of this Agreement. Employee recognizes

that the possible restriction on his activities which may occur as a result

of his performance of his obligations under Paragraph 8(a) are substantial,

but that such restriction is required for the reasonable protection of the

Company.

(b) Employee shall not, directly or indirectly, influence or attempt to influence any customer of the Company to discontinue its purchase of any product of the Company which is manufactured or sold by the Company at the time of termination of Employee's employment or to divert such purchases to any other person, firm or employer.

(c) Employee shall not, directly or indirectly, interfere with, disrupt or attempt to disrupt the relationship, contractual or otherwise, between the Company and any of its suppliers.

(d) Employee shall not, directly or indirectly, solicit any employee of the Company to work for any other person, firm or employer.

9. Confidentiality. In the course of his employment with the Company,

Employee will have access to confidential information, records, data, customer lists, lists of product sources, specifications, trade secrets and other information which is not generally available to the public and which the Company and Employee hereby agree is proprietary information of the Company ("Confidential Information"). During and after his employment by the Company, Employee shall not, directly or indirectly, disclose the Confidential Information to any person or use any Confidential Information, except as is required in the course of his employment under this Agreement. All Confidential Information as well as records, files, memoranda, reports, plans, drawings, documents, models, equipment and the like, including copies thereof, relating to the Company's business, which Employee shall prepare or use or come into contact with during the course of his employment, shall be and remain the Company's sole property, and upon termination of Employee's employment with the Company, Employee shall return all such materials to the Company.

10. Proprietary Information. Employee shall assign to the Company, its

successors or assigns, all of Employee's rights to copyrightable works and inventions which, during the period of Employee's employment by the Company or its successors in business, Employee makes or conceives, either solely or jointly with others, relating to any subject matter with which Employee's work for the Company is or may be concerned ("Proprietary Information"). Employee shall promptly disclose in writing to the Company such copyrightable works and

inventions and, without charge to the Company, to execute, acknowledge and deliver all such further papers, including applications for copyrights and patents for such copyrightable works and inventions, if any, in all countries and to vest title thereto in the Company, its successors, assigns or nominees. Upon termination of Employee's employment hereunder, Employee shall return to the Company or its successors or assigns, as the case may be, any Proprietary Information. The obligation of Employee to assign the rights to such copyrightable works and inventions shall survive the discontinuance or termination of this Agreement for any reason.

11. Entire Agreement. This Agreement contains the entire agreement of the -----
parties with respect to Employee's employment by the Company and supersedes any prior agreements between them, whether written or oral.

12. Waiver. The failure of either party to insist in any one or more -----
instance, upon performance of the terms and conditions of this Agreement, shall not be construed as a waiver or a relinquishment of any right granted hereunder or of the future performance of any such term or condition.

13. Notices. Any notice to be given under this Agreement shall be deemed -----
sufficient if addressed in writing and delivered personally, by telefax with receipt acknowledged, or by registered or certified U.S. mail to the address first above appearing, or to such other address as a party may designate by notice from time to time.

14. Severability. In the event that any provision of any paragraph of -----
this Agreement shall be deemed to be invalid or unenforceable for any reason whatsoever, it is agreed such invalidity or unenforceability shall not affect any other provision of such paragraph or of this Agreement, and the remaining terms, covenants, restrictions or provisions in such paragraph and in this Agreement shall remain in full force and effect and any court of competent jurisdiction may so modify the objectionable provision as to make it valid, reasonable and enforceable.

15. Amendment. This Agreement may be amended only by an agreement in -----
writing signed by each of the parties hereto.

16. Arbitration. Any controversy or claim arising out of or relating to -----
this Agreement, or breach thereof, shall be settled by arbitration in Raleigh, North Carolina in accordance with the expedited procedures of the Rules of the American Arbitration Association, and judgment upon the award may be rendered by the arbitrator and may be entered in any court having jurisdiction thereof.

17. Governing Law. This Agreement shall be governed and construed in -----
accordance with the laws of the State of North Carolina. Each of the parties hereto irrevocably submits to the exclusive jurisdiction of the courts located in North Carolina for the purposes of any suit, action or other proceeding contemplated hereby or any transaction contemplated hereby.

18. Benefit. This Agreement shall be binding upon and inure to the -----
benefit of and shall be enforceable by and against the Company, its successors and assigns, and Employee, his

heirs, beneficiaries and legal representatives. It is agreed that the rights and obligations of Employee may not be delegated or assigned except as may be specifically agreed to by the parties hereto.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

Charles & Colvard, Ltd.

By: /s/ Robert S. Thomas

Robert S. Thomas, President

EMPLOYEE

/s/ James R. Braun

James R. Braun

Purpose

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The Chief Financial Officer is responsible for the management of all financial and administrative operations of the company. This position will report to the Chief Executive Officer.

Responsibilities:

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Lead all aspects of business development and finance activities for the Company including managing both financial reporting and investor relations.

Direct all aspects of the financial operations of the Company including accounting, budgeting, investment management, cash management and presentations of financial information at Board of Directors' meetings.

Manage the human resource activities and information systems for the Company.

Serve on company-wide project teams and perform such other responsibilities as may be assigned by the Chief Executing Officer or Board of Directors from time to time.