SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2001

[_] Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _________to________

Commission File Number: 000-23329

Charles & Colvard, Ltd.

(Exact name of Registrant as specified in its charter)

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

3800 Gateway Boulevard, Suite 310, Morrisville, N.C. 27560

(Address of principal executive offices)

919-468-0399

(Registrant's telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No __

As of November 9, 2001 there were 13,371,714 shares of the Registrant's Common Stock, no par value per share, outstanding.

Charles & Colvard, Ltd.

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Part I. Financial Information

Item 1. Financial Statements

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2001	2000	2001	2000
Net sales	$ 2,138,435	$ 2,874,329	$ 7,501,151	$ 9,533,200
Cost of goods sold	878,923	1,399,622	3,225,711	4,432,801
Gross profit	1,259,512	1,474,707	4,275,440	5,100,399
Operating expenses:				
Marketing and sales	715,843	1,753,617	2,021,981	5,769,546
General and administrative	446,221	608,751	1,623,774	2,725,073
Research and development	3,898	279,278	7,706	1,135,069
Other expense	30,565	108	120,860	253,309
Total operating expenses	1,196,527	2,641,754	3,774,321	9,882,997
Operating income (loss)	62,985	(1,167,047)	501,119	(4,782,598)
Interest income, net	98,235	106,336	266,319	361,216
Net income (loss)	$ 161,220	$(1,060,711)	$ 767,438	$(4,421,382)
Basic and diluted net income (loss) per share:	$ 0.01	$ (0.15)	$ 0.06	$ (0.62)
Weighted-average common shares:				
Basic	13,447,714	7,199,667	12,257,860	7,155,708
Diluted	13,459,121	7,199,667	12,265,970	7,155,708

See Notes to Condensed Consolidated Financial Statements.

Charles & Colvard, Ltd.
Condensed Consolidated Balance Sheets

	September 30, 2001	December 31, 2000
Assets	(Unaudited)	
Current Assets		
Cash and equivalents	$ 10,236,185	$ 3,826,402
Accounts receivable	1,629,108	1,468,041
Interest receivable	21,779	18,890
Inventory, net	22,316,943	23,071,416
Prepaid expenses	133,740	301,267
Total current assets	34,337,755	28,686,016
Equipment, net	355,675	552,272
Patent and license rights, net	293,082	369,706
Total assets	$ 34,986,512	$ 29,607,994
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable:		
Cree, Inc.	$ 405,033	$ 1,147,718
Other	285,988	847,428
Accrued expenses	407,822	640,068
Deferred revenue	208,208	112,996
Total current liabilities	1,307,051	2,748,210
Commitments		
Shareholders' Equity		
Common stock	55,258,692	49,226,697
Additional paid-in capital - stock options	1,946,988	1,926,744
Accumulated deficit	(23,526,219)	(24,293,657)
Total shareholders' equity	33,679,461	26,859,784
Total liabilities and shareholders' equity	$ 34,986,512	$ 29,607,994

See Notes to Condensed Consolidated Financial Statements

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

	Nine Months Ended September 30, 2001	Nine Months Ended September 30, 2000
Operating Activities:		
Net income (loss)	$ 767,438	$ (4,421,382)
Adjustments:		
Depreciation and amortization	117,801	516,351
Stock option compensation	20,244	158,898
Loss on disposal of long-term assets	120,860	267,072
Change in provision for uncollectible accounts	(44,960)	360,000
Change in operating assets and liabilities:		
Net change in assets	803,004	(4,338,683)
Net change in liabilities	(1,441,159)	(1,884,907)
Net cash provided (used) in operating activities	343,228	(9,342,651)
Investing Activities:		
Purchase of equipment	(22,693)	(23,772)
Patent and license rights costs	(12,747)	(48,286)
Proceeds from sale of long term assets	70,000	42,450
Net cash provided (used) in investing activities	34,560	(29,608)
Financing Activities:		
Stock options exercised	--	294,807
Proceeds from stock rights offering, net	6,031,995	--
Net cash provided by financing activities	6,031,995	294,807
Net change in cash and equivalents	6,409,783	(9,077,452)
Cash and equivalents, beginning of period	3,826,402	13,161,665
Cash and equivalents, end of period	$ 10,236,185	$ 4,084,213

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

Supplemental non-cash operating activity:
During the nine months ended September 30, 2000, there was $4,368,415 of inventory purchases financed by the receivable from Cree.

See Notes to Condensed Consolidated Financial Statements.

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

1. Basis Of Presentation

The accompanying unaudited financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America for interim financial information. However, certain information or footnote disclosures normally included in complete financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed, or omitted, pursuant to the rules and regulations of the Securities and Exchange Commission. In the opinion of management, the financial statements include all normal recurring adjustments which are necessary for the fair presentation of the results of the interim periods presented. Interim results are not necessarily indicative of results for the year. Certain reclassifications have been made to prior year's financial statements to conform to the classifications used in fiscal 2001. These financial statements should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2000, as set forth in the Company's Form 10-K, filed with the Securities and Exchange Commission on March 29, 2001.

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

In October 2000, the Company established a wholly-owned subsidiary in Hong Kong, Charles & Colvard HK Ltd., for the purpose of gaining better access to the important Far Eastern markets. All inter-company accounts have been eliminated. The Company does not anticipate establishing additional subsidiaries in the near future.

All the Company's activities are within a single business segment. During the three and nine months ended September 30, 2001, export sales aggregated approximately $400,000 and $1,600,000, respectively. Export sales aggregated approximately $900,000 and $3,400,000 for the three and nine months ended September 30, 2000, respectively.

2. Inventories

Inventories are stated at the lower of cost or market determined on a first in, first out basis. Finished goods are shown net of a reserve for excess jewelry inventory of $235,000 at September 30, 2001and $270,000 at December 31, 2000. Test instruments are shown net of a reserve for excess inventory of $465,000 and $500,000 respectively.

	September 30, 2001	December 31, 2000
Moissanite		
Raw materials	$ 300,249	$ 1,482,969
Work-in-process	1,885,887	3,105,096
Finished goods	20,103,394	18,411,563
	22,289,530	22,999,628
Test instruments	27,413	71,788
Total Inventory	$ 22,316,943	$ 23,071,416

3. Common Stock

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

On September 18, 2001, the Company announced that its Board of Directors authorized the repurchase of up to 1,300,000 shares of the Company's common stock. At the discretion of management, the repurchase program can be implemented through open market or privately negotiated transactions at prevailing prices. The Company will determine the time and extent of repurchases based on its evaluation of market conditions and other factors. No shares were repurchased during the three months ended September 30, 2001.

4. Stock Based Compensation

In accordance with Accounting Principles Board Opinion No. 25 and Statement of Financial Accounting Standards (FAS) No. 123, the Company recorded a reversal of compensation expense of $5,023 during the three months ended September 30, 2001 and compensation expense of $20,244 during the nine months ended September 30, 2001 relating to stock options. Compensation expense related to stock options for the three and nine months ended September 30, 2000 were $47,688 and $158,898, respectively. This compensation expense is recorded in general and administrative expense in the statements of operations.

5. Newly Adopted Accounting Pronouncements

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

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

6. Newly Issued Accounting Pronouncements

In July 2001, Statement of Financial Accounting Standards No. 142 ("FAS 142"), Goodwill and Other Intangible Assets, was issued. This statement requires that goodwill and other intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually. This statement is effective for fiscal years beginning after December 15, 2001. The Company does not currently have goodwill or other intangible assets with indefinite useful lives on its balance sheet and management believes the adoption of this statement will not have a material effect on its financial statements.

In August 2001, Statement of Financial Accounting Standards No. 143 ("FAS 143"), Accounting For Asset Retirement Obligations was issued. This statement requires recording the fair value of a liability for an asset retirement obligation in the period in which it is incurred, and a corresponding increase in the carrying value of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, it is either settled for its recorded amount or a gain or loss upon settlement is recorded. FAS 143 is effective for the Company's fiscal year ended December 31, 2003. The Company is currently assessing, but has not yet determined the impact of FAS 143 on its financial position and results of operations.

In August 2001, Statement of Financial Accounting Standards No. 144 ("FAS 144"), Accounting for the Impairment or Disposal of Long-Lived Assets was issued. This statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets. This Statement supersedes FAS Statement No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of, and the accounting and reporting provisions of APB Opinion No. 30, Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions, for the disposal of a segment of a business (as previously defined in that Opinion). The Company is currently assessing, but has not yet determined the impact of FAS 143 on its financial position and results of operations.

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

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements represent our judgment on future events. Our business is subject to business and economic risks and uncertainties that could cause our actual performance and results to differ materially from those expressed or implied by any of the forward-looking statements included herein. These risks and uncertainties are described under the heading "Business Risks" in our Form 10-K for the year ended December 31, 2000, which was filed with the Securities and Exchange Commission on March 29, 2001.

Overview

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

From our inception in June 1995 through June 30, 1998, we were a development stage enterprise, devoting our resources to fund research and development of colorless, scientifically made moissanite jewels. At the same time, we assembled a management team, conducted market research and developed our strategic business plans. We began shipping moissanite to authorized retail jewelers during the second quarter of 1998. At that time, we launched limited consumer-focused advertising and promotion activities in the targeted areas.

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

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

The improved supply of SiC crystals along with the decrease in sales led to a significant increase in inventories of moissanite jewels.

With the improvements in the supply of saleable moissanite jewels, we launched our strategic global marketing program in the fourth quarter of 1999 to spur consumer awareness of moissanite jewels. During 2001, this program has been refocused to emphasize use of public relations activities to increase consumer brand awareness while reducing higher cost print and media advertising.

In March 2000, we entered into distribution agreements with Stuller Settings, Inc. and Rio Grande, two of the largest suppliers of jewelry-related products to the jewelry industry, for the North American distribution of moissanite. We have also entered into several agreements with domestic jewelry manufacturers. Through these agreements with Stuller, Rio Grande and jewelry manufacturers and the brand awareness created by our marketing program, our goal is to rapidly increase the introduction of moissanite into the domestic jewelry market while maintaining average selling prices. However, because of the early stage of development of these strategic efforts, we have no assurance that these efforts will be successful.

We made significant investments in our branding program and in developing our manufacturing and operational infrastructures during the fourth quarter of 1999 and through 2000, all in anticipation of future significant and rapid growth. During the third and fourth quarters of 2000, we restructured our operations to reduce our overall general and administrative expense levels in order to conserve cash and attempt to position the Company to achieve profitability in the future. Additionally, research and development expenses under the Development Agreement with Cree were suspended from January 2001 through December 31, 2002.

Our strategy for 2001 is to remain profitable and conserve cash by achieving modest growth in sales while maintaining our lower marketing and advertising costs, maintaining our lower general and administrative expense levels, continuing to curtail research and development expenses and reducing inventories. During the fourth quarter of 2001, to increase product visibility, we have committed to purchase approximately $400,000 of advertising in various magazines directed at the consumer and jewelry trade. We believe that our sales can increase as the distribution of moissanite jewels expands domestically and internationally and that our current infrastructure and stage of product development can support a significant growth in sales. We attained our goal to achieve profitability in the first three quarters of 2001, however, we did not achieve sales increases during these quarters and we cannot be sure that we will ever be able to achieve increased sales or sustain profitability.

Results Of Operations

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

Net sales were $2,138,435 for the three months ended September 30, 2001 compared to $2,874,329 for the three months ended September 30, 2000, a decrease of $735,894 or 25.6%. Shipments of moissanite jewels decreased in the three months ended September 30, 2001 to approximately 11,800 carats from 15,800 carats in the same period of 2000. Average selling prices for the three months ended September 30, 2001 were consistent with average selling prices during the three months ended September 30, 2000. North American sales amounted to approximately $1,800,000 in the three months ended September 30, 2001 compared to $2,000,000 in the three months ended September 30, 2000. International sales amounted to approximately $400,000 and $900,000 for the three months ended September 30, 2001 and 2000, respectively.

The economy's negative effects on the jewelry industry even prior to the September 11 terrorist attacks contributed to lower sales in the third quarter of 2001 when compared to the same period in 2000. The combination of the two is expected to negatively impact sales of all luxury items, including jewelry, into the fourth quarter and possibly beyond. The decrease in international sales can be attributed to the strong dollar and the lack of substantial advertising and public relations activities.

Our gross profit margin was 58.9% for the three months ended September 30, 2001 compared to 51.3% for the three months ended September 30, 2000. The increased gross margin rate results primarily from improved product mix, and to a lesser extent better efficiencies in the manufacturing process during the three months ended September 30, 2001 and the establishment of a reserve against certain jewelry inventory during the three months ended September 30, 2000.

Marketing and sales expenses were $715,843 for the three months ended September 30, 2001 compared to $1,753,617 for the three months ended September 30, 2000, a decrease of $1,037,774 or 59.2%. The decrease resulted primarily from an $800,000 reduction in marketing and advertising expenses consistent with our new strategy to increase consumer impressions through lower cost approaches such as public relations activities and media editorial coverage, as well as decreased compensation costs (including severance costs recorded in 2000).

General and administrative expenses were $446,221 for the three months ended September 30, 2001 compared to $608,751 for the three months ended September 30, 2000, a decrease of $162,530 or 26.7%. The decrease was primarily a result of decreased stock option compensation expense, reduced general overhead expenses consistent with our efforts to cut costs and severance costs recorded in 2000.

Research and development expenses were $3,898 for the three months ended September 30, 2001 compared to $279,278 for the three months ended September 30, 2000, a decrease of $275,380 or 98.6%. The decrease resulted from the suspension of development efforts with Cree effective January 1, 2001.

Other expenses for the three months ended September 30, 2001 amounted to $30,565, resulting primarily from the write-off of certain patent costs.

Net interest income was $98,235 for the three months ended September 30, 2001 compared to $106,336 for the three months ended September 30, 2000, a decrease of $8,101 or 7.6%. Although total interest income decreased for the three months ended September 30, 2001, interest on our cash balances increased due to larger average cash balances partially offset by lower interest rates. The decrease in total interest income can be attributed to approximately $31,000 of interest earned during the three months ended September 30, 2000 on a receivable due from Cree that was completely paid during 2000.

Nine Months ended September 30, 2001 compared with Nine Months ended September 30, 2000.

Net sales were $7,501,151 for the nine months ended September 30, 2001 compared to $9,533,200 for the nine months ended September 30, 2000, a decrease of $2,032,049 or 21.3%. Shipments of moissanite jewels decreased during the nine months ended September 30, 2001 to approximately 39,700 carats from 50,300 carats for the nine months ended September 30, 2000. Average selling prices were slightly lower for the nine months ended September 30, 2001 compared to the nine months ended September 30, 2000. North American sales amounted to approximately $5,900,000 for the nine months ended September 30, 2001 compared to $6,200,000 for the nine months ended September 30, 2000. International sales amounted to approximately $1,600,000 and $3,400,000 for the nine months ended September 30, 2001 and 2000, respectively.

Decreased sales in North America can be attributed to the negative effect the economy is having on retail jewelry sales. The decrease in international sales can be attributed to the strong dollar and the lack of substantial advertising and public relations activities.

The Company's gross profit margin was 57.0% for the nine months ended September 30, 2001 compared to 53.5% for the nine months ended September 30, 2000. The increased gross margin rate results from better efficiencies in the manufacturing process, the establishment of a reserve in 2000 against certain jewelry inventory, and an increase during 2000 of the reserve for excess test instrument inventory.

Marketing and sales expenses were $2,021,981 for the nine months ended September 30, 2001 compared to $5,769,546 for the nine months ended September 30, 2000, a decrease of $3,747,565 or 65.0%. The decrease resulted primarily from a $2,600,000 reduction in marketing and advertising expenses consistent with our new strategy to increase consumer impressions through lower cost approaches such as public relations activities and media editorial coverage, as well as decreased compensation costs (including severance costs recorded in 2000).

General and administrative expenses were $1,623,774 for the nine months ended September 30, 2001 compared to $2,725,073 for the nine months ended September 30, 2000, a decrease of $1,101,299 or 40.4%. The decrease resulted primarily from decreased compensation costs (including severance costs recorded in 2000), reduced bad debt expense, and decreased general overhead expenses consistent with our efforts to cut costs.

Research and development expenses were $7,706 for the nine months ended September 30, 2001 compared to $1,135,069 for the nine months ended September 30, 2000, a decrease of $1,127,363 or 99.3%. The decrease resulted primarily from the suspension of development efforts with Cree effective January 1, 2001.

Other expenses for the nine months ended September 30, 2001 amounted to $120,860, resulting from the write-off of certain patent costs and a loss on the disposition of certain other assets. Other expenses for the nine months ended September 30, 2000 amounted to $253,309, resulting from a loss on the sale of crystal growth equipment to Cree and the disposition of certain other assets.

Net interest income was $266,319 for the nine months ended September 30, 2001 compared to $361,216 for the nine months ended September 30, 2000, a decrease of $94,897 or 26.3%. This decrease resulted from a lower interest rate earned on our cash balances, as well as approximately $59,000 of interest earned during the second and third quarter of 2000 on a receivable from Cree that was completely paid in 2000.

Liquidity And Capital Resources

At September 30, 2001, we had $10.2 million of cash and cash equivalents and $33.0 million of working capital. During the three months ended September 30, 2001, we generated $229,653 from operations. In addition, $11,750 was used to fund capital expenditures and patent expenses. During the nine months ended September 30, 2001, we generated $343,228 from operations and $34,560 from investing activities. In addition, we completed a Rights

Offering to our shareholders on February 21, 2001, raising $6 million of net proceeds. We believe our existing capital resources are adequate to satisfy our capital requirements for at least the next 12 months.

In December 2000, we agreed with Cree on a framework for purchases of SiC crystals during 2001. Under the terms of the Agreement, we are obligated to purchase SiC crystals only upon issuance and Cree's acceptance of purchase orders. We purchased approximately $400,000 of SiC crystals during the three months ended September 30, 2001. We have not yet committed to purchase SiC crystals during the three months ending December 31, 2001, however, we do expect to purchase SiC crystals in a quantity equal to or less than our purchases during the three months ended September 30, 2001.

The 4-year Development Agreement with Cree, as amended, requires us to fund a development program at Cree for $1.44 million annually through December 31, 2002. Either party may terminate the agreement if Cree does not meet the annual performance milestone or if the parties do not mutually agree on the performance milestones for the ensuing year. Research and development expenses under the Development Agreement with Cree were suspended effective from January 2001 through December 31, 2002.

On September 18, 2001, we announced that our Board of Directors authorized the repurchase of up to 1,300,000 shares of our common stock. At the discretion of management, the repurchase program can be implemented through open market or privately negotiated transactions at prevailing prices. We will determine the time and extent of repurchases based on our evaluation of market conditions and other factors. No shares were repurchased during the three months ended September 30, 2001.

Our strategy for 2001 is to remain profitable and conserve cash by achieving modest growth in sales while maintaining our lower marketing and advertising costs, maintaining our lower general and administrative expense levels, continuing to curtail research and development expenses and reducing inventories. During the fourth quarter of 2001, to increase product visibility, we have committed to purchase approximately $400,000 of advertising in various magazines directed at the consumer and jewelry trade. We believe that our sales can increase as the distribution of moissanite jewels expands domestically and internationally and that our current infrastructure and stage of product development can support a significant growth in sales. We attained our goal to achieve profitability in the first three quarters of 2001, however, we did not achieve sales increases during these quarters and we cannot be sure that we will ever be able to achieve increased sales or sustain profitability.

Newly Adopted Accounting Pronouncements

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

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

Newly Issued Accounting Pronouncements

In July 2001, Statement of Financial Accounting Standards No. 142 ("FAS 142"), Goodwill and Other Intangible Assets, was issued. This statement requires that goodwill and other intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually. This statement is effective for fiscal years beginning after December 15, 2001. We believe the adoption of this statement will not have a material effect on our consolidated financial statements.

In August 2001, Statement of Financial Accounting Standards No. 143 ("FAS 143"), Accounting For Asset Retirement Obligations was issued. This statement requires recording the fair value of a liability for an asset retirement obligation in the period in which it is incurred, and a corresponding increase in the carrying value of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, it is either settled for its recorded amount or a gain or loss upon settlement is recorded. FAS 143 is effective for our fiscal year ended December 31, 2003. We are currently assessing, and have not yet determined the impact of FAS 143 on our financial position and results of operations.

In August 2001, Statement of Financial Accounting Standards No. 144 ("FAS 144"), Accounting for the Impairment or Disposal of Long-Lived Assets was issued. This statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets. This Statement supersedes FAS Statement No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of, and the accounting and reporting provisions of APB Opinion No. 30, Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions, for the disposal of a segment of a business (as previously defined in that Opinion). We are currently assessing, and have not yet determined the impact of FAS 143 on our financial position and results of operations.

Item 3: Quantitative and Qualitative Disclosures About Market Risk

We believe that our exposure to market risk for changes in interest rates is not significant because our investments are limited to highly liquid instruments with maturities of three months or less. At September 30, 2001, we had approximately $10.0 million of short-term investments classified as cash and equivalents. All of our transactions with international customers and suppliers are denominated in U.S. dollars.

Part II - Other Information

Item 6: Exhibits And Reports On Form 8-K

(a) Exhibits

Exhibit No.	Description
10.49	Letter Agreement dated July 2, 2001 between Cree, Inc. and Charles & Colvard, Ltd.*

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

Signatures

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

Charles & Colvard, Ltd.

Date: November 9, 2001	/s/ Robert S. Thomas -------------------- Robert S. Thomas President & Chief Executive Officer (Principal Executive Officer)
Date: November 9, 2001	/s/ James R. Braun ------------------ James R. Braun Chief Financial Officer (Principal Accounting Officer)

Exhibit 10.49

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

July 2, 2001

Robert S. Thomas
President & CEO
Charles & Colvard, Ltd,
P.O. Box 13533
Research Triangle Park, NC 27709-3533

This letter, when signed by both parties, will serve as an agreement between Charles & Colvard, Ltd. (formerly C3, Inc.) and Cree, Inc. as set forth below and will apply to SIC production crystals purchased by Charles & Colvard from Cree, during the period of twelve months beginning January 1, 2001. This letter agreement supersedes the parties' letter agreement dated December 7, 2000.

1. Charles & Colvard Intends to purchase and Cree intends to sell production crystals in the quantities and according to the following schedule, and at a price of *** per gram of "usable material," determined in the manner described in Paragraph 3. Purchases of the indicated quantity for the 3 monthly periods beginning 3/26/01 will be committed only upon issuance of a purchase order by Charles & Colvard on or before 1/5/01 and Cree's written acceptance of such order. Purchases of the indicated quantity for the monthly periods June 25 through December 23, 2001 will be committed only upon issuance of a purchase order by Charles & Colvard and Cree's written acceptance of such order. The price of *** per gram is contingent on purchase orders requesting minimum monthly quantities of *** grams. Cree will quote lead times dependent on business conditions at the time of issuance of the purchase order.

Delivery Period	Forecasted quantity (grams)
1/1/01 - 1/21/01	*** grams
1/22/01 - 2/18/01	*** grams
2/19/01 - 3/25/01	*** grams
3/26/01 - 4/22/01	*** grams
4/23/01 - 5/20/01	*** grams
5/21/01 - 6/24/01	*** grams
6/25/01 - 7/22/01	*** grams
7/23/01 - 8/19/01	*** grams
8/20/01 - 9/23/01	*** grams
9/24/01 - 10/21/01	*** grams
10/22/01 - 11/18/01	*** grams
11/19/01 - 12/23/01	*** grams

2. The quantity of "usable material" of crystals delivered to Charles & Colvard pursuant to this agreement will be determined according to the following:

A. Material will be graded using the same practices used by the parties to grade crystals during calendar 2000 and in accordance with Attachment A.

B. Grams of usable material will be calculated on a crystal by crystal basis according to the following equation:

(usable mm) as a percent of total length of the crystal in mm multiplied by the actual weight of the crystal in grams.

"Usable mm" has the meaning defined In Attachment A.

C. Crystals shipped to Charles & Colvard must contain at least *** grams of usable material for 2" crystals or *** grams for 3" crystals. Crystal diameter to be shipped will be 2" or 3" as determined by Cree.

D. All grading will be concluded in a timely manner and consistent with past practice.

4. Charles & Colvard shall not be obligated to fund, and Cree shall not be

obligated to carry out, the development program described in the July 1,1998 Amended and Restated Development Agreement, as amended (the "Development Agreement'), for the period from January 1, 2001 through December 31. 2002, and the term of the Development Agreement is extended through December 31, 2002.

5. Except as provided above, purchases will be subject to the terms and conditions of the Supply Agreement and the development program will be subject to the terms and conditions of the Development Agreement.

6. The contents of this letter shall be considered "Confidential Information" of each party subject to the provisions of Section S of the Supply Agreement.

If acceptable, please sign below and date to indicate Charles & Colvard's binding agreement to these terms.

/s/ Charles M. Swoboda	/s/ Robert S. Thomas
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Charles M. Swoboda	Robert S. Thomas
President and CEO	President & CEO

Attachment A
Specification of usable material:
Except where noted below, "Usable mm" is calculated by adding the length of net "light" material plus 55% of the length of net "medium light" material.

Except where noted below, Net material is calculated as "light" or "medium light" material, as applicable, minus the % yield loss caused by the color grading green and the inclusions and defects listed below, determined in accordance with the practices followed by the parties in grading production crystals during calendar 2000.

The inclusions and defects considered in determining yield loss are:

ID	D-Type
1	***
2	***
3	***
5	***
6	***
8	***
9	***

Note: The sum total of net medium light and non-gray net light included in the "usable mm" . shall be limited to ***% of the total usable mm shipped in any given fiscal month (Le, the monthly periods defined in paragraph 1 of the attached letter agreement). Beyond this limit, said material shipped for the remainder of that month will not be included in "usable mm" calculations.