

Registration No. 333-51756

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

AMENDMENT NO. 1

TO  
FORM S-3  
REGISTRATION STATEMENT  
UNDER  
THE SECURITIES ACT OF 1933

CHARLES & COLVARD, LTD.  
(Exact name of registrant as specified in its charter)

North Carolina (State or other jurisdiction of Incorporation or organization)	3915 (Primary Standard Industrial Classification Code No.)	56-0308470 (I.R.S. Employer Identification No.)
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3800 Gateway Boulevard, Suite 310  
Morrisville, N.C. 27560  
(919) 468-0399

(Address and telephone number of Registrant's principal executive offices)

Mr. Robert S. Thomas  
President and  
Chief Executive Officer  
Charles & Colvard, Ltd.  
3800 Gateway Boulevard, Suite 310  
Morrisville, N.C. 27560  
(919) 468-0399

(Name, address and telephone number of agent for service)

Copies To:  
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Approximate date of commencement of proposed sale to the public: As soon as practicable after this registration statement becomes effective.

If the only securities being registered on this form are being offered pursuant to dividend or investment plans, please check the following box:

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box:

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the box and list the Securities Act registration statement for the same offering.

If the delivery of the prospectus is expected to be made pursuant to Rule 434, check the following box.

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities To Be Registered	Amount to be Registered(2)	Proposed Maximum Aggregate Offering Price(3)	Amount of Registration(4)
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Common Stock, no par value per  
share(1)..... 8,397,313 \$12,092,131 \$3,193.00

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- (1) Each share of Registrant's common stock includes a share purchase right for preferred stock under the Registrant's Shareholder Rights Agreement dated as of February 22, 1999.
  - (2) Maximum number of shares of Common Stock of Charles & Colvard to be sold to current holders of its Common Stock in this rights offering.
  - (3) Calculated in accordance with Rule 457(o) based on the estimated maximum aggregate offering price of the Common Stock.
  - (4) Previously Paid.

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The registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

The information in this prospectus is not complete and may be changed. We may not sell these securities until the Registration Statement filed with the Securities and Exchange Commission is effective. This Prospectus is not an offer to sell, and it is not soliciting an offer to buy, these securities in any state where the offer or sale is not permitted.

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SUBJECT TO COMPLETION, DATED JANUARY 12, 2001

PROSPECTUS

CHARLES & COLVARD, LTD.

7,200,979 Shares of Common Stock

We are offering 7,200,979 shares of common stock to our shareholders who owned shares of our common stock as of the close of business on January 12, 2001, the record date.

- . You will receive, at no cost, a subscription right to purchase one share of common stock for each share of our common stock you own on the record date.
- . The subscription price for your right is \$        per share.
- . We will not issue fractional shares of common stock, and we will not pay cash in place of fractional shares.
- . The rights are exercisable beginning on the date of this prospectus and continuing until 5:00 p.m., Eastern Standard Time, on February       , 2001, the expiration date, unless extended.
- . If you want to participate in this offering, you should submit your subscription documents and payments to the subscription agent or to your broker or bank and allow a sufficient number of days to ensure delivery to the subscription agent and clearance of payment prior to February       , 2001.
- . All subscriptions will be held in escrow by our subscription agent, First Union National Bank, until the expiration date.
- . Your rights are not transferable.
- . The rights will not be listed for trading on any stock exchange.
- . We reserve the right to cancel this offering at any time before the expiration date.

There is no minimum number of shares that we must sell in order to complete this offering. Shareholders who do not participate in this offering will continue to own the same number of shares, but will own a smaller percentage of the total shares outstanding to the extent that other shareholders participate in this offering.

Our common stock is quoted for trading on The Nasdaq National Market under the trading symbol "CTHR." The closing price of our common stock on January       , 2001 was \$        per share.

	Subscription Rights Price	Proceeds to Charles & Colvard(1)
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Per Share.....	\$	\$
Total.....		

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(1) Before deducting expenses payable by us, estimated to be \$150,000.

See "Risk Factors" commencing on page 6 for a discussion of certain factors that you should consider before purchasing our common stock.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved these securities, or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is January       , 2001.

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You should rely only on the information contained in this prospectus or to which we have referred you. We have not authorized anyone to provide you with different information. This document may be used only where it is legal to sell these securities. The information in this prospectus is only accurate on the date of this prospectus.

On this prospectus, all references to "Charles & Colvard," "we," "us," and "our" refer to Charles & Colvard, Ltd., unless indicated otherwise.

The stylized logo for "Charles & Colvard Created Moissanite" is a trademark of Charles & Colvard. This prospectus may contain certain other trademarks and service marks of other parties.

## SUMMARY

This section answers in summary form some questions you may have about Charles & Colvard, Ltd. and this rights offering. The information in this section is not complete and does not contain all of the information that you should consider before exercising your subscription rights. You should read the entire prospectus carefully, including the "Risk Factors" section and the documents listed under "How To Find Additional Information."

### QUESTIONS AND ANSWERS ABOUT CHARLES & COLVARD

#### WHAT IS CHARLES & COLVARD?

Charles & Colvard, Ltd. (formerly C3, Inc.), a North Carolina corporation, manufactures, markets and distributes Charles & Colvard created moissanite jewels ("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, we 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. See "How To Find Additional Information" (page 20).

#### WHERE ARE WE LOCATED?

Our principal executive office is located at: 3800 Gateway Boulevard, Suite 310, Morrisville, North Carolina 27560.

Our telephone number is (919) 468-0399.

#### WHEN WERE WE FORMED?

We were formed in June 1995 as a North Carolina corporation.

### QUESTIONS AND ANSWERS ABOUT THE RIGHTS OFFERING

#### WHAT IS A SUBSCRIPTION RIGHT?

We are distributing to you, at no charge, a subscription right to purchase one share of common stock for every share of common stock that you owned on January 12, 2001. Each subscription right entitles you to purchase one share of common stock for \$ , subject to the terms of this rights offering. When you "exercise" a subscription right, that means that you choose to purchase the common stock that the subscription right entitles you to purchase. You may exercise any number of your subscription rights, or you may choose not to exercise any subscription rights. You cannot give or sell your subscription rights to anybody else; only you can exercise them.

#### WHAT IS A RIGHTS OFFERING?

A rights offering is an opportunity for you to purchase additional shares of common stock at a fixed price to be determined before the rights offering begins and in an amount proportional to your existing interest, which enables you to maintain your current percentage ownership interest in us.

#### WHAT IS THE BASIC SUBSCRIPTION PRIVILEGE?

The basic subscription privilege of each subscription right entitles you to purchase one share of our common stock at a subscription price of \$ .

#### WHAT IS THE OVER-SUBSCRIPTION PRIVILEGE?

We do not expect that all of our shareholders will exercise all of their basic subscription rights. By extending over-subscription privileges to our shareholders, we are providing for the subscription for those shares which are not purchased through exercise of basic subscription privileges. The over-subscription privilege entitles you, if you fully exercise your basic subscription privilege, to subscribe for additional shares of common stock not acquired by other holders of rights at the same subscription price of \$ per share.

#### WHAT ARE THE LIMITATIONS ON THE OVER-SUBSCRIPTION PRIVILEGE?

We will only issue 7,200,979 shares of common stock in the rights offering. The number of shares available for over-subscription privileges will be 7,200,979 minus the number of shares purchased upon exercise of all basic subscription privileges. The number of shares available under the over-subscription privilege to any one shareholder or group of shareholders may be reduced by the Company if any such shareholder or group of shareholders would beneficially own 20% or more of the Company's common stock outstanding after the offering.

If sufficient shares are available, we will seek to honor the over-subscription requests in full. If over-subscription requests exceed the number of shares available, we will allocate the available shares among shareholders who over-subscribed in proportion to the number of shares purchased by those over-subscribing shareholders through the basic subscription privilege. However, if your pro rata allocation exceeds the number of shares you requested, you will receive only the number of shares that you requested, and the remaining shares from your pro rata allocation will be divided among other shareholders exercising their over-subscription privileges who have subscribed for additional shares in proportion to the number of shares purchased by that group of over-subscribing shareholders through the basic subscription privilege. In certain circumstances, however, in order to comply with applicable state or foreign securities laws, we may not be able to honor all over-subscription privileges even if we have shares available.

#### WHY ARE WE ENGAGING IN A RIGHTS OFFERING?

We are offering the subscription rights to our current shareholders in order to raise additional working capital. Our cash and cash equivalents have decreased from approximately \$13.2 million at December 31, 1999 to approximately \$4.1 million at September 30, 2000. Additional funds would improve our liquidity. Our Board of Directors has chosen to give you the opportunity to buy more shares and provide us with additional capital. This option provides each shareholder the opportunity to avoid dilution of their ownership interest. Of course, we cannot assure you that we will not need to seek additional financing in the future.

#### HOW MUCH MONEY WILL CHARLES & COLVARD RECEIVE FROM THE RIGHTS OFFERING?

Our gross proceeds from the rights offering depends on the number of shares that are purchased. If we sell all 7,200,979 shares which may be purchased upon exercise of the rights offered by this prospectus, then we will receive proceeds of \$ , before deducting expenses payable by us, estimated to be \$150,000.

#### ARE THERE ANY PURCHASE COMMITMENTS IN THE RIGHTS OFFERING?

As of the date of this prospectus, certain directors and officers and other shareholders have committed to purchase up to an aggregate of \_\_\_\_\_ shares of common stock pursuant to the offering which would provide the Company with a minimum subscription amount and gross proceeds of \$ \_\_\_\_\_. To effect this commitment, each of these purchasers have individually agreed to exercise his basic subscription privilege in full and to subscribe for additional shares pursuant to the over-subscription privilege.

#### HOW MANY SHARES MAY I PURCHASE?

You will receive one subscription right for each share of common stock that you owned on January 12, 2001. We will not distribute fractional subscription rights, but will round the number of subscription rights you receive down to the nearest whole number. Each subscription right entitles you to purchase one share of common stock for \$ \_\_\_\_\_. If you exercise all of the subscription rights that you receive, you may have the opportunity to purchase additional shares of common stock. On the enclosed subscription certificate, you may request to purchase as many additional shares as you wish for \$ \_\_\_\_\_ per share. Subject to the terms of the offering, we intend to honor all of the over-subscription requests, but if not, you may not be able to purchase as many shares as you requested on your subscription certificate. Subject to state securities laws and regulations, we have the discretion to issue less than the total number of shares that may be available for over-subscription requests in order to comply with state or foreign securities laws. In addition, the number of shares available under the over-subscription privilege to any one shareholder or group of shareholders may be reduced by the Company if any such shareholder or group of shareholders would own 20% or more of the Company's common stock outstanding after the offering.

#### HOW DID WE ARRIVE AT THE \$ \_\_\_\_\_ PER SHARE PRICE?

In determining the price at which a share of common stock may be purchased in this rights offering, we considered several factors including the historic and current market price of the common stock, our business prospects, our recent history of losses, general conditions in the securities market, our need for capital, alternatives available to us for raising capital, the amount of proceeds desired, the pricing of similar transactions, the liquidity of our common stock, the level of risk to our investors, and the need to offer shares at a price that would be attractive to our investors relative to the current trading price of our common stock. We did not seek or obtain any opinion of financial advisors or investment bankers in establishing the subscription price. The subscription price represents approximately a \_\_\_\_\_ from the market price of the common stock immediately prior to the date of this prospectus.

#### HOW DO I EXERCISE MY SUBSCRIPTION RIGHTS?

You must properly complete the attached subscription certificate and deliver it to the Subscription Agent before 5 p.m., Eastern Standard Time, on February \_\_\_\_\_, 2001. The address for the Subscription Agent is on page 19. Your subscription certificate must be accompanied by proper payment for each share that you wish to purchase. Please note that funds paid by uncertified personal check may take at least ten business days to clear. Accordingly, if you wish to pay by means of uncertified personal check, we urge you to make payment sufficiently in advance of February \_\_\_\_\_, 2001 to ensure that payment is received and clears before that date. If your shares are held in the name of your bank or broker, you must contact your bank or broker if you wish to participate in this offering.

#### HOW LONG WILL THE RIGHTS OFFERING LAST?

You will be able to exercise your subscription rights only during a limited period. IF YOU DO NOT EXERCISE YOUR SUBSCRIPTION RIGHTS BEFORE 5 P.M., EASTERN STANDARD TIME, ON FEBRUARY \_\_\_\_\_, 2001, YOUR SUBSCRIPTION RIGHTS WILL EXPIRE. We may, in our discretion, decide to extend the rights offering. In addition, if the commencement of the rights offering is delayed, the expiration date will similarly be extended.

AFTER I EXERCISE MY SUBSCRIPTION RIGHTS, CAN I CHANGE MY MIND?

No. Once you send in your subscription certificate and payment, you cannot revoke the exercise of your subscription rights, even if you later learn information about us that you consider to be unfavorable. You should not exercise your subscription rights unless you are certain that you wish to purchase additional shares of common stock at a price of \$        per share.

IS EXERCISING MY SUBSCRIPTION RIGHTS RISKY?

The exercise of your subscription rights involves certain risks. Exercising your subscription rights means buying additional shares of our common stock, and should be carefully considered as you would view other equity investments. Among other things, you should carefully consider the risks described under the heading "Risk Factors," beginning on page 6.

WHAT HAPPENS IF I CHOOSE NOT TO EXERCISE MY SUBSCRIPTION RIGHTS?

You will retain your current number of shares of common stock in Charles & Colvard even if you do not exercise your subscription rights. However, if other shareholders exercise their subscription rights and you do not, the percentage of Charles & Colvard that you own will diminish, and your relative voting rights and economic interests will be diluted.

CAN I SELL OR GIVE AWAY MY SUBSCRIPTION RIGHTS?

No.

MUST I EXERCISE ANY SUBSCRIPTION RIGHTS?

No.

WHAT ARE THE FEDERAL INCOME TAX CONSEQUENCES OF EXERCISING MY SUBSCRIPTION RIGHTS?

The receipt and exercise of your subscription rights are intended to be nontaxable. You should seek specific tax advice from your personal tax advisor.

WHEN WILL I RECEIVE MY NEW SHARES?

If you purchase shares of common stock through the rights offering, you will receive certificates representing those shares as soon as practicable after February   , 2001. Subject to state or foreign securities laws and regulations, we have the discretion to delay allocation and distribution of any shares you may elect to purchase by exercise of your basic or over-subscription privilege in order to comply with state securities laws.

CAN WE CANCEL THE RIGHTS OFFERING?

Yes. Our Board of Directors may cancel the rights offering at any time on or before February   , 2001, for any reason. If we cancel the rights offering, any money received from shareholders will be refunded promptly, without interest.

HOW WILL WE USE THE PROCEEDS FROM THE RIGHTS OFFERING?

We will use the proceeds from the rights offering for additional working capital to fund operations.



## HOW MANY SHARES WILL BE OUTSTANDING AFTER THE RIGHTS OFFERING?

The number of shares of common stock that will be outstanding after the rights offering depends on the number of shares that are purchased. If we sell all of the shares offered by this prospectus, then we will issue 7,200,979 new shares of common stock during the rights offering. In that case, we will have approximately 14,401,958 shares of common stock outstanding after the rights offering.

### A WARNING ABOUT FORWARD-LOOKING STATEMENTS

This prospectus contains certain forward-looking statements, including or related to our future results, including certain projections and business trends. Assumptions relating to forward-looking statements involve judgments with respect to, among other things, future economic, competitive and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond our control. When used in this prospectus, the words "estimate," "project," "intend," "believe" and "expect" and similar expressions are intended to identify forward-looking statements. Although we believe that assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate, and we may not realize the results contemplated by the forward-looking statement. Management decisions are subjective in many respects and susceptible to interpretations and periodic revisions based on actual experience and business developments, the impact of which may cause us to alter our business strategy or capital expenditure plans that may, in turn, affect our results of operations. In light of the significant uncertainties inherent in the forward-looking information included in this prospectus, you should not regard the inclusion of such information as our representation that we will achieve any strategy, objectives or other plans. The forward-looking statements contained in this prospectus speak only as of the date of this prospectus as stated on the front cover, and we have no obligation to update publicly or revise any of these forward-looking statements.

These and other statements, which are not historical facts, are based largely on management's current expectations and assumptions and are subject to a number of risks and uncertainties that could cause actual results to differ materially from those contemplated by such forward-looking statements. These risks and uncertainties include, among others, the risks and uncertainties described in "Risk Factors" (page 6).

## RISK FACTORS

You should consider carefully the following risk factors and all other information contained in this prospectus before purchasing our common stock. Investing in our common stock involves a high degree of risk. Any of the following risks could materially harm our business and could result in a complete loss of your investment.

### RISKS RELATED TO OUR BUSINESS

We have sustained operating losses since inception, we have an accumulated deficit and we may not achieve profitability.

We incurred substantial operating losses from our inception through September 30, 2000, with an accumulated deficit of \$21,636,507 as of September 30, 2000. Such losses resulted principally from:

- . Slower than anticipated sales growth and market acceptance of moissanite jewels;
- . Greater than anticipated marketing and advertising expenses to achieve sales growth;
- . The costs of development of sales, marketing and distribution channels;
- . Research and development costs for silicon carbide (SiC) crystals and moissanite jewels;
- . Difficulties obtaining SiC crystals from its sole supplier in desired qualities, sizes and volume; and
- . Growth in general and administrative expenses until recent periods.

We may incur significant operating losses in the future as we continue our marketing, sales, distribution and other strategic efforts. There can be no assurance that we will be able to successfully commercialize our products or that profitability will be achieved or, if achieved, that such profitability will be sustained.

If we cannot maintain adequate operating capital, our business will suffer.

We have substantially less liquidity today than we had on December 31, 1999. At September 30, 2000, our cash and cash equivalents have decreased to approximately \$4.0 million. A continuation of operating losses may eliminate our remaining cash balances during 2001. On a going forward basis, operations may not provide sufficient internally generated cash flows to meet our projected requirements. In order to achieve positive cash flows, the Company has implemented plans designed to improve sales, effectively manage its overhead costs, advertising expenditures and other expenses, as well as reduce raw material purchases and existing inventories. However, the Company may not achieve these goals and we cannot assure you that we will be able to continue to finance our operations, even if we sell all of the shares that we are offering in the rights offering.

Other sources for the needed capital have not yet been identified and may not be available.

Although the Company has received commitments from certain directors, officers and other shareholders to subscribe for an aggregate of \_\_\_\_\_ shares in this offering to generate gross proceeds of \$ \_\_\_\_\_, we may not be able to raise the maximum amount of capital we hope to raise by this rights offering. Even if we sell all of the shares that we are offering, the net proceeds from this rights offering, combined with internally generated cash, may not be sufficient to enable us to market moissanite jewels and conduct operations, in which event we will have to seek additional capital from other sources. The Company has been unsuccessful in securing other means of financing in recent periods and we may not be successful in obtaining financing in future periods. To the extent, if any, that we are able to obtain equity capital from other sources, the issuance of more shares of stock may dilute the economic interest of then current shareholders and will dilute their voting interests. To the extent, if any, that we are able to obtain debt financing, the terms of such financing may be expensive and may subject us to covenants that materially restrict us.

We overbuilt our inventory position.

During 1999 and 2000, we overbuilt our inventory position in anticipation of substantially greater sales growth than we have experienced to date. As of September 30, 2000, the Company's inventories were approximately \$21.4 million. This has placed a serious drain on our cash resources and will continue to do so unless we can effectively manage future growth of inventories by reducing purchases of raw materials from our supplier and by increasing sales. If and to the extent that we determine that the asset value of our inventory is less than its book value, it will be necessary for us to charge the reduction in asset value of such inventory against our earnings.

Our business operations could be adversely affected if we do not manage our growth effectively.

We have experienced rapid growth in sales and such growth may continue in the future if the commercialization of moissanite jewels is successful. During 2000, the Company shifted its distribution and advertising strategy to place more emphasis on marketing through jewelry distributors and to control advertising and overhead expenditures. Periods of rapid growth place a significant strain on our personnel and other resources, particularly when the Company needs to manage its liquidity and cash expenditures carefully. Our strategy will require us to achieve rapid growth while curtailing expenditures and motivating our employee base. We also will be required to manage multiple relationships with various customers and other third parties. Our executive officers have limited prior experience in managing rapidly growing businesses under these circumstances. If we are unable to manage growth effectively, our business, financial condition and results of operations would be materially adversely affected.

We have a limited operating history which may impact our ability to achieve market acceptance of our products and our ability to produce our products.

We incorporated in June 1995, and we were in the developmental stage through June 30, 1998. We are in the process of commercializing moissanite jewels, building consumer brand awareness and growing distribution channels for our jewels. The timing or existence of any significantly increased revenues is dependent on market acceptance of moissanite jewels, increasing distribution and sales, and continued improvements in the yield of jewels in the qualities, sizes and volumes desired from each SiC crystal. Our business is also subject to risks inherent in rapid increases in sales and production levels. Likewise, our products are subject to risks inherent in the development and marketing of new products, including unforeseen design, manufacturing or other problems or failure to develop market acceptance. Failure by us to expand distribution and achieve market acceptance of our products or to develop the ability to produce our products in higher quantities and qualities would have a material adverse effect on our business, operating results and financial condition. Accordingly, our prospects must be considered in light of the risks and difficulties frequently encountered by companies in their early stage of development, particularly technology-based companies, operating in the early stages of manufacturing and distributing unproven products.

Our future financial performance depends upon consumer acceptance of our products which is unproven at this time.

We believe that many retail jewelers and most consumers are not generally aware of the existence and attributes of moissanite jewels. The market for moissanite jewels among retail jewelers and consumers is in the early stages of development as we shipped approximately 50,000 carats during the first nine months of 2000. As is the case with any new product, market acceptance and demand are subject to a significant amount of uncertainty. Our future financial performance will depend upon greater consumer acceptance of the Company's moissanite jewels as distinct from all other jewels based on their fire, brilliance, luster, durability and rarity. In addition, consumer acceptance may be impacted by retail jewelers' and jewelry manufacturers' acceptance of moissanite jewels. We market loose jewels which jewelry distributors, manufacturers and retailers set in jewelry which in turn is then further distributed or sold to consumers. The quality, design and workmanship of

the jewelry settings selected by retail jewelers, which is not within our control, could impact the consumer's perception and acceptance of our jewels. Thus, our future financial performance may be impacted by:

- . The willingness and ability of our jewelry distributors and other jewelry suppliers, manufacturers and designers to market and promote moissanite jewels to the retail jewelry trade;
- . The willingness of distributors, retailers and others in the channel of distribution to purchase loose moissanite jewels and the willingness of manufacturers, designers and retail jewelers to undertake setting of the loose jewels;
- . The ability of manufacturers, designers and retail jewelers to select jewelry settings that encourage consumer acceptance of and demand for our jewels;
- . The ability of jewelry manufacturers and retail jewelers to set loose moissanite jewels in jewelry with high quality workmanship; and
- . The ability of retail jewelers to effectively market and sell moissanite jewelry to consumers.

If our products do not receive greater market acceptance, our business, operating results and financial condition would be materially adversely affected.

We are substantially dependent on the distribution of our jewels in North America through Stuller Settings, Inc. and Rio Grande.

In March 2000, we entered into distribution agreements with two of the largest national wholesale distributors, Stuller Settings, Inc. and Rio Grande, for distribution of moissanite jewels throughout the entire North American market. There is no assurance, however, that our distribution arrangements with Stuller and Rio Grande will sufficiently increase sales. Although we entered into arrangements with certain jewelry manufacturers which contemplate the distribution of moissanite jewelry to United States jewelry retailers, we anticipate that the vast majority of moissanite jewels sold by us in North America will be distributed through Stuller and Rio Grande. Therefore, we are substantially dependent upon Stuller and Rio Grande for distribution of moissanite jewels in North America.

Historically, the North American market has accounted for a substantial portion of our moissanite jewel sales. In the event that our distribution arrangements with Stuller and Rio Grande fail to maintain and increase the current level of North American sales, our revenues would be materially adversely affected.

We have limited channels by which our jewelry can be distributed.

We began shipping moissanite to jewelry retailers in June 1998, which grew to 237 locations primarily concentrated in certain cities along the eastern seaboard, Texas and California by the end of 1999. While repeat sales (three or more purchases) have been made to over 850 jewelry retailers since March 2000, we are emphasizing expanding the domestic distribution of moissanite jewels through the distribution agreements with Stuller and Rio Grande and agreements with jewelry manufacturers and jewelry designers. There can be no assurance that we will be successful in expanding distribution through such agreements. Neither can there be any assurance that we will be able to enter into additional agreements with other distributors, manufacturers or designers on terms acceptable to us or that such other distributors will be successful in their efforts to market our jewels to retailers or consumers. The inability to achieve our desired distribution of moissanite jewels or our inability to successfully market moissanite jewels to jewelers or consumers would have a material adverse effect on our business, operating results and financial condition.

We are subject to certain risks due to our international distribution channels and vendors.

Charles & Colvard created moissanite jewels are currently being distributed in substantially all of Western Europe and certain territories in Southeast Asia. We currently have a total of approximately 30 distributors

internationally. We intend to expand the number of international markets for our products. In addition, we expect to continue to use certain companies based outside the United States to facet our moissanite jewels. Due to our reliance on development of foreign markets and use of foreign vendors, we are subject to the risks of conducting business outside of the United States. These risks include unexpected changes in, or impositions of, legislative or regulatory requirements, delays resulting from difficulty in obtaining export licenses, tariffs and other trade barriers and restrictions and the burdens of complying with a variety of foreign laws and other factors beyond our control. Additionally, while all foreign transactions are denominated in U.S. dollars, foreign currency fluctuations could impact demand for our products or the ability of our foreign suppliers to continue to perform. We are also subject to general geopolitical risks in connection with our international operations, such as political, social, religious and economic instability, potential hostilities and changes in diplomatic and trade or business relationships. Further, some of these distributors operate relatively small businesses and may not have the financial stability to assure their continuing presence in their markets. There can be no assurance that the foregoing factors will not adversely affect our operations in the future or require us to modify our anticipated business practices.

We currently depend upon a single source for the supply of SiC crystals

We currently depend on a single source, Cree Inc. (Cree), for the supply of SiC crystals. Cree has certain proprietary rights relating to its process for growing large single crystals of SiC and its process for growing colorless SiC crystals. Under our Exclusive Supply Agreement with Cree, we are obligated to buy from Cree, and Cree is obligated to sell to us, 50%, by dollar volume, of our requirements for SiC material for the production of gemstones in each calendar quarter. Although we are only required to purchase 50% of our SiC requirements from Cree, we do not currently believe that any other SiC producer could readily supply crystals in the qualities, sizes and volumes needed for our products. Therefore, at the present time, we are wholly dependent on Cree as our sole source for our principal raw material.

While Cree has improved its production processes and is currently producing SiC crystals sufficient to meet the Company's requirements, the Company experienced difficulties in the past in obtaining crystals from Cree in the quality, sizes and volumes that it desired. The Company from time to time enters into purchase agreements with Cree with respect to the specific timing, pricing and other terms of future delivery of SiC crystals and our purchase commitments. As a result of an accelerated improvement in quality in 1999 at the same time that the Company experienced sales growth that was slower than it anticipated, the Company's inventories significantly increased pursuant to its prior purchase commitments. There can be no assurance that Cree will be able to continue to produce and supply the Company with raw materials of sufficient quality, sizes and volumes nor that the Company will negotiate purchase commitments that enable it to manage its inventories and raw material costs effectively.

We rely upon our ability to protect our intellectual property.

We have been issued U.S. product and method patents for moissanite jewels under which we have broad, exclusive rights to manufacture, use and sell moissanite jewels in the United States. We have applications pending in a number of foreign jurisdictions for these same patents. We believe that these patents create substantial technological barriers to our potential competitors. We also have other patents and patent applications pending related to certain methods of producing moissanite jewels and related technologies. There can be no assurance that any other patents will be granted or that any issued patent will have any commercial or competitive value.

At the present time, we are also dependent on Cree's technology for the production of SiC crystals. Cree is exclusively licensed to use a patent concerning a process for growing large single crystals of SiC, has certain patents of its own relating to growth of large single crystals of SiC and has a patent for a process for growing colorless SiC crystals.

There can be no assurance that any patents issued to or licensed by or to us or Cree will provide any significant commercial protection to us or Cree, that we or Cree will have sufficient resources to prosecute our

respective patents or that any patents will be upheld by a court should we, Cree or Cree's licensor seek to enforce our respective rights against an infringer. The existence of valid patents does not prevent other companies from independently developing competing technologies. Existing producers of SiC or others may refine existing processes for growing SiC crystals or develop new technologies for growing large single crystals of SiC or colorless SiC crystals in a manner that does not infringe patents owned or licensed by or to us or Cree. In addition, existing producers of SiC, existing producers of other synthetic or natural gemstones or other parties may develop new technologies for producing moissanite jewels in a manner that does not infringe patents owned or licensed by or to us or Cree.

As a result of the foregoing factors, existing and potential competitors may be able to develop products that are competitive with or superior to our products, and such competition could have a material adverse effect on our business, operating results and financial condition.

Our success depends upon our ability to identify, reach agreements with and work successfully with third parties.

In addition to our current dependence on Cree and on third party distribution channels, our prospects depend upon our ability to identify, reach agreements with and work successfully with other third parties. In particular, we rely on third parties to facet our jewels. Faceting moissanite jewels requires different techniques than faceting diamond and other gemstones. There can be no assurance that we can maintain our relationships with our faceting vendors on terms satisfactory to us or that faceting vendors will continue to be able to provide faceting services in the quality and quantities required by us or that we will be able to find suitable replacements if we are unable to maintain such relationships. Our failure to achieve any of the above would have a material adverse effect on our business, operating results and financial condition.

Governmental regulation and oversight might adversely impact our operations.

We are subject to governmental regulations in the manufacture and sale of moissanite jewels. In particular, the Federal Trade Commission has the power to restrict the offer and sale of products that could deceive or have the tendency or effect of misleading or deceiving purchasers or prospective purchasers with regard to the type, kind, quality, character, origin or other characteristics of a diamond. We may be under close scrutiny both by governmental agencies and by competitors in the gemstone industry, any of which may challenge our promotion and marketing of our moissanite jewel products. If our production or marketing of moissanite jewels is challenged by governmental agencies or competitors, or if regulations are issued that restrict our ability to produce and market our products, our business, operating results and financial condition could be materially adversely affected.

Our reputation amongst jewelers and consumers could be damaged if low-quality gemstones or synthetics are marketed as moissanite.

If market acceptance of our products continues to grow, it is possible that low-quality gemstones or other synthetics could be marketed as moissanite. The sale of low-quality products as moissanite could damage the perception of moissanite as a unique jewel that compares favorably to other fine gemstones like diamond, ruby and emerald. This could damage our reputation among retail jewelers and consumers and result in a loss of consumer confidence in our products. The introduction of low-quality imitation moissanite jewels and our inability to limit the adverse effects thereof could have a material adverse effect on our business, operating results and financial condition.

The success of our operations depends in part upon attracting and retaining key personnel.

Our success depends in part upon retaining the services of certain executive officers and other key employees. We have entered into employment agreements with our Chief Executive Officer and President, Robert S. Thomas, Chief Financial Officer, Mark W. Hahn, Director of Manufacturing, Earl R. Hines, Director

of Domestic Sales, Mark D. Scanlan and Director of International Sales, Joseph Ambar. We do not maintain "key man" life insurance policies on any of our executive officers or key employees. The loss of the services of our executive officers or other key employees could have a material adverse effect on our business, operating results and financial condition.

Due to our early stage of development, we are also dependent on our ability to recruit, retain and motivate personnel with technical, manufacturing and gemological skills. There are a limited number of personnel with these qualifications and competition for such personnel is intense. The inability to attract and retain additional qualified personnel would materially adversely affect our business, operating results and financial condition.

#### RISKS RELATED TO OUR COMMON STOCK

Our Common Stock price has been and may continue to be volatile, which could result in substantial losses for individual shareholders who exercise their subscription rights.

The market price of our common stock ranged between a high sales price of \$18.00 per share and a low sales price of \$.875 since the Company's initial public offering in 1997 and may continue to be highly volatile and subject to wide fluctuations in response to factors including the following, some of which are beyond our control:

- . Actual or anticipated variations in our quarterly operating results;
- . Changes in financial estimates by security analysts;
- . Underperformance against analysts' estimates; and
- . Fluctuations in the stock market in general and technology and small capitalization stocks in particular.

In light of our limited operating history, there is very little data upon which to estimate operating revenues and expenses. Our revenues will be affected by many unpredictable factors, including those discussed elsewhere in this prospectus. We will likely experience substantial quarterly fluctuations in our operating results. As a result, we believe that period-to-period comparisons of our results of operations are not necessarily meaningful and should not be relied upon as an indication of future performance. Moreover, it is likely that in some future quarters our operating results will be below the expectations of public market analysts and investors. In such event, the price of our common stock would likely be materially adversely affected.

The fluctuations in prices and volumes of the stock market in general and stocks of technology companies in particular have been extreme from time to time. This volatility is often unrelated or disproportionate to the operating performance of these companies. These broad market fluctuations may adversely affect the market price of our common stock, regardless of our actual operating performance.

We do not expect to pay Common Stock dividends.

We have not paid cash dividends in the past and do not expect to pay cash dividends on our common stock for the foreseeable future. In determining whether to pay dividends, our Board of Directors will consider many factors, including our earnings, capital requirements and financial condition.

The market price of our common shares could decline if we do not meet the requirements for continued listing on NASDAQ.

Our shares of common stock are traded on the Nasdaq National Market, which has adopted rules that establish criteria for initial and continued listing of securities. To comply with the continued listing criteria of the Nasdaq National Market, a company must comply with at least one of two sets of rules. Under one set of rules, a company must maintain at least \$4,000,000 of net tangible assets, have at least 750,000 publicly held

shares with a market value of over \$5,000,000 and not have a minimum bid price under \$1.00 per share. Under another set of rules, a company must maintain a market capitalization of at least \$50,000,000, or total assets and total revenue of at least \$50,000,000 each for the most recently completed fiscal year or two of the three most recently completed fiscal years. A market price of our common stock which remains below \$1.00 per share or future losses from operations could cause us to fail to meet the Nasdaq listing criteria and result in delisting from the Nasdaq National Market in the future. If our common stock is delisted from the Nasdaq National Market, trading in our common stock could be conducted on the Nasdaq SmallCap Market or on an electronic bulletin board established for securities that do not meet the Nasdaq listing requirements. If our common stock were delisted from the Nasdaq National Market and were not listed on the Nasdaq SmallCap Market, it would be subject to the so-called penny stock rules that impose restrictive sales practice requirements on broker-dealers who sell those securities. Consequently, delisting, if it occurred, could affect the ability of shareholders to sell their common stock in the secondary market. The restrictions applicable to shares that are delisted, as well as the lack of liquidity for shares that are traded on an electronic bulletin board, may adversely affect the market price of such shares.

Some anti-takeover provisions of our charter documents, agreements and plans may delay or prevent a takeover of our Company.

A number of provisions of our articles of incorporation and bylaws deal with matters of corporate governance and the rights of shareholders. Certain of these provisions may be deemed to have an anti-takeover effect and may delay or prevent takeover attempts not first approved by the Board of Directors (including takeovers that certain shareholders may deem to be in their best interests). These provisions also could delay or frustrate the removal of incumbent directors or the assumption of control by shareholders. We believe that these provisions are appropriate to protect our interests and all of our shareholders.

Under the terms of the Exclusive Supply Agreement, we are prohibited from entering into an exclusive marketing or distribution agreement with DeBeers or its affiliates or the Central Selling Organization (the international cartel of diamond producers) or any party whose primary business is the development, manufacture, marketing or sale of diamond gemstones or any non-gemstone and non-jewelry industry competitor of Cree (collectively, the "Prohibited Parties"). The agreement also prohibits us from entering into certain merger, acquisition, sale of assets, or similar transactions with a Prohibited Party. These provisions of the Exclusive Supply Agreement could limit the price that third parties might be willing to pay in the future for some or all of the shares of our common stock. In addition, this agreement could prevent us from entering into certain potentially profitable transactions with Prohibited Parties.

On February 21, 1999, we adopted a Shareholder Rights Plan under which all shareholders of record as of March 8, 1999, received rights to purchase shares of a new series of Preferred Stock. Each share of common stock issued after March 8, 1999 has received the same rights and, unless these rights become exercisable, each share of common stock issued pursuant to this prospectus will receive the same rights.

The Rights Plan is designed to enable all of our shareholders to realize the full value of their investment and to provide for fair and equal treatment for all shareholders in the event that an unsolicited attempt is made to acquire us. The adoption of the Rights Plan is intended as a means to guard against abusive takeover tactics and is not in response to any particular proposal.

The rights, which expire in 2009, will be exercisable only if a person or group acquires 20% or more of our common stock or announces a tender offer for 20% or more of the common stock. If a person or group acquires 20% or more of our common stock, all shareholders except the purchaser will be entitled to acquire our common stock at a 50% discount. The effect will be to discourage acquisitions of more than 20% of our common stock without negotiations with the Board.

The rights will trade with our common stock, unless and until they are separated upon the occurrence of certain future events. Our Board of Directors may redeem the rights prior to the expiration of a specified period following the acquisition of more than 20% of our common stock.



## RISKS RELATING TO RIGHTS OFFERING

If you do not exercise all of your subscription rights, you may suffer significant dilution of your percentage ownership of our common stock.

This rights offering is designed to allow all current shareholders to purchase additional shares of common stock at a discount from the market price of the stock on the date the rights are offered. The purpose of this structure is to enable us to raise capital while allowing current shareholders to maintain their relative proportionate voting and economic interest. To the extent that current shareholders do not exercise their subscription rights and shares are purchased by other shareholders in the rights offering, the proportionate voting interest of the non-exercising shareholders will be reduced, and the percentage that their original shares represent of our expanded equity after exercise of the subscription rights will be disproportionately diluted.

The price of our common stock may decline before or after the subscription rights expire.

We cannot assure you that the public trading market price of our common stock will not decline below the subscription price after you exercise your subscription rights. If that occurs, you will have committed to buy shares of common stock at a price above the prevailing market price and you will have an immediate unrealized loss. Moreover, we cannot assure you that following the exercise of subscription rights you will be able to sell your shares of common stock at a price equal to or greater than the subscription price. Until certificates are delivered upon expiration of the rights offering, you may not be able to sell the shares of our common stock that you purchase in the rights offering. Certificates representing shares of our common stock purchased will be delivered as soon as practicable after expiration of the rights offering. We will not pay you interest on funds delivered to the Subscription Agent pursuant to the exercise of rights.

Once you exercise your subscription rights, you may not revoke the exercise.

Once you exercise your subscription rights, you may not revoke the exercise, even if less than all of the shares that we are offering are actually purchased. If we elect to withdraw or terminate the rights offering, neither we nor the Subscription Agent will have any obligation with respect to the subscription rights except to return, without interest, any subscription payments.

The subscription price is not an indication of the value of our company.

The subscription price was set by us after considering a variety of factors, including the desire to encourage full shareholder participation in this rights offering by setting an exercise price below the current market price of the common stock. The subscription price does not necessarily bear any relationship to the book value of our assets, past operations, cash flows, losses, financial condition or any other established criteria for value. You should not consider the subscription price as an indication of our present or future value. We have established the subscription price at approximately a        from the current market price of the common stock to encourage all shareholders to exercise their subscription rights and thereby raise capital without diluting the interests of current shareholders. We have neither sought nor obtained a valuation opinion from an outside financial consultant or investment banker.

## USE OF PROCEEDS

If all shares being offered pursuant to this rights offering are sold, we estimate that the proceeds to Charles & Colvard will be approximately \$ before the fees and expenses related to this offering. The net proceeds will be used for working capital purposes.

## RECENT DEVELOPMENTS

While the results for the fourth quarter of 2000 have yet to be finalized, we shipped approximately 18,600 carats of moissanite during the quarter, approximately 26% more than in the same period of 1999. Domestic carat shipments increased 65% while international shipments decreased due, in part, to the strong dollar. We expect dollar sales for the quarter to be approximately the same as for the fourth quarter of 1999, reflecting volume discounts offered to domestic distributors. We have continued to incur operating losses in the fourth quarter of 2000 and expect to report an increased loss for the quarter, as compared to fourth quarter 1999, primarily as a result of prepaid advertising expenditures paid in the third quarter of 2000 and accrued in the fourth quarter of 2000. Our cash and cash equivalents as of December 31, 2000 were approximately \$3.7 million.

We also have entered into a letter agreement with Cree with respect to purchases in 2001. Under the terms of the agreement, we will be obligated to purchase SiC crystals for 2001 only upon issuance and Cree's acceptance of purchase orders. We currently have no purchase commitments.

## THE RIGHTS OFFERING

BEFORE EXERCISING YOUR SUBSCRIPTION RIGHTS, YOU SHOULD READ CAREFULLY THE INFORMATION SET FORTH UNDER "RISK FACTORS" BEGINNING ON PAGE 6.

### THE SUBSCRIPTION RIGHTS

We are distributing non-transferable subscription rights to shareholders who owned shares of our common stock on January 12, 2001, at no cost to the shareholders. We will give you one subscription right for each share of common stock that you owned on January 12, 2001. Each subscription right will entitle you to purchase one share of common stock for \$ . If you wish to exercise your subscription rights, you must do so before 5 P.M., Eastern Standard Time, on February , 2001. After that date, the subscription rights will expire and will no longer be exercisable unless the offering is extended.

### BASIC SUBSCRIPTION PRIVILEGE

Each subscription right will entitle you to receive, upon payment of \$ , one share of common stock. You will receive certificates representing the shares that you purchase pursuant to your basic subscription privilege as soon as practicable after February , 2001, whether you exercise your subscription rights immediately prior to that date or earlier.

### OVER-SUBSCRIPTION PRIVILEGE

Subject to the allocation described below, each subscription right also grants you an over-subscription privilege to purchase additional shares of common stock that are not purchased by other shareholders. You are entitled to exercise your over-subscription privilege only if you exercise your basic subscription privilege in full. If you wish to exercise your over-subscription privilege, you should indicate the number of additional shares that you would like to purchase in the space provided on your subscription certificate. When you send in your subscription certificate, you must also send the full purchase price for the number of additional shares that

you have requested to purchase (in addition to the payment due for shares purchased through your basic subscription privilege). If the number of shares remaining after the exercise of all basic subscription privileges is not sufficient to satisfy all over-subscription privileges, we will allocate the available shares among shareholders who over-subscribed in proportion to the number of shares purchased by those over-subscribing shareholders through the basic subscription privilege. However, if your pro rata allocation exceeds the number of shares you requested, you will receive only the number of shares that you requested, and the remaining shares from your pro rata allocation will be divided among other shareholders exercising their over-subscription privileges who have subscribed for additional shares in proportion to the number of shares purchased by that group of over-subscribing shareholders through the basic subscription privilege. In certain circumstances, however, in order to comply with applicable state or foreign securities laws, we may not be able to honor all over-subscription privileges even if we have shares available. The number of shares available under the over-subscription privilege to any one shareholder or group of shareholders may be reduced by the Company if any such shareholder or group of shareholders would beneficially own 20% or more of the Company's common stock outstanding after the offering.

**PURCHASE COMMITMENTS**

As of the date of this prospectus, certain directors, officers and other shareholders have committed to purchase up to an aggregate of \_\_\_\_\_ shares of common stock pursuant to the offering which would provide the Company with a minimum subscription amount and gross proceeds of \$ \_\_\_\_\_. To effect this commitment, each of these purchasers have individually agreed to exercise his basic subscription privilege in full and to subscribe for additional shares pursuant to the over-subscription privilege as follows:

Name and Position -----	Basic Subscription Commitment -----	Over-Subscription Commitment -----	Total Commitment -----
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**NO RECOMMENDATION**

We are not making any recommendations as to whether or not you should exercise your subscription rights. You should make your decision based on your own assessment of your best interests.

**EXPIRATION DATE**

The rights will expire at 5:00 p.m., Eastern Standard Time, on February \_\_\_\_\_, 2001, unless we decide to extend the rights offering. If you do not exercise your subscription rights prior to that time, your subscription rights will be null and void. We will not be required to issue shares of common stock to you if the Subscription Agent receives your subscription certificate or your payment after that time, regardless of when you sent the subscription certificate and payment, unless you send the documents in compliance with the guaranteed delivery procedures described below.

**WITHDRAWAL RIGHT**

Our Board of Directors may withdraw the rights offering in its sole discretion at any time prior to or on February \_\_\_\_\_, 2001, for any reason (including, without limitation, a change in the market price of the common stock). If we withdraw the rights offering, any funds you paid will be promptly refunded, without interest or penalty.

#### DETERMINATION OF SUBSCRIPTION PRICE

Our Board of Directors chose the \$        per share subscription price after considering a variety of factors, including the following:

- the historic and current market price of the common stock;
- our business prospects;
- our history of losses;
- general conditions in the securities market;
- our need for capital;
- alternatives available to us for raising capital;
- the amount of proceeds desired;
- pricing of similar transactions;
- the liquidity of our common stock;
- the level of risk to our investors; and
- the need to offer shares at a price that would be attractive to our investors relative to the current trading price of our common stock.

The \$        per share subscription price should not be considered an indication of the actual value of Charles & Colvard or of our common stock. We cannot assure you that the market price of the common stock will not decline during or after the rights offering. We also cannot assure you that you will be able to sell shares of common stock purchased during the rights offering at a price equal to or greater than \$        per share.

#### NON-TRANSFERABILITY OF SUBSCRIPTION RIGHTS

Both the basic subscription rights and over-subscription rights are non-transferable and non-assignable. Only you may exercise these rights.

#### EXERCISE OF SUBSCRIPTION RIGHTS

You may exercise your subscription rights by delivering to the Subscription Agent on or prior to February    , 2001:

- A properly completed and duly executed subscription certificate;
- Any required signature guarantees; and
- Payment in full of \$        per share for the shares of common stock subscribed for by exercising your basic subscription rights and, if desired, your over-subscription rights.

You should deliver your subscription certificate and payment to the Subscription Agent at the address shown under the heading "Subscription Agent." Registered mail or overnight delivery is recommended. We will not pay you interest on funds delivered to the Subscription Agent pursuant to the exercise of rights. If you choose to wire transfer funds for payment, you are urged to send your subscription certificate by overnight delivery no later than the date of your wire transfer to assure proper matching with your payment and, in any event, in time for delivery on or prior to February    , 2001. In addition, you are requested to provide the name, ABA routing number of the originating bank and the date of your wire transfer on your subscription certificate.

## METHOD OF PAYMENT

Payment for the shares must be made by check or bank draft (cashier's check) drawn upon a United States bank or a postal, telegraphic or express money order payable to the order of First Union National Bank, as Subscription Agent. Payment for basic subscription rights and over-subscription rights may also be effected through wire transfer as follows:

Bank Name: First Union National Bank

ABA Routing #: 0530-00219

For Credit DDA: 5000000025527

For further credit: Reorganization Department

Corporate Trust Operations, 1153

Re: (name of registered holder)

Payment will be deemed to have been received by the Subscription Agent only upon:

(A) clearance of any uncertified check;

(B) receipt by the Subscription Agent of any certified check or bank draft drawn upon a U.S. bank or of any postal, telegraphic or express money order;

(C) receipt by the Subscription Agent of any funds transferred by wire transfer; or

(D) receipt of funds by the Subscription Agent through an alternative payment method approved by Charles & Colvard.

Please note that funds paid by uncertified personal check may take at least ten business days to clear. Accordingly, if you wish to pay by means of an uncertified personal check, we urge you to make payment sufficiently in advance of February , 2001, to ensure that the payment is received and clears before that date. We also urge you to consider payment by means of a certified or cashier's check, money order or wire transfer.

## GUARANTEED DELIVERY PROCEDURES

If you want to exercise your subscription rights, but time will not permit your subscription certificate to reach the Subscription Agent on or prior to February , 2001, you may exercise your subscription rights if you satisfy the following guaranteed delivery procedures:

(1) You send, and the Subscription Agent receives, payment in full for each share of common stock being subscribed for through the basic subscription privilege and the over-subscription privilege, on or prior to February , 2001;

(2) You send, and the Subscription Agent receives, on or prior to February , 2001, a notice of guaranteed delivery, substantially in the form provided with the attached instructions, from a member firm of a registered national securities exchange or a member of the National Association of Securities Dealers, Inc., or a commercial bank or trust company having an office or correspondent in the United States. The notice of guaranteed delivery must state your name, the number of subscription rights that you hold, the number of shares of common stock that you wish to purchase pursuant to the basic subscription privilege and the number of shares, if any, you wish to purchase pursuant to the over-subscription privilege. The notice of guaranteed delivery must guarantee the delivery of your subscription certificate to the Subscription Agent within three Nasdaq National Market trading days following the date of the notice of guaranteed delivery; and

(3) You send, and the Subscription Agent receives, your properly completed and duly executed subscription certificate, including any required signature guarantees, within three Nasdaq National Market trading days following the date of your notice of guaranteed delivery. The notice of guaranteed delivery may be delivered to the Subscription Agent in the same manner as your subscription certificate at the

addresses set forth under the heading "Subscription Agent," or may be transmitted to the Subscription Agent by facsimile transmission, to facsimile number (704) 590-7628. You can obtain additional copies of the form of notice of guaranteed delivery by requesting them from the Subscription Agent at the address set forth under the heading "Subscription Agent."

#### SIGNATURE GUARANTEE

Signatures on the subscription certificate do not need to be guaranteed if either the subscription certificate provides that the shares of common stock to be purchased are to be delivered directly to the record owner of such subscription rights, or the subscription certificate is submitted for the account of a member firm of a registered national securities exchange or a member of the National Association of Securities Dealers, Inc., or a commercial bank or trust company having an office or correspondent in the United States. If a signature guarantee is required, signatures on the subscription certificate must be guaranteed by an Eligible Guarantor Institution, as defined in Rule 17Ad-15 of the Securities Exchange Act of 1934, as amended, subject to the standards and procedures adopted by the Subscription Agent. Eligible Guarantor Institutions include banks, brokers, dealers, credit unions, national securities exchanges and savings associations.

#### SHARES HELD FOR OTHERS

If you are a broker, a trustee or a depository for securities, or you otherwise hold shares of common stock for the account of a beneficial owner of common stock, you should notify the beneficial owner of such shares as soon as possible to obtain instructions with respect to their subscription rights. If you are a beneficial owner of common stock held by a holder of record, such as a broker, trustee or a depository for securities, you should contact the holder and ask him or her to effect transactions in accordance with your instructions.

#### AMBIGUITIES IN EXERCISE OF SUBSCRIPTION RIGHTS

If you do not specify the number of subscription rights being exercised on your subscription certificate, or if your payment is not sufficient to pay the total purchase price for all of the shares that you indicated you wished to purchase, you will be deemed to have exercised the maximum number of subscription rights that could be exercised for the amount of the payment that the Subscription Agent receives from you. If your payment exceeds the total purchase price for all of the subscription rights shown on your subscription certificate, your payment will be applied, until depleted, to subscribe for shares of common stock in the following order:

- (1) to subscribe for the number of shares, if any, that you indicated on the subscription certificate that you wished to purchase through your basic subscription privilege;
- (2) to subscribe for shares of common stock until your basic subscription privilege has been fully exercised;
- (3) to subscribe for additional shares of common stock pursuant to the over-subscription privilege (subject to any applicable proration).

Any excess payment remaining after the foregoing allocation will be returned to you as soon as practicable by mail, without interest or deduction.

#### REGULATORY LIMITATION

We will not be required to issue you shares of common stock pursuant to the rights offering if, in our opinion, you would be required to obtain prior clearance or approval from any state or federal regulatory authorities to own or control such shares if, at the time the subscription rights expire, you have not obtained such clearance or approval.

## STATE AND FOREIGN SECURITIES LAWS

The rights offering is not being made in any state or other jurisdiction in which it is unlawful to do so, nor are we selling or accepting any offers to purchase any shares of common stock to you if you are a resident of any such state or other jurisdiction. We may delay the commencement of the rights offering in certain states or other jurisdictions in order to comply with the securities law requirements of such states or other jurisdictions. It is not anticipated that there will be any changes in the terms of the rights offering. In our sole discretion, we may decline to make modifications to the terms of the rights offering requested by certain states or other jurisdictions, in which case shareholders who live in those states or jurisdictions will not be eligible to participate in the rights offering.

## OUR DECISION REGARDING CERTAIN MATTERS BINDING ON YOU

All questions concerning the timeliness, validity, form and eligibility of any exercise of subscription rights will be determined by us, and our determinations will be final and binding. In our sole discretion, we may waive any defect or irregularity, or permit a defect or irregularity to be corrected within such time as we may determine, or reject the purported exercise of any subscription right by reason of any defect or irregularity in such exercise. Subscriptions will not be deemed to have been received or accepted until all irregularities have been waived or cured within such time as we determine in our sole discretion. Neither Charles & Colvard nor the Subscription Agent will be under any duty to notify you of any defect or irregularity in connection with the submission of a subscription certificate or incur any liability for failure to give such notification.

## NO REVOCATION

After you have exercised your basic subscription privilege or over-subscription privilege, YOU MAY NOT REVOKE THAT EXERCISE. You should not exercise your subscription rights unless you are certain that you wish to purchase additional shares of common stock.

## SHARES OF COMMON STOCK OUTSTANDING AFTER THE RIGHTS OFFERING

Assuming we issue all of the shares of common stock offered in the rights offering, approximately 14,401,958 shares of common stock will be issued and outstanding. This would represent a 100% increase in the number of outstanding shares of common stock. IF YOU DO NOT EXERCISE YOUR BASIC SUBSCRIPTION RIGHTS, THE PERCENTAGE OF COMMON STOCK THAT YOU HOLD WILL DECREASE IF SHARES ARE PURCHASED IN THE RIGHTS OFFERING.

## FEES AND EXPENSES

We will pay all fees charged by the Subscription Agent. You are responsible for paying any other commissions, fees, taxes or other expenses incurred in connection with the exercise of the subscription rights. Neither Charles & Colvard nor the Subscription Agent will pay such expenses.

## SUBSCRIPTION AGENT

We have appointed our transfer agent, First Union National Bank, as Subscription Agent for the rights offering. The Subscription Agent's address for packages sent by mail or overnight delivery is:

First Union National Bank

Corporate Trust Operations

Attention: Corporate Actions  
1525 West W.T. Harris Boulevard, 3C3  
Charlotte, North Carolina 28262-1153

The Subscription Agent's telephone number is (704) 590-7414 and its facsimile number is (704) 590-7628. You should deliver your subscription certificate, payment of the subscription price and notice of guaranteed

delivery (if any) to the Subscription Agent. We will pay a fee of \$6,500 plus certain expenses of the Subscription Agent. We have also agreed to indemnify the Subscription Agent from certain liabilities which it may incur in connection with the rights offering.

#### IMPORTANT

PLEASE CAREFULLY READ THE INSTRUCTIONS ACCOMPANYING THE SUBSCRIPTION CERTIFICATE AND FOLLOW THOSE INSTRUCTIONS IN DETAIL. DO NOT SEND SUBSCRIPTION CERTIFICATES DIRECTLY TO US. YOU ARE RESPONSIBLE FOR CHOOSING THE PAYMENT AND DELIVERY METHOD FOR YOUR SUBSCRIPTION CERTIFICATE, AND YOU BEAR THE RISKS ASSOCIATED WITH SUCH DELIVERY. IF YOU CHOOSE TO DELIVER YOUR SUBSCRIPTION CERTIFICATE AND PAYMENT BY MAIL, WE RECOMMEND THAT YOU USE REGISTERED MAIL, PROPERLY INSURED, WITH RETURN RECEIPT REQUESTED. WE ALSO RECOMMEND THAT YOU ALLOW A SUFFICIENT NUMBER OF DAYS TO ENSURE DELIVERY TO THE SUBSCRIPTION AGENT AND CLEARANCE OF PAYMENT PRIOR TO FEBRUARY , 2001. BECAUSE UNCERTIFIED PERSONAL CHECKS MAY TAKE AT LEAST TEN BUSINESS DAYS TO CLEAR, WE STRONGLY URGE YOU TO PAY, OR ARRANGE FOR PAYMENT, BY MEANS OF CERTIFIED OR CASHIER'S CHECK, MONEY ORDER OR WIRE TRANSFER.

#### IF YOU HAVE QUESTIONS

If you have questions or need assistance concerning the procedure for exercising subscription rights or if you would like additional copies of this prospectus, the instructions, or the Notice of Guaranteed Delivery, you should contact Mark W. Hahn, of Charles & Colvard, at:

3800 Gateway Boulevard, Suite 311  
Morrisville, North Carolina 27560  
Telephone (919) 468-0399



## PLAN OF DISTRIBUTION

On or about January , 2001, we will distribute the subscription rights, subscription certificates and copies of this prospectus to individuals who owned shares of common stock on January 12, 2001. If you wish to exercise your subscription rights and purchase shares of common stock, you should complete the subscription certificate and return it with payment for the shares, to the Subscription Agent, First Union National Bank, at the address on page 19. If you have any questions, you should contact our Chief Financial Officer, Mark W. Hahn, at the telephone number and address on page 19.

We estimate that our total expenses in connection with the rights offering will be \$150,000.

## EXPERTS

The financial statements and the related financial statement schedule incorporated in this prospectus by reference from the Company's Annual Report on Form 10-K for the year ended December 31, 1999 have been audited by Deloitte & Touche LLP, independent auditors as stated in their report, which is incorporated herein by reference, and have been so incorporated in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

## LEGAL MATTERS

Womble Carlyle Sandridge & Rice, PLLC, Charlotte, North Carolina, will pass on the validity of the issuance of the shares of our common stock offered by this prospectus for us. A member of Womble Carlyle Sandridge & Rice, PLLC owns 25,100 shares of our common stock.

## HOW TO FIND ADDITIONAL INFORMATION

Charles & Colvard files annual, quarterly and special reports, proxy statement and other information with the SEC. You may read and copy this information at the SEC's public reference rooms, which are located at:

450 Fifth Street, N.W.  
Washington, D.C. 20549

7 World Trade Center, Suite 1300  
New York, NY 10048

500 West Madison Street, Suite 1400  
Chicago, IL 60661-2511

Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms. This information is also available online through the SEC's Electronic Data Gathering, Analysis and Retrieval System ("EDGAR"), located on the SEC's web site (<http://www.sec.gov>).

Also, we will provide you (free of charge) with any of our documents filed with the SEC. To get your free copies, please call or write to Charles & Colvard at:

3800 Gateway Boulevard, Suite 310  
Morrisville, N.C. 27560  
Attention: Chief Financial Officer  
Telephone: (919) 468-0399

We have filed a registration statement with the SEC on Form S-3 with respect to the rights offering. This prospectus is a part of the registration statement, but the prospectus does not repeat important information that

7,200,979 Shares

CHARLES & COLVARD, LTD.

Common Stock

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PROSPECTUS

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January , 2001

You should rely only on information contained in this prospectus. We have not authorized anyone to provide you with information different from that contained in this prospectus. This prospectus does not constitute an offer to sell, or a solicitation of an offer to buy, to any person in any jurisdiction where offers and sales are not permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of our common stock.

No action is being taken in any jurisdiction outside the United States to permit a public offering of our common stock or possession or distribution of this prospectus in that jurisdiction. Persons who come into possession of this prospectus in jurisdictions outside the United States are required to inform themselves about and to observe any restrictions as to this offering and the distribution of this prospectus applicable to that jurisdiction.

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 14. Other Expenses of Issuance and Distribution

The following table sets forth the fees and expenses incurred by Charles & Colvard, Ltd. in connection with the issuance and distribution of the securities being registered.

Securities and Exchange Commission registration fee.....	\$ 3,193
Nasdaq National Market additional listing fee.....	\$ 17,500
Accountants' fees and expenses*.....	\$ 37,500
Blue Sky Fees and Expenses*.....	\$ 5,000
Legal fees and expenses*.....	\$ 50,000
Subscription Agent's fees and expenses*.....	\$ 7,500
Printing and engraving expenses*.....	\$ 25,000
Miscellaneous*.....	\$ 4,307
	-----
Total Expenses.....	\$150,000
	=====

\*Estimated

Item 15. Indemnification of Directors and Officers

Sections 55-8-50 through 55-8-58 of the North Carolina Business Corporation Act contains specific provisions relating to indemnification of directors and officers of North Carolina corporations. In general, such sections provide that (i) a corporation must indemnify a director or officer who is wholly successful in his defense of a proceeding to which he is a party because of his status as such, unless limited by the articles of incorporation, and (ii) a corporation may indemnify a director or officer if he is not wholly successful in such defense and it is determined as provided by statute that the director or officer meets a certain standard of conduct, but the corporation may not indemnify a director or officer if he is liable to the corporation or is adjudged liable on the basis that personal benefit was improperly received by him. A director or officer of a corporation who is a party to a proceeding may also apply to the courts for indemnification, and the court may order indemnification under certain circumstances set forth in the statute. A corporation may, in its articles of incorporation or bylaws or by contract or resolution, provide indemnification in addition to that provided by statute, subject to certain conditions.

The Registrant's bylaws provide for the indemnification of any director or officer of the Registrant against liabilities and litigation expenses arising out of his status as such, excluding (i) any liabilities or litigation expenses relating to activities which were at the time taken known or believed by such person to be clearly in conflict with the best interest of the Registrant and (ii) that portion of any liabilities or litigation expenses with respect to which such person is entitled to receive payment under any insurance policy.

The Registrant's articles of incorporation provide for the elimination of the personal liability of each director of the Registrant to the fullest extent permitted by law.

In connection with this offering, the Registrant intends to obtain directors' and officers' liability insurance, under which any controlling person, director or officer of the Registrant will be insured or indemnified against certain liabilities which he may incur in his capacity as such.

Item 16. Exhibits and Financial Statement Schedules

(a) Exhibits. The following is a list of exhibits filed as part of the Registration Statement.

Exhibit No. -----	Description -----
4.1	Amended and Restated Articles of Incorporation of Charles & Colvard, Ltd. which is hereby incorporated by reference to Exhibit 3.1 to the Registration Statement on Form S-1 of C3, Inc. (File No. 333-36809).
4.2	Articles of Amendment of Charles & Colvard, Ltd., as filed with the Secretary of State on February 23, 1999, which is hereby incorporated by reference to Exhibit 3.2 to the Form 10-K for the Fiscal Year Ended December 31, 1998 of C3, Inc. (File No. 0-23329).
4.3	Articles of Amendment of Charles & Colvard, Ltd., as filed with the Secretary of State on May 17, 2000, which is hereby incorporated by reference to Exhibit 3.4 to the Form 10-Q for the Fiscal Quarter Ended June 30, 2000 (File No. 0-23329).
4.4	Amended and Restated Bylaws of Charles & Colvard, Ltd. which is hereby incorporated by reference to Exhibit 3.2 to the Registration Statement on Form S-1 of C3, Inc. (File No. 333-36809).
4.5	Shareholders Rights Agreement, dated as of February 22, 1999, which is hereby incorporated by reference to Exhibit 3.2 of the Company's Annual Report on Form 10-K for the Fiscal Year Ended December 31, 1998 (File No. 0-23329).
5.1	Opinion of Womble Carlyle Sandridge and Rice PLLC
23.1	Consent of Deloitte & Touche LLP
*24	Power of Attorney (included in the Signature Page contained in Part II of the Registration Statement).
99.1	Form of Subscription Certificate
99.2	Instructions on Use of Charles & Colvard, Ltd. Subscription Certificate
99.3	Form of Letter to Shareholders
99.4	Form of Letter to Brokers
99.5	Notice of Guaranteed Delivery
99.6	Form of Agreement of Commitment to Exercise Rights

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\* previously filed.

Item 17. Undertakings

The undersigned registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(i) to include any prospectus required by section 10(a)(3) of the Securities Act of 1933;

(ii) to reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of



prospectus filed with the Commission pursuant to rule 424(b) if, in the aggregate, the changes in volume and price represent no more than a 20% change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement; and

(iii) to include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement;

provided, however, that paragraphs (i) and (ii) do not apply if the information required to be included in a post-effective amendments is contained in periodic reports filed by the registrant pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934 that are incorporated by reference in the registration statement.

(2) That, for the purpose of determining liability under the Securities Act, the registrant will treat each post-effective amendment as a new registration statement of the securities offered, and the offering of the securities at that time shall be deemed to be the initial bona fide offering.

(3) That, the registrant will file a post-effective amendment to remove from registration any of the securities that remain unsold at the end of the offering.

The undersigned registrant hereby undertakes that, for the purposes of determining any liability under the Securities Act of 1933, each filing of the registrant's annual report pursuant to Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

The undersigned Registrant hereby undertakes to deliver or cause to be delivered with the prospectus, to each person to whom the prospectus is sent or given, the latest annual report to security holders that is incorporated by reference in the prospectus and furnished pursuant to and meeting the requirements of Rule 14a-3 or Rule 14c-3 under the Securities Exchange Act of 1934; and, where interim financial information required to be presented by Article 3 of Regulation S-X are not set forth in the prospectus, to deliver, or cause to be delivered to each person to whom the prospectus is sent or given, the latest quarterly report that is specifically incorporated by reference in the prospectus to provide such interim financial information.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 (the "Securities Act") may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

The undersigned Registrant hereby undertakes that: (i) For the purposes of determining any liability under the Securities Act, the information omitted from the form of prospectus tiled as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the Registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of the registration statement as of the time it was declared effective. (ii) For the purposes of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, the Registrant certifies that it has reasonable grounds to believe that it meets all requirements for filing on Form S-3 and has duly caused this Form S-3 Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Morrisville, State of North Carolina on the 12th day of January, 2001.

Charles & Colvard, Ltd.

/s/ Robert S. Thomas

By: \_\_\_\_\_  
 Robert S. Thomas  
 President and Chief Executive  
 Officer

Pursuant to the requirements of the Securities Act of 1933, this Form S-3 Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

Signature -----	Title -----	Date -----
_____ /s/ Robert S. Thomas Robert S. Thomas	Director, President and Chief Executive Officer (Principal Executive Officer)	January 12, 2001
_____ /s/ Mark W. Hahn Mark W. Hahn	Chief Financial Officer, Secretary and Treasurer (Principal Financial and Accounting Officer)	January 12, 2001
_____ /s/ Richard G. Hartigan* Richard G. Hartigan	Director	January 12, 2001
_____ /s/ Kurt Nassau* Kurt Nassau	Director	January 12, 2001
_____ /s/ Frederick A. Russ* Frederick A. Russ	Chairman of the Board of Directors	January 12, 2001
_____ /s/ Barbara Kotlikoff* Barbara Kotlikoff	Director	January 12, 2001
_____ /s/ Cecil D. Raynor* Cecil D. Raynor	Director	January 12, 2001
_____ /s/ Ollin B. Sykes* Ollin B. Sykes	Director	January 12, 2001
_____ /s/ Walter O'Brien* Walter O'Brien	Director	January 12, 2001

/s/ Robert S. Thomas

\*By: \_\_\_\_\_

Robert S. Thomas  
 Attorney-in-Fact

INDEX TO EXHIBITS

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\* previously filed.



OPINION OF WOMBLE CARLYLE SANDRIDGE & RICE, PLLC  
[LETTERHEAD OF WOMBLE CARLYLE SANDRIDGE & RICE, PLLC]

January 12, 2001

Charles & Colvard, Ltd.  
3800 Gateway Boulevard, Suite 310  
Morrisville, N.C. 27560

Re: Registration Statement on Form S-3 under the Securities Act of 1933, as amended

Ladies and Gentlemen:

We have acted as counsel to Charles & Colvard, Ltd., a North Carolina corporation (the "Company"), in connection with the registration under the Securities Act of 1933, as amended (the "Act"), of its shares (the "Shares") of the Company's common stock, no par value per share (the "Common Stock"), upon exercise of rights, ("Rights") to be offered by the Company (the "Rights Offering") pursuant to a Registration Statement on Form S-3 (the "Registration Statement").

As such counsel, we have reviewed the corporate proceedings taken by the Company with respect to the authorization of the issuance of the Rights and the Shares. We have also examined and relied upon originals or copies of such corporate records, documents, agreements or other instruments of the Company as we have deemed necessary to review. As to all matters of fact (including factual conclusions and characterizations and descriptions of purpose, intention or other state of mind), we have entirely relied upon certificates of officers of the Company, and have assumed, without independent inquiry, the accuracy of those certificates.

We have assumed the genuineness of all signatures, the conformity to the originals of all documents reviewed by us as copies, the authenticity and completeness of all original documents reviewed by us in original or copy form and the legal competence of each individual executing a document. We have also assumed that the registration requirements of the Act and all applicable requirements of state laws regulating the sale of securities will have been duly satisfied.

We further assume that (a) all Rights will be granted in accordance with the terms of the Rights Offering as described in the Registration Statement, (b) all Shares issued upon exercise of the Rights will be issued in accordance with the terms of the Rights Offering as described in the Registration Statement, and (c) the purchase price of all Shares will be greater than or equal to the par value per share of the Shares.

This opinion is limited solely to the North Carolina Business Corporation Law as applied by courts located in the State of North Carolina.

Subject to the foregoing, it is our opinion that the Shares, when issued and delivered upon the exercise of the Rights in accordance with the terms of the Rights Offering as described in the Registration Statement, will be duly authorized, validly issued and non-assessable.

We hereby consent to the filing of this opinion as an exhibit to the Registration Statement and to the reference to this firm under the heading "Legal Matters" in the Prospectus included in the Registration Statement. In giving such consent, we do not thereby admit that we are in the category of persons whose consent is required under Section 7 of the Act.

Very truly yours,

Womble Carlyle Sandridge & Rice PLLC

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in this Amendment No. 1 to Registration Statement No. 333-51756 of Charles & Colvard, Ltd. on Form S-3 of our report dated February 21, 2000, appearing in the Annual Report on Form 10-K of Charles & Colvard, Ltd. for the year ended December 31, 1999, and to the reference to us under the heading "Experts" in the Prospectus, which is part of this Registration Statement.

/s/ DELOITTE & TOUCHE LLP

Raleigh, North Carolina  
January 12, 2001

FORM OF SUBSCRIPTION CERTIFICATE

Certificate for Rights

THE TERMS AND CONDITIONS OF THE RIGHTS OFFERING ARE SET FORTH IN THE COMPANY'S PROSPECTUS DATED, JANUARY , 2001 (THE "PROSPECTUS") AND ARE INCORPORATED HEREIN BY REFERENCE. COPIES OF THE PROSPECTUS ARE AVAILABLE UPON REQUEST FROM FIRST UNION NATIONAL BANK AS THE SUBSCRIPTION AGENT.

CHARLES & COLVARD, LTD.  
Incorporated under the laws of North Carolina

SUBSCRIPTION CERTIFICATE

LABEL

Number of Shares of the Common Stock of Charles & Colvard, Ltd.

Subscription Price: \$        per share

VOID IF NOT EXERCISED BEFORE THE EXPIRATION DATE  
(AS DEFINED IN THE PROSPECTUS)

REGISTERED OWNER:

THIS CERTIFIES THAT the registered owner whose name is inscribed herein is the owner of the number of Subscription Rights set forth above, each of which entitles the owner to subscribe for and purchase one share of Common Stock, no par value per share (the "Common Stock"), of Charles & Colvard, Ltd., a North Carolina corporation (the "Company"), for each share of Common Stock that you own on the terms and subject to the conditions set forth in the Company's Prospectus and instructions relating thereto on the reverse side hereof. The non-transferable Subscription Rights represented by this Subscription Certificate may be exercised by duly completing Section 1 on the reverse side hereof. Special delivery restrictions may be specified by completing Section 2 on the reverse side hereof.

THE SUBSCRIPTION RIGHTS EVIDENCED BY THIS SUBSCRIPTION CERTIFICATE ARE NOT TRANSFERABLE. SUCH SUBSCRIPTION RIGHTS MAY NOT BE EXERCISED UNLESS THE REVERSE SIDE HEREOF IS COMPLETED AND SIGNED.

Dated:

\_\_\_\_\_  
Robert S. Thomas  
Chief Executive Officer

\_\_\_\_\_  
Mark W. Hahn  
Secretary

SECTION 1--EXERCISE AND SUBSCRIPTION

The undersigned irrevocably exercises Subscription Rights to subscribe for shares of the Company's Common Stock, as indicated below, on the terms and subject to the conditions specified in the Company's Prospectus relating to the offering of such Subscription Rights, receipt of which is hereby acknowledged.

(a) Number of shares of the Company's Common Stock subscribed for pursuant to the Basic Subscription Privilege:

(b) Number of shares of the Company's Common Stock subscribed for pursuant to the Over-Subscription Privilege:

YOU MAY NOT EXERCISE THE OVER-SUBSCRIPTION PRIVILEGE UNLESS YOUR BASIC SUBSCRIPTION PRIVILEGE HAS BEEN EXERCISED IN FULL.

(c) Total Subscription Price (total number of shares subscribed for pursuant to both the Basic Subscription Privilege and the Over-Subscription Privilege multiplied by the Subscription Price of \$ per share):

\$

METHOD OF PAYMENT (CHECK ONE)

Uncertified personal check, payable to First Union National Bank, as Subscription Agent. PLEASE NOTE THAT FUNDS PAID BY UNCERTIFIED PERSONAL CHECK MAY TAKE AT LEAST TEN BUSINESS DAYS TO CLEAR. ACCORDINGLY, SUBSCRIPTION RIGHTS HOLDERS WHO WISH TO PAY THE PURCHASE PRICE BY MEANS OF AN UNCERTIFIED PERSONAL CHECK ARE URGED TO MAKE PAYMENT SUFFICIENTLY IN ADVANCE OF THE EXPIRATION DATE TO ENSURE THAT SUCH PAYMENT IS RECEIVED AND CLEARS BY THE EXPIRATION DATE, AND ARE URGED TO CONSIDER PAYMENT BY MEANS OF A CERTIFIED OR BANK CHECK, MONEY ORDER OR WIRE TRANSFER OF IMMEDIATELY AVAILABLE FUNDS.

Certified check or bank check drawn on a U.S. bank or money order, payable to First Union National Bank, as Subscription Agent.

Wire transfer directed to the account maintained by First Union National Bank at:

First Union National Bank

ABA Routing #: 0530-00219

For Credit DDA 5000000025527

For further credit: Reorganization Department

Corporate Trust Operations, 1153

Re: (name of registered holder)

IF YOU CHOOSE TO WIRE TRANSFER FUNDS FOR PAYMENT, YOU ARE URGED TO SEND YOUR SUBSCRIPTION CERTIFICATE BY OVERNIGHT DELIVERY NO LATER THAN THE DATE OF YOUR WIRE TRANSFER TO ASSURE PROPER MATCHING WITH YOUR PAYMENT AND, IN ANY EVENT, IN TIME FOR DELIVERY ON OR PRIOR TO FEBRUARY , 2001. IN ADDITION, YOU ARE REQUESTED TO PROVIDE THE FOLLOWING INFORMATION IN THE SPACES PROVIDED BELOW:

Name of Originating Bank:

ABA Routing # of Originating Bank:

Date of Wire Transfer:

If the amount enclosed or transmitted is not sufficient to pay the purchase price for all share(s) of Common Stock that are stated to be subscribed for, or if the number of share(s) of Common Stock being subscribed for is not specified, the number of share(s) of Common Stock subscribed for will be assumed to be the maximum number that could be subscribed for upon payment of such amount. If the amount enclosed or transmitted exceeds the purchase price for all share(s) of Common Stock that the undersigned has the right to subscribe for (such excess amount, the "Subscription Excess"), the Subscription Agent shall return the Subscription Excess to the subscriber without interest or deduction.

SECTION 2--SPECIAL ISSUANCE OR DELIVERY INSTRUCTIONS  
FOR SUBSCRIPTION RIGHTS HOLDERS:

(a) To be completed ONLY if the certificate representing the Common Stock is to be issued in a name other than that of the registered holder. See the Instructions. DO NOT FORGET TO COMPLETE THE GUARANTEE OF SIGNATURE (S) SECTION BELOW.

Name: \_\_\_\_\_ Soc. Sec. #/Tax ID #: \_\_\_\_\_

Address: \_\_\_\_\_

(b) To be completed ONLY if the certificate representing the Common Stock is to be sent to an address other than that show above. (See the Instructions.) DO NOT FORGET TO COMPLETE THE GUARANTEE OF SIGNATURE (S) SECTION BELOW.

Name: \_\_\_\_\_ Soc. Sec. #/Tax ID #: \_\_\_\_\_

Address: \_\_\_\_\_

ACKNOWLEDGMENT--THE SUBSCRIPTION ORDER FORM IS NOT VALID  
UNLESS YOU SIGN BELOW

I/we acknowledge receipt of the Prospectus and understand that after delivery of this Subscription Certificate to the Company's Subscription Agent, I/we may not modify or revoke this Subscription Certificate. Under penalties of perjury, I/we certify that the information contained herein, including the social security number or taxpayer identification number given above, is correct. If the Special Issuance or Delivery Instructions for Subscription Rights Holders are completed, I/we certify that although the certificate representing the Common Stock is to be issued in a name other than the registered holder, beneficial ownership of the Common Stock will not change.

The signature below must correspond with the name of the registered holder exactly as it appears on the books of the Company's transfer agent without any alteration or change whatsoever.

Signature(s) of Registered Holder: \_\_\_\_\_ Date: \_\_\_\_\_

If signature is by trustee(s), executor(s), administrator(s), guardian(s), attorney(s)-in-fact, agent(s), officer(s) of a corporation or another acting in a fiduciary or representative capacity, please provide the following information (please print). See the Instructions.

Name: \_\_\_\_\_ Capacity: \_\_\_\_\_ Soc. Sec. #/Tax ID #: \_\_\_\_\_

Address: \_\_\_\_\_ Phone: \_\_\_\_\_

GUARANTEE OF SIGNATURE (S)

All Subscription Rights Holders who specify special issuance or delivery instructions must have their signatures guaranteed by an Eligible Institution, as defined in Rule 17Ad-15 of the Securities Exchange Act of 1934, as amended. See the Instructions.

Name of Firm: \_\_\_\_\_  
Authorized Signature: \_\_\_\_\_

Name: \_\_\_\_\_ Title: \_\_\_\_\_ Soc. Sec. #/Tax ID #: \_\_\_\_\_

Address: \_\_\_\_\_ Phone: \_\_\_\_\_

YOU MUST HAVE YOUR SIGNATURE GUARANTEED IF YOU WISH TO HAVE YOUR SHARES DELIVERED TO AN ADDRESS OTHER THAN YOUR OWN OR TO A STOCKHOLDER OTHER THAN THE REGISTERED HOLDER.

Signature Guaranteed:

By: \_\_\_\_\_

Name of Bank or Firm: \_\_\_\_\_

INSTRUCTIONS FOR USE OF CHARLES & COLVARD, LTD.  
SUBSCRIPTION CERTIFICATES

The following instructions relate to a rights offering (the "Rights Offering") by Charles & Colvard, Ltd., a North Carolina corporation ("Charles & Colvard"), to the holders of its common stock, no par value per share ("Common Stock"), as described in Charles & Colvard's prospectus dated January 12, 2001 (the "Prospectus"). Holders of record of Common Stock at the close of business on January 12, 2001 (the "Record Date") will receive a non-transferable subscription right (the "Subscription Rights") to purchase one share of Common Stock for each share of Common Stock held by them as of the close of business on the Record Date. Subscription Rights exercisable to purchase an aggregate of \_\_\_\_\_ shares of the Common Stock of Charles & Colvard are being distributed in connection with the Rights Offering. Each Subscription Right is exercisable, upon payment of \$ \_\_\_\_\_ in cash (the "Subscription Price"), to purchase one share of Common Stock (the "Basic Subscription Privilege"). In addition, subject to the allocation described below, each Subscription Right also carries the right to subscribe at the Subscription Price for additional shares of Common Stock (the "Over-Subscription Privilege") (to the extent available, and subject to proration). See "The Rights Offering" in the Prospectus.

The Subscription Rights will expire at 5:00 p.m., Eastern Standard Time, on February \_\_\_\_\_, 2001 (as it may be extended, the "Expiration Date").

The number of Subscription Rights to which you are entitled is printed on the face of your Subscription Certificate. You should indicate your wishes with regard to the exercise of your Subscription Rights by completing the appropriate section on the back of your Subscription Certificate and returning the Subscription Certificate to the Subscription Agent in the envelope provided.

YOUR SUBSCRIPTION CERTIFICATE MUST BE RECEIVED BY THE SUBSCRIPTION AGENT, OR GUARANTEED DELIVERY REQUIREMENTS WITH RESPECT TO YOUR SUBSCRIPTION CERTIFICATES MUST BE COMPLIED WITH, ON OR BEFORE THE EXPIRATION DATE. PAYMENT OF THE SUBSCRIPTION PRICE OF ALL SUBSCRIPTION RIGHTS EXERCISED, INCLUDING OVER-SUBSCRIPTION SHARES, INCLUDING FINAL CLEARANCE OF ANY CHECKS, MUST BE RECEIVED BY THE SUBSCRIPTION AGENT ON OR BEFORE THE EXPIRATION DATE. ONCE A HOLDER OF SUBSCRIPTION RIGHTS HAS EXERCISED THE BASIC SUBSCRIPTION PRIVILEGE AND/OR THE OVER-SUBSCRIPTION PRIVILEGE, SUCH EXERCISE MAY NOT BE REVOKED.

1. SUBSCRIPTION PRIVILEGES. To exercise Subscription Rights, complete your Subscription Certificate and send your properly completed and executed Subscription Certificate, together with payment in full of the Subscription Price for each share of Common Stock subscribed for pursuant to the Basic Subscription Privilege and the Over-Subscription Privilege, to the Subscription Agent. Delivery of the Subscription Certificate must be made by mail or by overnight delivery. FACSIMILE DELIVERY OF THE SUBSCRIPTION CERTIFICATE WILL NOT CONSTITUTE VALID DELIVERY. We recommend delivery by registered mail or overnight delivery. All payments must be made in United States dollars by (i) check or bank draft drawn upon a United States bank or postal, telegraphic or express money order payable to First Union National Bank, as Subscription Agent; or (ii) wire transfer of immediately available funds to First Union National Bank, as Subscription Agent.

ACCEPTANCE OF PAYMENTS. Payments will be deemed to have been received by the Subscription Agent only upon the (a) clearance of any uncertified check, or (b) receipt by the Subscription Agent of any certified check or bank draft drawn upon a United States bank or postal, telegraphic or express money order or funds transferred through a wire transfer. IF PAYING BY UNCERTIFIED PERSONAL CHECK, PLEASE NOTE THAT THE FUNDS PAID THEREBY MAY TAKE AT LEAST TEN BUSINESS DAYS TO CLEAR. ACCORDINGLY, HOLDERS OF SUBSCRIPTION RIGHTS WHO WISH TO PAY THE SUBSCRIPTION

PRICE BY MEANS OF UNCERTIFIED PERSONAL CHECK ARE URGED TO MAKE PAYMENT SUFFICIENTLY IN ADVANCE OF THE EXPIRATION DATE TO ENSURE THAT SUCH PAYMENT IS RECEIVED AND CLEARS BY SUCH DATE. YOU ARE URGED TO CONSIDER PAYMENT BY MEANS OF CERTIFIED OR CASHIER'S CHECK OR MONEY ORDER.

PROCEDURES FOR GUARANTEED DELIVERY. You may cause a written guarantee substantially in the form available from the Subscription Agent (the "Notice of Guaranteed Delivery") from a member firm of a registered national securities exchange or a member of the National Association of Securities Dealers, Inc. or a commercial bank or trust company having an office or correspondent in the United States, to be received by the Subscription Agent on or prior to the Expiration Date guaranteeing delivery of your properly completed and executed Subscription Certificate within three Nasdaq National Market ("NNM") trading days following the date of the Notice of Guaranteed Delivery. If this procedure is followed, your Subscription Certificates must be received by the Subscription Agent within three NNM trading days of the Notice of Guaranteed Delivery. Additional copies of the Notice of Guaranteed Delivery may be obtained upon request from the Subscription Agent at the address, or by calling the telephone number, indicated below. Banks, brokers and other nominee holders of Subscription Rights who exercise the Basic Subscription Privilege and the Over-Subscription Privilege on behalf of beneficial owners of Subscription Rights will be required to certify to the Subscription Agent and Charles & Colvard as to the aggregate number of Subscription Rights that have been exercised, and the number of shares of Common Stock that are being subscribed for pursuant to the Over-Subscription Privilege, by each beneficial owner of Subscription Rights (including such nominee itself) on whose behalf such nominee holder is acting. In the event such certification is not delivered in respect of a Subscription Certificate, the Subscription Agent shall for all purposes (including for purposes of any allocation in connection with the Over-Subscription Privilege) be entitled to assume that such certificate is exercised on behalf of a single beneficial owner. If the number of shares remaining after the exercise of all basic subscription privileges is not sufficient to satisfy all over-subscription privileges, holders will be allocated shares pro rata (subject to elimination of fractional shares), in proportion to the number of shares purchased by those over-subscribing shareholders through the basic subscription privilege.

CONTACTING THE SUBSCRIPTION AGENT. The address and facsimile numbers of the Subscription Agent are as follows:

By Mail (Registered Mail is recommended):

First Union National Bank  
Attention: Corporate  
Actions  
1525 West W.T. Harris  
Boulevard, 3C3  
Charlotte, North Carolina  
28262-1153

By Facsimile Transmission:

(704) 590-7628

To confirm receipt of facsimile only:

(704) 590-7414

By Hand or Overnight Delivery:

First Union National Bank  
Corporate Trust Operations  
Attention: Corporate Actions  
1525 West W.T. Harris  
Boulevard, 3C3  
Charlotte, North Carolina  
28262-1153

PARTIAL EXERCISES; EFFECT OF OVER-AND UNDERPAYMENTS. If you exercise less than all of the Subscription Rights evidenced by your Subscription Certificate, the Subscription Agent will, upon your request, issue to you a new Subscription Certificate evidencing the unexercised Subscription Rights. However, if you choose to have a new Subscription Certificate sent to you, you may not receive any such new Subscription Certificate in sufficient time to permit exercise of the Subscription Rights evidenced thereby. If you have not indicated the number of Subscription Rights being exercised, or if the dollar amount you have forwarded is not sufficient to purchase (or exceeds the amount necessary to purchase) the number of shares subscribed for, you will be deemed to have exercised the Basic Subscription Privilege with respect to the maximum number of whole Subscription Rights which may be exercised for the Subscription Price payment delivered by you. To the extent that the Subscription Price payment delivered by you exceeds the product of the Subscription Price multiplied by the number of Subscription Rights evidenced by the Subscription Certificates delivered by you (such excess being the "Subscription Excess"), you will be deemed to have exercised your Over-Subscription

Privilege to purchase, to the extent available, that number of whole shares of Common Stock equal to the quotient obtained by dividing the Subscription Excess by the Subscription Price.

2. DELIVERY OF STOCK CERTIFICATES, ETC. The following deliveries and payments to you will be made to the address shown on the face of your Subscription Certificate unless you provide instructions to the contrary on the back of your Subscription Certificate.

(a) BASIC SUBSCRIPTION PRIVILEGE. As soon as practicable after the valid exercise of Subscription Rights and the Expiration Date, the Subscription Agent will mail to each exercising Subscription Rights holder certificates representing shares of Common Stock purchased pursuant to the Basic Subscription Privilege.

(b) OVER-SUBSCRIPTION PRIVILEGE. As soon as practicable after the Expiration Date and after all prorations and adjustments contemplated by the terms of the Rights Offering have been effected and taking into account any delays or extensions in closing the over-subscription purchases, the Subscription Agent will mail to each Subscription Rights holder who validly exercises the Over-Subscription Privilege the number of shares allocated to such Subscription Rights holder pursuant to the Over-Subscription Privilege. See "The Rights Offering" in the Prospectus.

(c) EXCESS PAYMENTS. As soon as practicable after the Expiration Date and after all prorations and adjustments contemplated by the terms of the Rights Offering have been effected, the Subscription Agent will mail to each Subscription Rights holder who exercises the Over-Subscription Privilege any excess funds received (without interest or deduction) in payment of the Subscription Price for shares that are subscribed for but not allocated to such Subscription Rights holder pursuant to the Over-Subscription Privilege.

### 3. EXECUTION.

(a) EXECUTION BY REGISTERED HOLDER. The signature on the Subscription Certificate must correspond with the name of the registered holder exactly as it appears on the face of the Subscription Certificate without any alteration or change whatsoever. Persons who sign the Subscription Certificate in a representative or other fiduciary capacity must indicate their capacity when signing and, unless waived by the Subscription Agent in its sole and absolute discretion, must present to the Subscription Agent satisfactory evidence of their authority so to act.

(b) EXECUTION BY PERSON OTHER THAN REGISTERED HOLDER. If the Subscription Certificate is executed by a person other than the holder named on the face of the Subscription Certificate, proper evidence of authority of the person executing the Subscription Certificate must accompany the same unless the Subscription Agent, in its discretion, dispenses with proof of authority.

(c) SIGNATURE GUARANTEES. Your signature must be guaranteed by an Eligible Guarantor Institution if you wish a new Subscription Certificate or Certificates to be issued in a name other than that in which the old Subscription Certificate was issued, or if you specify special payment or delivery instructions.

4. METHOD OF DELIVERY. The method of delivery of Subscription Certificates and payment of the Subscription Price to the Subscription Agent will be at the election and risk of the Subscription Rights holder. If sent by mail, it is recommended that they be sent by registered mail, properly insured, with return receipt requested, and that a sufficient number of days be allowed to ensure delivery to the Subscription Agent prior to the Expiration Date.

5. SPECIAL PROVISIONS RELATING TO THE DELIVERY OF SUBSCRIPTION RIGHTS THROUGH DEPOSITORY FACILITY PARTICIPANTS. In the case of holders of Subscription Rights that are held of record through The Depository Trust Company ("DTC"), exercises of the Basic Subscription Privilege and the Over-Subscription Privilege may be effected by instructing DTC to transfer Subscription



Rights (such as Subscription Rights, "Depository Rights") from the DTC account of such holder to the DTC account of the Subscription Agent, together with payment of the Subscription Price for each share of Common Stock subscribed for pursuant to the Basic Subscription Privilege and the Over-Subscription Privilege.

FORM OF LETTER TO SHAREHOLDERS

CHARLES & COLVARD, LTD.  
3800 Gateway Boulevard  
Suite 310  
Morrisville, N.C. 27560

, 2001

Dear Stockholder:

Enclosed are the prospectus and other materials relating to the Rights Offering by Charles & Colvard, Ltd. ("Charles & Colvard"). Please carefully review the prospectus, which describes how you can participate in the Rights Offering. You will be able to exercise your Subscription Rights to purchase additional shares of Charles & Colvard Common Stock only during a limited period. You will find answers to some frequently asked questions about the Rights Offering beginning on page of the prospectus. You should also refer to the detailed Instructions for Use of Charles & Colvard, Ltd. Subscription Certificates, which is included with this letter. The exercise of Subscription Rights will be irrevocable.

SUMMARY OF THE TERMS OF THE OFFERING

- . You will receive a non-transferable Subscription Right to purchase one share of Common Stock for each share of Charles & Colvard Common Stock you owned of record on January 12, 2001. For example, if you own 100 shares of Common Stock, you will receive Subscription Rights to purchase an additional 100 shares of Common Stock. This right is referred to as the Basic Subscription Privilege.
- . If you fully exercise the Basic Subscription Privilege issued to you, you may subscribe for additional shares through the Over-Subscription Privilege. If Subscription Rights holders subscribe to purchase more than a total of shares, shares purchased through the Over-Subscription Privilege will be allocated among shareholders who over-subscribe in proportion to the number of shares purchased by those over-subscribing shareholders through the basic subscription privilege, as more fully described in the prospectus.
- . The Rights Offering expires at 5:00 p.m., Eastern Standard Time, on February , 2001 unless extended. If you do not exercise your Subscription Rights before that time, they will expire and will have no monetary value.

If your shares are held in your name, a Subscription Certificate is enclosed. If your shares are held in the name of your bank or broker, you must contact your bank or broker if you wish to participate in this offering.

If you do not exercise your Subscription Rights, your ownership in Charles & Colvard may be diluted. Please see page 6 of the prospectus for a discussion of dilution and other risk factors.

If you have any questions concerning the Rights Offering, please feel free to contact Mark Hahn, Chief Financial Officer, at (919) 468-0399.

Sincerely,

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Robert S. Thomas, Chief Executive  
Officer

FORM OF LETTER TO BROKERS

CHARLES & COLVARD, LTD  
3800 Gateway Boulevard  
Suite 310  
Morrisville, N.C. 27560

January , 2001

To: Securities Dealers, Commercial Banks, Trust Companies, and Other Nominees

This letter is being distributed to securities dealers, commercial banks, trust companies and other nominees in connection with the offering by Charles & Colvard, Ltd. ("Charles & Colvard") of an aggregate of \_\_\_\_\_ shares of Common Stock, no par value per share ("Common Stock"), of Charles & Colvard, at a subscription price of \$ \_\_\_\_\_ per share of Common Stock (the "Subscription Price"), pursuant to the exercise of non-transferable subscription rights initially distributed on January , 2001 ("Subscription Rights"), to all holders of record of shares of Charles & Colvard's Common Stock as of the close of business on January 12, 2001 (the "Record Date"). Each Subscription Right represents the basic subscription right to purchase one share of common stock for each share owned as of the Record Date and also carries the right to oversubscribe at the Subscription Price for additional shares of Common Stock (subject to proration if necessary). The Subscription Rights are described in the enclosed prospectus and evidenced by a Subscription Certificate registered in your name or in the name of your nominee.

We are asking you to contact your clients for whom you hold shares of Common Stock registered in your name or in the name of your nominee to obtain instructions with respect to the Subscription Rights.

Enclosed are copies of the following documents:

1. Prospectus;
2. Form of Letter from Charles & Colvard to its Stockholders;
3. Instructions for Use of Charles & Colvard, Ltd. Subscription Certificates;
4. Form of Notice of Guaranteed Delivery; and
5. Return envelope addressed to First Union National Bank, as Subscription Agent.

Your prompt action is requested. The Subscription Rights will expire at 5:00 P.M., Eastern Standard Time, on February , 2001 (as it may be extended, the "Expiration Date").

To exercise Subscription Rights, properly completed and executed Subscription Certificates and payment in full for all Subscription Rights exercised must be delivered to the Subscription Agent as indicated in the prospectus prior to the Expiration Date, unless the guaranteed delivery procedures described in the prospectus are followed.

Additional copies of the enclosed materials may be obtained by contacting Mark Hahn, Chief Financial Officer, at (919)-468-0399.

Sincerely,

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Robert S. Thomas, Chief Executive  
Officer

## NOTICE OF GUARANTEED DELIVERY

This form, or one substantially equivalent to this form, must be used to exercise Subscription Rights pursuant to the Rights Offering described in the prospectus, dated January 12, 2001 (the "Prospectus"), of Charles & Colvard, Ltd., a North Carolina corporation ("Charles & Colvard") if a holder of Subscription Rights cannot deliver the Subscription Certificate(s) evidencing the Subscription Rights (the "Subscription Certificate(s)") to the Subscription Agent listed below (the "Subscription Agent") at or prior to 5:00 p.m., Eastern Standard Time, on February , 2001 (as it may be extended, the "Expiration Date"). The Notice of Guaranteed Delivery must be sent by facsimile transmission or mail to the Subscription Agent, and must be received by the Subscription Agent on or prior to the Expiration Date. See "The Rights Offering--Guaranteed Delivery Procedures" in the Prospectus. Payment of the Subscription Price of \$ per share for each share of Common Stock subscribed for upon exercise of such Subscription Rights must be received by the Subscription Agent in the manner specified in the Prospectus at or prior to 5:00 p.m., Eastern Standard Time, on the Expiration Date, even if the Subscription Certificate evidencing such Subscription Rights is being delivered pursuant to the procedure for guaranteed delivery thereof. The Subscription Certificate evidencing such Subscription Rights must be received by the Subscription Agent within three (3) Nasdaq National Market trading days after the Expiration Date.

The address and facsimile numbers for delivery to the Subscription Agent are as follows:

By Mail (Registered Mail is recommended):	By Facsimile Transmission:	By Hand or Overnight Delivery:
First Union National Bank Attention: Corporate Actions 1525 West W.T. Harris  Boulevard, 3C3 Charlotte, North Carolina 28262-1153	(704) 590-7628  To confirm receipt of facsimile only:  (704) 590-7414	First Union National Bank Corporate Trust Operations Attention: Corporate Actions  1525 West W.T. Harris Boulevard, 3C3 Charlotte, North Carolina 28262-1153

DELIVERY OF THIS INSTRUMENT TO AN ADDRESS OTHER THAN AS SET FORTH ABOVE OR TRANSMISSION OF INSTRUCTIONS VIA A FACSIMILE OTHER THAN AS SET FORTH ABOVE DOES NOT CONSTITUTE A VALID DELIVERY.

Ladies and Gentlemen:

The undersigned hereby represents that he or she is the holder of Subscription Certificate(s) representing Subscription Rights issued by Charles & Colvard, Ltd. and that such Subscription Certificate(s) cannot be delivered to the Subscription Agent at or before 5:00 p.m., Eastern Standard Time, on the Expiration Date. Upon the terms and subject to the conditions set forth in the Prospectus, receipt of which is hereby acknowledged, the undersigned hereby elects to exercise the Subscription Privilege to subscribe for one share of Common Stock per Subscription Right with respect to each of the number of Subscription Rights represented by such Subscription Certificate and shares set forth below pursuant to the Over-Subscription Privilege described in the Prospectus:

No. of Subscription Rights exercised pursuant to Basic  
Subscription Privilege (shares subscribed for):  
plus  
No. of Shares subscribed for pursuant to  
Over-Subscription Privilege:  
TOTAL: x \$  
TOTAL PAYMENT DUE: \$

The undersigned understands that payment of the Subscription Price of \$ per share for each share of Common Stock subscribed pursuant to the Basic Subscription Privilege and the Over-Subscription Privilege must be received by the Subscription Agent at or before 5:00 p.m., Eastern Standard Time, on the Expiration Date and represents that such payment, in the aggregate amount set forth above, either (check appropriate box):

is being delivered to the Subscription Agent herewith; or

has been delivered separately to the Subscription Agent; and is or was delivered in the manner set forth below (check appropriate box and complete information relating thereto):

uncertified check (NOTE: Payment by uncertified check will not be deemed to have been received by the Subscription Agent until such check has cleared. Holders paying by such means are urged to make payment sufficiently in advance of the Expiration Date to ensure that such payment clears by such date).

certified check

bank draft (cashier's check)

postal, telegraphic or express money order

wire transfer of immediately available funds

If by certified check, bank draft or express money order, please provide the following information:

Name of maker: \_\_\_\_\_  
Date of check, draft or money order: \_\_\_\_\_  
Bank on which check is drawn or issuer of money order: \_\_\_\_\_

Signature(s): \_\_\_\_\_

Name(s): \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

(Please type or print)

Area Code and Tel. No(s): \_\_\_\_\_

Rights Certificate No(s) (if available): \_\_\_\_\_

GUARANTEE OF DELIVERY

(NOT TO BE USED FOR SUBSCRIPTION CERTIFICATE SIGNATURE GUARANTEE)

The undersigned, a member firm of a registered national securities exchange or member of the National Association of Securities Dealers, Inc., commercial bank or trust company having an office or correspondent in the United States, or another "Eligible Guarantor Institution" as defined in Rule 17A-15 under the Securities Exchange Act of 1934, as amended, hereby guarantees that within three Nasdaq National Market trading days after the date hereof, the undersigned will deliver to the Subscription Agent the Subscription Certificates representing the Rights being exercised hereby, with any required signature guarantees and any other required documents.

Name of Firm: \_\_\_\_\_

Address: \_\_\_\_\_

Zip Code: \_\_\_\_\_

Area Code and Telephone Number: \_\_\_\_\_

Authorized Signature: \_\_\_\_\_

Title: \_\_\_\_\_

Name: \_\_\_\_\_

(Please Type or Print)

The institution which completes this form must communicate the guarantee to the Subscription Agent and must deliver the Subscription Certificates to the Subscription Agent within the time period shown herein. Failure to do so could result in a financial loss to such institution.

DO NOT SEND SUBSCRIPTION CERTIFICATES WITH THIS FORM

## AGREEMENT OF COMMITMENT TO EXERCISE RIGHTS

THIS AGREEMENT is entered into this as of the \_\_\_ day of January, 2001, by and among Charles & Colvard, Ltd., a North Carolina corporation (the "Company"), and \_\_\_\_\_ (the "Purchaser").

## RECITALS:

WHEREAS, the Company proposes to issue rights to purchase its common stock, no par value per share (the "Common Stock"), pursuant to a registration statement on Form S-3 (the "Registration Statement") filed with the Securities and Exchange Commission in December 2000 (the "Rights Offering"); and

WHEREAS, the Company and the Purchaser are entering into this Agreement to provide for a minimum subscription amount for the Rights Offering.

NOW THEREFORE, in consideration of the mutual covenants and agreements set forth herein, the parties hereto do hereby agree as follows:

1. Recitals and Incorporation by Reference. The terms of the Rights Offering are incorporated herein by reference to the Registration Statement and shall govern the exercise of rights by the Purchaser except as otherwise expressly provided in this Agreement. All capitalized terms not otherwise defined in this Agreement shall have the meanings ascribed to them in the Registration Statement.

2. Commitment to Exercise Rights and Subscribe for Shares.

(a) The Purchaser (i) represents that as of the date hereof he holds Common Stock that would entitle him pursuant to the Rights Offering to a Basic Subscription Privilege to purchase \_\_\_\_\_ shares of Common Stock and (ii) agrees that he shall exercise such rights to subscribe for \_\_\_\_\_ shares of Common Stock for an aggregate purchase price of \$\_\_\_\_\_ effective on the closing date of the Rights Offering (the "Closing Date");

(b) In the event that not all stockholders exercise their Basic Subscription Privileges in the Rights Offering, the Purchaser further agrees that, effective on the Closing Date, he shall, pursuant to the Oversubscription Privilege in the Rights Offering, subscribe for \_\_\_\_\_ additional shares of Common Stock for an aggregate purchase price of \$\_\_\_\_\_.

If stockholders of the Company subscribe for more shares than are available pursuant to Oversubscription Privileges, then the available shares shall be prorated among all subscribing stockholders as described in the Registration Statement.

3. Mechanics of Payment for Shares. On the Closing Date, the Company shall notify the Purchaser of the number of shares that he is obligated to purchase under subsections

2(a) and 2(b) hereof and, to the extent not previously delivered pursuant to the terms of the Rights Offering, the Purchaser shall deliver on the Closing Date the full amount of his subscription price to the Company by wire transfer (pursuant to wiring instructions provided by the Company) or other funding mechanism approved by the Company.

4. Representations and Warranties. The Purchaser hereby represents, warrants and covenants to the Company that, in connection herewith.

(a) Beneficial Ownership. Purchaser, either individually or collectively with Purchaser's affiliates and associates, does not beneficially own 20% or more of the Company's outstanding common stock as of the date hereof, determined pursuant to the Company's Shareholder Rights Plan dated February 21, 1999 (the "Shareholder Rights Plan"). In addition, upon consummation of the Rights Offering, Purchaser, either individually or collectively with Purchaser's affiliates and associates, will not beneficially own 20% or more of the Company's outstanding common stock as of the date of consummation of the Rights Offering, determined pursuant to the Shareholder Rights Plan and assuming, for purposes of this representation only, that shares are issued in the Rights Offering only to Purchaser and the affiliates and associates of Purchaser.

(b) Disclosure. Prior to the execution of this Agreement, the Purchaser has had an opportunity to examine the Prospectus and other material disclosure contained or incorporated by reference in the Registration Statement, including, without limitation, has considered the risks of investment described under "Risk Factors" in the Prospectus. The Purchaser has adequate financial resources for an investment of this character, and, at this time, the Purchaser could bear a complete loss of his investment. Further, the Purchaser will continue to have, after making his investment in the Common Stock, adequate means of providing for his current needs, the needs of those dependent on him, and possible personal contingencies.

(c) Investment Intent. The Purchaser is purchasing the Common Stock for investment purposes only and for his own account, and has no present commitment, agreement or intention to sell, distribute or otherwise dispose of any of them or to enter into any such commitment or agreement.

(d) Rule 144. The Purchaser understands that he may be an "affiliate" of the Company as such term is defined in Rule 144 promulgated under the Securities Act of 1933, as amended. The Purchaser also understands that, although the Common Stock acquired by Purchaser in the Rights Offering has been registered pursuant to the Registration Statement, the Common Stock acquired by Purchaser may be deemed "control shares" and therefore for resale purposes may be subject to the requirements and restrictions of Rule 144 (except the holding period), unless such shares are again registered for resale in a subsequent registration statement. Purchaser is familiar with the provisions of Rule 144 promulgated under the Act, which, in substance, permits "affiliates" to sell unrestricted securities pursuant to certain volume limitations and other requirements under Rule 144 (except for the holding period, which does not apply to unrestricted securities).



(e) Reliance on Own Advisors. The Purchaser is relying on the Purchaser's own legal, accounting and tax advisors with respect to this Agreement and all transactions contemplated hereby, including, without limitation, the federal, state, local and foreign tax consequences thereof. The Purchaser is relying solely on such advisors and not on any advice of the Company or any of its representatives.

(f) Prohibitions on Cancellation, Termination, Revocation, Transferability, and Assignment. The Purchaser hereby acknowledges and agrees that, except as may be specifically provided herein or by applicable law, he is not entitled to cancel, terminate, or revoke this Agreement. The Purchaser further agrees that he may not transfer or assign its rights or obligations under this Agreement without the prior written consent of the Company.

(g) Authority to Enter into Agreement. The Purchaser has the full right, power and authority to execute and deliver this Agreement and perform his obligations hereunder, and when executed and delivered, this Agreement will constitute a valid and legally binding obligation of such Purchaser.

(h) Legends. Each certificate representing the Common Stock may be endorsed with the following legends:

The registered holder of the shares represented by this certificate, at the time of issuance hereof, may be deemed an affiliate of the Corporation under the Securities Act of 1933. Such securities may not be sold, offered for sale, pledged, hypothecated or transferred in the absence of an effective registration statement covering such transaction under such Act or an opinion of counsel satisfactory to the Corporation that such registration is not required.

5. Representations and Warranties of the Company. The Company hereby represents, warrants and covenants to the Purchaser that, in connection herewith:

(a) The Company is a corporation duly organized, validly existing, and in good standing under the laws of the State of North Carolina. The Company has all requisite corporate power to own and operate its properties and assets, and to carry on its business as presently conducted.

(b) The Company has all requisite corporate power to execute, deliver and perform this Agreement. All corporate action on the part of the Company, its directors and shareholders necessary of the authorization, execution and delivery of this Agreement, the sale and issuance of the Shares and the performance of the Company's obligations hereunder has been taken. This Agreement is a valid and binding obligation of the Company, enforceable in accordance with its terms, except as limited by (i) applicable bankruptcy, insolvency, receivership, reorganization, moratorium and other laws of general application affecting enforcement of creditor' rights generally and (ii) general principles of equity, the application of which may deny the Purchaser the right to specific performance, injunctive relief and other equitable remedies.

6. Indemnification.

(a) The Company shall indemnify the Purchaser and hold him harmless, upon demand, from and against any losses, damages, expenses or liabilities, including without limitation reasonable attorneys' fees and expenses, which the Purchaser may sustain, suffer or incur arising from or in connection with the Company's breach of any covenant, representation, warranty, agreement, obligation or undertaking hereunder. This indemnity shall survive the closing of the transactions hereunder.

(b) The Purchaser shall indemnify the Company and hold him harmless, upon demand, from and against any losses, damages, expenses or liabilities, including without limitation reasonable attorneys' fees and expenses, which the Company may sustain, suffer or incur arising from or in connection with the Purchaser's breach of any covenant, representation, warranty, agreement, obligation or undertaking hereunder. This indemnity shall survive the closing of the transactions hereunder.

7. Governing Law; Jurisdiction. This Agreement will be governed by, construed and enforced in accordance with the laws of the State of North Carolina.

8. Entire Agreement; Amendment. This Agreement constitutes the entire agreement between the parties hereto with respect to the subject matter hereof and supersedes and terminates any prior communication, agreement or understanding, whether written or oral. This Agreement may be modified only by a writing signed by all parties.

9. Notices. Except in instances where notice is otherwise provided for in this Agreement, notices required to be given under this Agreement shall be given in writing and hand delivered, or mailed by registered or certified mail, return receipt requested, to Charles & Colvard, Ltd., 3800 Gateway Boulevard, Suite 311, Morrisville, North Carolina 27560 or sent by telecopier to Robert S. Thomas, President and Chief Executive Officer, Charles & Colvard, Ltd. (919) 468-5052 in the case of the Company, and at the addresses set forth in the records of the Company, in the case of the Purchaser. The date of delivery shall be the date received if delivered by hand or sent by telecopier or facsimile, or within three (3) days of mailing, if mailed. Any party may change the address to which notice shall be delivered or mailed by notice duly given.

10. Benefits. This Agreement shall inure to the benefit of, and be binding upon, the parties hereto and their respective heirs, beneficiaries, legal representatives, successors, and assigns (including successive as well immediate successors to and assigns of said parties).

11. Severability. In the event that any of the provisions of this Agreement, or portions thereof, are held to be unenforceable or invalid by any court of competent jurisdiction, the validity and enforceability of the remaining provisions, or portions thereof, shall not be affected thereby.

12. Section Headings. The section headings contained herein are for reference purposes only and shall not in any way affect the meaning or interpretation of this Agreement.

13. Execution in Counterparts. This Agreement may be executed in several counterparts, each of which shall be an original and all of which together shall constitute but one and the same instrument.

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

THE COMPANY:

CHARLES & COLVARD, LTD.

By: \_\_\_\_\_  
Name: Robert S. Thomas  
Title: President and Chief Executive Officer

PURCHASER:

\_\_\_\_\_