
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

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

February 17, 2005 (Date of earliest event reported)

Commission file number: 0-23329

Charles & Colvard, Ltd.

(Exact name of registrant as specified in its charter)

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

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

300 Perimeter Park Drive, Suite A
Morrisville, North Carolina 27560
(Address of principal executive offices)
(Zip code)

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

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

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

On February 17, 2005, Charles & Colvard, Ltd. (the "Company") issued a press release regarding its financial results for the three months and year ended December 31, 2004. A copy of this press release is attached as Exhibit 99.1.

On February 18, 2005, beginning at 9:00 a.m. Eastern Time, the Company held a conference call to publicly announce and discuss the Company's financial results for the fiscal fourth quarter and year ended December 31, 2004. A transcript of the prepared statements made by the CEO and CFO is furnished with this report as Exhibit 99.2. The complete conference call was simulcast live on the Internet, and will be archived online and can be accessed for approximately 90 days. A recorded telephone replay of the call will also be available for approximately one week following the live call. Listeners may dial 877-519-4471 (973-341-3080 for international callers) and use the code # 5697010 for the telephone replay.

The information furnished pursuant to Item 2.02 of this Form 8-K (including Exhibit 99.1 and Exhibit 99.2) shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934 (the "Exchange Act") or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933 or the Exchange Act, except as expressly set forth by specific reference in such a filing.

SIGNATURE

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

Charles & Colvard, Ltd.

By: /s/ James R. Braun

James R. Braun
Vice President of Finance and
Chief Financial Officer

Date: February 18, 2005

For Immediate Release

**Charles & Colvard Reports Record Fourth Quarter and
Year End Sales
Fourth Quarter Sales up 82%**

MORRISVILLE, N.C., February 17, 2005 — Charles & Colvard, Ltd., (Nasdaq:CTHR) the sole source of moissanite – a created jewel available for use in fine jewelry – today reported operating results for the fourth quarter and year ended December 31, 2004.

Bob Thomas, President and Chief Executive Officer of Charles & Colvard said, “Revenue in the fourth quarter and full year of 2004 were at record levels. We are delighted with the success of the sale of moissanite jewelry during the recent Holiday season, and I am particularly pleased with the increased consumer awareness we have attained by the new distribution at a number of retailers. The advertising campaign that we undertook in the fourth quarter was ambitious, but we are confident that the money was well spent and that it positions us for the future. As we enter 2005, we believe the new distribution we established in 2004 will provide a basis for continued expansion in retail outlets.”

Fourth Quarter & Year End Results

The \$8.7 million of sales for the fourth quarter of 2004 exceeded the same quarter in 2003 by 82%. This sales increase along with a 1.3 percentage point increase in gross margin contributed to achieving income before taxes of \$636,000 compared to \$180,000 in the fourth quarter of 2003. Expense increases that partially offset the effect of the increase in sales and gross margin were a \$1,549,000 increase in advertising in support of new and existing jewelry chains that are selling moissanite jewelry along with a \$221,000 increase in general and administrative expenses primarily caused by an increase in incentive compensation expense.

Fourth quarter 2004 net income was \$465,000 or \$.03 per diluted share compared to 2003 net income of \$4,000 or \$.00 per diluted share.

Sales for the year ended December 31, 2004 aggregated \$23.9 million on shipments of 136,000 carats, resulting in income before taxes of \$3.2 million and net income of \$1,612,000 or \$.12 per diluted share. For 2003, sales were \$17.2 million on shipments of 97,000 carats, while pretax income was \$2.2 million and net income was \$1,043,000 or \$.08 per diluted share. A comparison of key operating results for the fourth quarter and year is as follows (in thousands, except for per share data):

	Fourth Quarter		Year	
	2004	2003	2004	2003
Net Sales	\$8,718	\$4,779	\$23,917	\$17,240
Operating Income	\$ 584	\$ 156	\$ 3,038	\$ 2,095
Net income	\$ 465	\$ 4	\$ 1,612	\$ 1,043
Net income per diluted share	\$ 0.03	\$ 0.00	\$ 0.12	\$ 0.08

Domestic sales, which represent 89% of total sales, were up 98% (93% in carats) for the quarter primarily attributable to the sales resulting from the October introduction of moissanite jewelry at 462 JCPenney department stores as well as increased distribution at a number of other new and existing retailers. International sales for the quarter increased 11% (17% in carats) primarily due to increased sales in France and Thailand offset by lower sales in the Philippines. Total carat shipments for the final 2004 quarter were 81% above the same period of 2003.

Gross margin as a percentage of sales was 64.2% for 2004 and 60.8% for the fourth quarter, an increase of 2.3 and 1.3 percentage points respectively, when compared to the same periods in 2003. These increases are due primarily to the continuing reductions in our inventory cost per carat which have been realized because of our increasing finished goods yields as well as a slight fourth quarter increase in average selling price per carat.

While the Company makes no prediction as to the future sales of moissanite jewels at this time or the specific mix of sizes which will be sold, gross margins should improve overall in 2005, assuming a continuation of the sales levels and mix of sizes as experienced in 2004, due to the continuing reductions in our production costs per carat. Future gross margins will continue to fluctuate based upon average selling price per carat.

Operating expenses were up 75% for the quarter and 44% for the year when compared to last year due to the items noted above. As a percentage of sales, operating expenses were two percentage points lower for the quarter than the fourth quarter of last year and two percentage points higher for the year than 2003.

Our effective tax rate for 2004 is higher than our statutory rate primarily due to our inability to currently recognize an income tax benefit for our foreign operating losses. Tax expense for the quarter is lower than the effective rate for the full year due to the recognition of certain tax credits.

Periodically, the Company ships product to customers on "memo" terms. For shipments on "memo" terms, the customer assumes the risk of loss and has an absolute right of return for a specified period. The Company does not recognize revenue on these transactions until the earlier of (1) the customer informing the Company that it will keep the product or (2) the expiration of the memo period. Prior to 2004, these types of sales have not been significant and the Company recorded them as accounts receivable and deferred gross profit at the time of shipment. In 2004, the Company experienced a significant increase in "memo" shipments to support new or expanding sales opportunities and determined that products shipped to our customers on "memo" terms would be classified as inventory on consignment on the Company's consolidated balance sheets. The \$3,244,000 of inventory cost associated with these shipments is reflected on the December 31, 2004 Balance Sheet as "Inventory on consignment" and represents potential revenue of \$10,966,000 and potential gross profit of \$7,722,000.

CONFERENCE CALL

Management will host a conference call tomorrow morning at 9:00 a.m. EDT, Friday, February 18, 2005, to discuss these results as well as recent corporate developments. After opening remarks, there will be a question and answer period. Interested parties may participate in the call by dialing 888-243-6208 (973-409-9256 for international callers). Please call in 10 minutes before the conference is scheduled to begin and ask for the Charles & Colvard call. The conference call will also be broadcast live over the Internet. To listen to the live call, please go to www.moissanite.com and click on the Investor Relations section where conference calls are posted. Please go to the website 15 minutes early to download and install any necessary audio software.

If you are unable to listen live, the conference call will be archived online and can be accessed for approximately 90 days. A recorded telephone replay of the call will also be available for approximately one week following the live call. Listeners may dial 877-519-4471 (973-341-3080 for international callers) and use the code # 5697010 for the telephone replay.

Charles & Colvard, based in the Research Triangle Park area of North Carolina, is the sole source of moissanite, a created jewel used in fine jewelry. Moissanite is near colorless, with more fire, brilliance and luster than a fine diamond, but retails for only a fraction of the cost. For more information, please access www.moissanite.com.

This press release contains forward-looking statements. Such forward-looking statements are subject to a number of material risks, uncertainties and contingencies that could cause actual results to differ materially from those set forth in the forward-looking statements. Those risks and uncertainties include but are not limited to: the company's reliance on Cree, Inc. as the current supplier of the substantial majority of the raw material and risks inherent in developing a material second source of supply through Norstel AB; the cost of developing distribution channels; difficulties obtaining silicon carbide crystals from the suppliers in desired qualities, sizes and volumes; and other risks and uncertainties set forth in the Company's 10-K for the year ended December 31, 2003, 10-Q and other filings with the Securities and Exchange Commission.

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

	Three Months Ended December 31,		Year Ended December 31,	
	2004	2003	2004	2003
Net sales	\$ 8,718,046	\$ 4,778,942	\$23,917,045	\$17,240,383
Cost of goods	3,420,225	1,935,090	8,570,448	6,575,931
Gross profit	5,297,821	2,843,852	15,346,597	10,664,452
Operating expenses:				
Marketing and sales	3,877,522	2,069,095	9,287,549	6,080,829
General and administrative	831,857	611,336	3,006,647	2,462,404
Research and development	4,760	7,029	14,076	26,702
Total operating expenses	4,714,139	2,687,460	12,308,272	8,569,935
Operating income	583,682	156,392	3,038,325	2,094,517
Interest income	52,551	23,966	138,223	112,359
Income before taxes	636,233	180,358	3,176,548	2,206,876
Income tax expense	170,864	175,871	1,564,256	1,163,501
Net income	\$ 465,369	\$ 4,487	\$ 1,612,292	\$ 1,043,375
Basic net income per share	\$ 0.03	\$ 0.00	\$ 0.12	\$ 0.08
Diluted net income per share	\$ 0.03	\$ 0.00	\$ 0.12	\$ 0.08
Weighted-average common shares:				
Basic	13,471,586	13,210,434	13,308,322	13,228,758
Diluted	13,994,162	13,532,376	13,720,172	13,544,616

Charles & Colvard, Ltd.
Condensed Consolidated Balance Sheets
(Unaudited)

	<u>December 31,</u> 2004	<u>December 31,</u> 2003
Assets		
Current Assets:		
Cash and equivalents	\$ 12,873,847	\$ 11,559,123
Accounts receivable	7,007,054	3,702,095
Interest receivable	14,798	6,792
Inventory	21,458,879	24,065,992
Inventory on consignment	3,243,797	—
Prepaid expenses and other assets	439,371	499,442
Deferred Income Taxes	455,766	235,179
	<hr/>	<hr/>
Total Current Assets	45,493,512	40,068,623
Long-Term Assets		
Furniture and equipment, net	524,645	453,836
Patent and license rights, net	348,435	274,890
Deferred Income Taxes	4,269,033	5,649,939
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Total Long Term Assets	5,142,113	6,378,665
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Total Assets	\$ 50,635,625	\$ 46,447,288
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Liabilities and Shareholders' Equity		
Current Liabilities:		
Accounts payable:		
Cree, Inc.	\$ 663,630	\$ 778,516
Other	1,565,163	538,943
Accrued payroll	557,801	164,943
Accrued expenses	590,634	392,659
Deferred gross profit	—	448,270
	<hr/>	<hr/>
Total Current Liabilities	3,377,228	2,323,331
Shareholders' Equity:		
Common stock	56,495,095	54,333,287
Additional paid-in capital – stock options	1,768,120	2,407,780
Accumulated deficit	(11,004,818)	(12,617,110)
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Total Shareholders' Equity	47,258,397	44,123,957
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Total Liabilities and Shareholders' Equity	\$ 50,635,625	\$ 46,447,288
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**CONFERENCE CALL SCRIPT
FOR February 18, 2005**

Jim Braun, CFO

Good morning and thank you for joining us for today's conference call. If you have not received a copy of our release announcing our financial results, please contact Tony Schor at Investor Awareness at 847 945 2222 and he will fax or e-mail a copy to you.

A copy of my remarks and those of Bob Thomas will be available on our website at the end of this conference call. The webcast of the entire conference call, including the Q&A session, is also posted on the investor relations section of our website, which you can access via either moissanite.com or charlesandcolvard.com.

Before I get to the Financials I would like to update you on the investor relations activities of the company. We are continuing to make Investor presentations. During the fourth quarter Bob and I made numerous presentations both at our offices and in New York for two days in December, in November at the Westergaard SmallCap Conference, hosted by Paulson Investments and this past Wednesday at NCINVEST in Chapel Hill, NC. In the last four months Investor Presentations were also made in: South Florida, San Diego and Orange county California.

As detailed on our website we are currently scheduled to make eleven presentations over the next four months. We have been getting and fulfilling more inquiries from investors and prospects than ever before. We have also been and are receptive to visits and conference calls with current shareholders and potential investors. If you are an investment professional and would like our investor relations firm to include you in our meetings schedule, please contact Tony Schor at Investor Awareness.

Now on to the fourth quarter financial results.

Sales for the fourth quarter of 2004 were \$8.7 million or 82% higher than the \$4.8 million achieved during the fourth quarter of 2003. Income before taxes was \$636,000 and net income was \$465,000 or \$.03 per diluted share. This compares to income before taxes of \$180,000 and net income of \$4,000 or \$.00 per share for the fourth quarter of 2003. As we reported in the news release issued yesterday the increase in pretax income was caused by the increase in gross margin due to increased sales along with a 1.3 percentage point increase in gross margin offset by a \$1,549,000 increase in advertising to support new and existing retailers of moissanite jewelry and a \$221,000 increase in general and administrative expenses primarily caused by an increase in compensation expenses.

We shipped 49,700 carats of moissanite jewels in the fourth quarter, an 81% increase versus the same quarter last year.

Domestic sales, which represent 89% of total shipments, were up 98% (93% in carats), due primarily to the sales resulting from the October introduction of moissanite jewelry at 462 JCPenney department stores as well as increased distribution at a number of other new retailers.

International sales for the quarter increased 11% (17% in carats) primarily due to increased sales in France and Thailand offset by lower sales in the Philippines.

Gross margin was 60.8% for the fourth quarter, which was 1.3 percentage points greater than the margin in the fourth quarter of 2003. This increase was primarily caused by the continuing declines in our production cost per carat during the specific FIFO period being relieved from inventory as well as a slight increase in average selling price per carat.

The average selling price per carat for the fourth quarter was 2% higher than the fourth quarter of 2003.

Our net income for 2004 was \$1,612,000 or \$.12 per diluted share, on operating income of \$3,038,000 and sales of \$23.9 million. This compares to 2003 net income of \$1,043,000 or \$.08 per diluted share which had operating income of \$2,095,000 and sales of \$17.2 million.

Cash at December 31, 2004 was \$12.9 million, an increase of approximately \$508,000 from September 30, 2004.

Accounts Receivable at December 31, 2004 was \$7.0 million, an increase of approximately \$2.7 million from September 30, 2004 primarily due to the high volume of sales in the month of December.

At December 31, 2004 the Company had \$3,244,000 of inventory cost associated with "memo" shipments reflected on the Balance Sheet as "Inventory on consignment" which represents potential revenue of \$10,966,000 and potential gross profit of \$7,722,000.

Periodically, the Company ships product to customers on "memo" terms. For shipments on "memo" terms, the customer assumes the risk of loss and has an absolute right of return for a specified period. The Company does not recognize revenue on these transactions until the earlier of (1) the customer informing the Company that it will keep the product or (2) the expiration of the memo period. Prior to 2004, these types of sales have not been significant and the Company recorded them as accounts receivable and deferred gross profit at the time of shipment. In 2004, the Company experienced a significant increase in "memo" sales and determined that product shipped to our customers on "memo" terms would be classified as inventory on consignment on the Company's consolidated balance sheets.

Inventory (excluding consignment) decreased by \$739,000 from September 30, 2004 to December 31, 2004, primarily due to the the level of sales during the fourth quarter. Finished goods inventory at December 31, 2004 was \$1,515,000 less than September 30, 2004 levels.

I will now turn the call over to Bob Thomas, president, chairman and chief executive officer.

Bob Thomas, CEO

Thank you Jim, and good morning Ladies and Gentlemen. Thank you for being with us today.

The employees of Charles & Colvard continue to execute our business plan and our sales and marketing tactics in an efficient and effective manner. Each of our associates is committed to growing the market for moissanite, and our results for 2004, particularly the results for the fourth quarter of 2004, demonstrate that they are being highly successful.

Our goals remain unchanged, to continue to grow revenue, and while no assurances can be given; I believe that we will remain profitable as we enjoy that growth. You may get tired of hearing this, but I will never tire of saying, "We have now been profitable in sixteen consecutive quarters."

The program with Reeves Park and JCPenney has been successful in gaining initial distribution at 462 JCPenney outlets. We believe that this initial success translates into growth in the number of outlets

offering the moissanite category of fine jewelry, and will enable us to continue to grow our revenues in this, and future, quarters. One of the tactics utilized with the JCPenney rollout, the placement of "memo" or consignment goods with Reeves Park was one of two key components instrumental in our success. The other component was the effective sales associate training, advertising, and promotion, executed jointly by our team and the professionals at JCPenney. We believe that the success of this program will lead to additional permanent non-memo distribution at any number of retail outlets in the coming weeks and months. When it is possible, we will share more specific information regarding the retailers and manufacturers participating in those activities.

We will continue an aggressive promotional and advertising campaign in support of our existing, and new, retail partners during 2005. In this quarter, the advertising spend will be considerably less than in the most recent quarter. Our advertising spend during the year is budgeted to be higher than in 2004, but is expected to be approximately the same percentage of revenue that you have seen in the past. We will continue to strive to build awareness and demand for fine moissanite jewelry. The current campaign has been effective, but we plan to build on that success with a new look, or campaign, in the fourth quarter of 2005, the period of our highest advertising spend. We will continue to use fashion magazines, outdoor displays and newspapers to deliver our advertising messages. The largest portion of the budget is to be used in newspaper advertisements, directly supporting specific retailers.

I was asked yesterday, "What is your greatest fear for the company going forward?" and my answer to that question was our ability to meet, in a timely fashion, what we believe will be a growing demand for our jewel. We are taking the prudent actions required to minimize any possible shortage of the most popular shapes and sizes of our jewel. In that regard, there are several points that need to be made. First, Cree, for the foreseeable future, will provide the overwhelming majority of our raw crystals. Cree is an excellent company, and an excellent supplier to Charles & Colvard, and we continue to have excellent relations with that firm. Our plans for the first two quarters of 2005 are to increase the volume of purchases from Cree to approximately \$2.2 million in value of raw crystals per quarter. During the third and fourth quarters, our purchases from Cree are expected to be at that level, or higher, depending on marketplace developments, and available capacity at Cree.

We also are scheduled to receive a very limited amount of raw material from Norstel beginning either late in this quarter or early in the second quarter. We are pleased to have made this agreement with Norstel, but it is not expected to have any significant impact on our total capacity until late in 2006 at the earliest. The crystals we purchase from Norstel must meet the quality standards that have been developed and are routinely enforced jointly with Cree, and it would be incorrect to speculate that the quality of the finished jewel will be impacted, either positively or negatively, by this new source. It would also be incorrect to speculate that this new source will cause a material change in our costs in the near term.

As we have said in earlier calls, we are also taking prudent actions to enhance the most critical component of the manufacturing process, the faceting component. Our current suppliers have responded in a very positive manner to our request for them to add capacity, and we have started the qualification process with other possible suppliers. I will remind you that each moissanite jewel is hand-cut and polished, and the amount of time required to establish the infrastructure, and train the human resources required to significantly impact our capacity is somewhat lengthy. We do not expect that we could see any meaningful supply from a new faceting supplier until late in 2006 at the earliest.

There are no significant issues at present with our internal preform sawing or grading functions that will negatively impact capacity.

It has been our intention to maintain an inventory of approximately 270 to 300 days of sales, based on the cost of goods sold. At the end of 2004, that number was approximately 575 days, and today it is even lower. It is possible that we will fall below our target level at some point during the current year. It is now probable that we will be well below that target on the most popular shapes and sizes for the foreseeable future. While we have been able to fill almost 100% of all orders, measured in dollars, certain shapes and sizes are currently on "back order" status, and it is possible that additional shapes and sizes will be in short supply on a sporadic basis during the year.

The hard work of the Charles & Colvard team, our Manufacturers, Distributors and Retail partners, in addition to our staff, has, and I believe will continue, to produce positive results as exemplified by both the full year 2004, and fourth quarter.

We will now respond to your questions and comments.