

CHARLES & COLVARD LTD
Form 10-Q
August 13, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

- Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended June 30, 2010

OR

- 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
(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
(Address of principal executive offices)

27560
(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if

Edgar Filing: CHARLES & COLVARD LTD - Form 10-Q

any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input checked="" type="checkbox"/>

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of August 11, 2010, there were approximately 19,256,961 shares of the registrant's common stock, no par value per share, outstanding.

CHARLES & COLVARD, LTD.

FORM 10-Q

For the Quarterly Period Ended June 30, 2010

TABLE OF CONTENTS

	Page Number
<u>PART I – FINANCIAL INFORMATION</u>	
<u>Item 1.</u>	<u>Financial Statements</u>
	<u>Condensed Consolidated Balance Sheets as of June 30, 2010 (unaudited) and December 31, 2009</u> 3
	<u>Condensed Consolidated Statements of Operations (unaudited) for the three and six months ended June 30, 2010 and 2009</u> 4
	<u>Condensed Consolidated Statements of Cash Flows (unaudited) for the six months ended June 30, 2010 and 2009</u> 5
	<u>Notes to Condensed Consolidated Financial Statements (unaudited)</u> 6
<u>Item 2.</u>	<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u> 16
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u> 23
<u>Item 4.</u>	<u>Controls and Procedures</u> 23
<u>Item 4T.</u>	<u>Controls and Procedures</u> 24
<u>PART II – OTHER INFORMATION</u>	
<u>Item 1.</u>	<u>Legal Proceedings</u> 24
<u>Item 1A.</u>	<u>Risk Factors</u> 24
<u>Item 5.</u>	<u>Other Information</u> 25
<u>Item 6.</u>	<u>Exhibits</u> 25
	<u>Signatures</u> 26

Table of Contents

PART I – FINANCIAL INFORMATION

Item Financial Statements

1.

CHARLES & COLVARD, LTD.
CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2010 (unaudited)	December 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	\$3,068,373	\$7,405,685
Accounts receivable, net	2,587,671	1,043,296
Interest receivable	22,607	65
Note receivable, net	-	54,627
Inventory, net	7,084,120	3,340,712
Prepaid expenses and other assets	320,592	188,812
Total current assets	13,083,363	12,033,197
Held-to-maturity investments	5,050,358	-
Inventory, non-current, net	31,055,303	35,785,205
Property and equipment, net	243,563	218,418
Patent and license rights, net	246,559	260,548
Deferred income taxes, non-current	102,443	-
Other assets, non-current	1,990	1,990
TOTAL ASSETS	\$49,783,579	\$48,299,358
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$453,759	\$265,439
Accrued cooperative advertising	483,500	173,000
Accrued expenses and other liabilities	159,739	157,954
Total current liabilities	1,096,998	596,393
Long-term liabilities:		
Accrued income taxes	1,049,084	1,058,659
Total liabilities	2,146,082	1,655,052
Commitments and contingencies		
Shareholders' equity:		
Common stock, no par value	53,075,542	52,906,459
Additional paid-in capital – share-based compensation	6,601,135	6,411,727
Accumulated deficit	(12,039,180)	(12,673,880)
Total shareholders' equity	47,637,497	46,644,306
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$49,783,579	\$48,299,358

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

CHARLES & COLVARD, LTD.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

	Three Months Ended June		Six Months Ended June	
	30,		30,	
	2010	2009	2010	2009
Net sales	\$3,328,629	\$1,320,207	\$6,182,304	\$3,805,395
Costs and expenses:				
Cost of goods sold	1,399,264	697,623	2,458,245	1,797,712
Sales and marketing	575,015	496,425	1,161,613	830,391
General and administrative	1,021,802	1,220,650	2,045,467	3,329,042
Research and development	8,993	135,511	50,850	345,691
Total costs and expenses	3,005,074	2,550,209	5,716,175	6,302,836
Income (loss) from operations	323,555	(1,230,002)	466,129	(2,497,441)
Interest income	31,796	8,587	58,318	18,848
Interest expense	(1,089)	-	(1,765)	-
Income (loss) before income taxes	354,262	(1,221,415)	522,682	(2,478,593)
Income tax net benefit (expense)	(17,947)	(17,815)	112,018	(44,917)
Net income (loss)	\$336,315	\$(1,239,230)	\$634,700	\$(2,523,510)