

CHARLES & COLVARD LTD
Form DEF 14A
April 22, 2015

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

SCHEDULE 14A

**Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934**

Filed by the Registrant

Filed by a Party other than the Registrant o

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-12

Charles & Colvard, Ltd

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

170 Southport Drive

Morrisville, North Carolina 27560

(919) 468-0399

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

TO BE HELD ON MAY 20, 2015

To the Shareholders of Charles & Colvard, Ltd.:

Notice is Hereby Given that the Annual Meeting of Shareholders of Charles & Colvard, Ltd. will be held at the Sheraton Imperial Hotel, 4700 Emperor Boulevard, Durham, North Carolina, on Wednesday, May 20, 2015, at 10:00 a.m., Eastern Daylight Savings Time, for the following purposes:

1. To elect five nominees described in the proxy statement to the Board of Directors;
2. To approve an amendment to the Charles & Colvard, Ltd. 2008 Stock Incentive Plan to increase the number of shares authorized for issuance under the plan by 1,500,000 shares;
3. To ratify the appointment of BDO USA, LLP as our independent registered public accounting firm for the year ending December 31, 2015;
4. To vote, on an advisory (nonbinding) basis, to approve executive compensation; and
5. To transact such other business as may properly come before the meeting or any adjournment thereof.

The Board of Directors has fixed the close of business on March 31, 2015 as the record date for the determination of shareholders entitled to vote at the meeting. Accordingly, only shareholders who are holders of record at the close of

business on that date are entitled to notice of and to vote at the meeting.

By order of the Board of Directors,

Neal I. Goldman

Executive Chairman

April 22, 2015

A PROXY CARD IS ENCLOSED FOR THE CONVENIENCE OF THOSE SHAREHOLDERS WHO DO NOT PLAN TO ATTEND THE ANNUAL MEETING IN PERSON BUT DESIRE TO HAVE THEIR SHARES VOTED. IF YOU DO NOT PLAN TO ATTEND THE ANNUAL MEETING, PLEASE COMPLETE AND RETURN THE PROXY CARD IN THE ENVELOPE PROVIDED FOR THAT PURPOSE. IF YOU RETURN YOUR CARD AND LATER DECIDE TO ATTEND THE ANNUAL MEETING IN PERSON OR FOR ANY OTHER REASON DESIRE TO REVOKE YOUR PROXY, YOU MAY DO SO AT ANY TIME BEFORE YOUR PROXY IS VOTED.

170 Southport Drive

Morrisville, North Carolina 27560

(919) 468-0399

PROXY STATEMENT

Important Notice Regarding the Availability of Proxy Materials for the Shareholder Meeting to be held on May 20, 2015:

The Notice of Annual Meeting of Shareholders, Proxy Statement, Form of Proxy, and 2014 Annual Report to Shareholders are available at <http://www.charlesandcolvard.com/investor-relations/proxy-notice>.

This proxy statement is furnished to the shareholders of Charles & Colvard, Ltd. in connection with the solicitation of proxies by our Board of Directors (the "Board") for use at our company's 2015 Annual Meeting of Shareholders (the "Annual Meeting") and all adjournments thereof. The Annual Meeting will be held at the Sheraton Imperial Hotel, 4700 Emperor Boulevard, Durham, North Carolina, on Wednesday, May 20, 2015 at 10:00 a.m., Eastern Daylight Savings Time, to conduct the following business and such other business as may be properly brought before the meeting: (1) to elect five nominees described in this proxy statement to the Board of Directors; (2) to approve an amendment to the Charles & Colvard, Ltd. 2008 Stock Incentive Plan (the "2008 Plan") to increase the number of shares authorized for issuance under the plan by 1,500,000 shares; (3) to ratify the appointment of BDO USA, LLP ("BDO") as our independent registered public accounting firm for the year ending December 31, 2015; and (4) to vote, on an advisory (nonbinding) basis, to approve executive compensation.

The Board of Directors recommends that you vote (1) FOR the election of the director nominees listed in this proxy statement, (2) FOR the approval of an amendment to the 2008 Plan to increase the number of shares authorized for issuance under the plan by 1,500,000 shares, (3) FOR ratification of the appointment of BDO as our independent registered public accounting firm for the year ending December 31, 2015, and (4) FOR the approval of executive compensation.

This proxy statement and the accompanying proxy card are first being delivered to shareholders on or about April 22, 2015.

Voting Securities

Our common stock, no par value per share, is our company's only outstanding voting security. The Board of Directors has fixed the close of business on March 31, 2015 as the record date for the determination of shareholders entitled to vote at the Annual Meeting. Accordingly, each holder of record of common stock as of the record date is entitled to one vote for each share of common stock held. Shareholders do not have cumulative voting rights. As of March 31, 2015, there were 20,454,833 shares of common stock outstanding.

Voting Procedures

The holders of a majority of the shares of common stock entitled to vote at the Annual Meeting, present in person or represented by proxy, constitute a quorum for purposes of voting on a particular matter and conducting business at the Annual Meeting. Votes "for" and "against," abstentions, shares that are withheld as to voting with respect to one or more of the director nominees, and shares held by a broker, as nominee, that are voted at the discretion of the broker on any matter will be considered to be present for purposes of determining whether a quorum exists. If a quorum is present at the beginning of the Annual Meeting, the shareholders may continue to transact business until adjournment, notwithstanding the withdrawal of enough shareholders to leave less than a quorum.

Brokers who are members of the New York Stock Exchange (the “NYSE”) and who hold shares of our common stock in street name for beneficial owners have authority to vote on certain items when they have not received instructions from beneficial owners. Under the rules of the NYSE, the proposal to ratify the appointment of the independent registered public accounting firm is considered a “discretionary” item. This means that brokers may vote in their discretion on this matter on behalf of beneficial owners who have not furnished voting instructions. In contrast, certain items are considered “non-discretionary,” and a “broker non-vote” occurs when brokers do not receive voting instructions from beneficial owners with respect to such items. The proposal to elect directors, the proposal to approve an amendment to the 2008 Plan to increase the number of shares authorized for issuance under the plan by 1,500,000 shares, and the proposal to approve executive compensation are “non-discretionary” items. Therefore, brokers that have not received voting instructions from beneficial owners with respect to these proposals may not vote in their discretion on behalf of such beneficial owners.

Under North Carolina law and our Bylaws, and assuming the existence of a quorum, directors are elected by a plurality of the votes cast by the shares of common stock present in person or by proxy and entitled to vote in the election of directors. Shares that are withheld as to voting with respect to a director nominee and shares held of record by a broker, as nominee, that are not voted will not be counted for purposes of electing directors.

Under our Bylaws, the proposals to approve an amendment to the 2008 Plan to increase the number of shares authorized for issuance under the plan by 1,500,000 shares and to ratify the appointment of BDO as the independent registered public accounting firm for the year ending December 31, 2015 will be approved if the number of shares voted in favor of each respective proposal exceeds the number of shares voted against the proposal. Abstentions will not count as votes cast and will not affect the outcome of these proposals.

With respect to the advisory (nonbinding) vote to approve executive compensation, such proposal will be approved if the votes cast for approval exceed the votes cast against approval for such proposal. Because your votes to approve executive compensation are advisory, your vote will not be binding upon the Board of Directors, your vote will not overrule any decision by the Board of Directors, and your vote will not create or imply any additional fiduciary duties on the Board of Directors or any of its members. However, the Compensation Committee of the Board of Directors will take into account the outcome of the votes when considering future executive compensation arrangements. Abstentions and broker non-votes will not be counted for purposes of determining whether the proposal has received sufficient votes for approval.

Under North Carolina law, our shareholders are not entitled to appraisal rights with respect to any of the proposals in this proxy statement.

Voting of Proxies

The shares represented by the accompanying proxy card and entitled to vote will be voted if the proxy card is properly signed and received by our Corporate Secretary prior to the Annual Meeting. Where a choice is specified on any proxy card as to the vote on any matter to come before the Annual Meeting, the proxy will be voted in accordance with such specification. Where no choice is specified, the proxy will be voted “for” the election of the persons nominated to serve as the directors of our company and named in this proxy statement, “for” the proposal to approve an amendment to the 2008 Plan to increase the number of shares authorized for issuance under the plan by 1,500,000 shares, “for” the proposal to ratify the appointment of BDO as our independent registered public accounting firm for the year ending December 31, 2015, “for” the approval of executive compensation, and in such manner as the proxies named on the enclosed proxy card in their discretion determine upon such other business as may properly come before the Annual Meeting or any adjournment thereof. Any shareholder giving a proxy has the right to revoke it at any time before it is voted by giving written notice to our Corporate Secretary, by attending the Annual Meeting and giving notice of his or her intention to vote in person, or by executing and delivering to us a proxy bearing a later date.

Expenses of Solicitation

We will bear the entire cost of the solicitation of proxies from our shareholders. Following the mailing of this proxy statement and the accompanying proxy card, our directors, officers, and employees may solicit proxies on behalf of our company in person, by telephone, or by other electronic means. We may reimburse persons holding shares for others in their names or in those of their nominees for their reasonable expenses in sending proxy materials to their principals and obtaining their proxies.

PROPOSAL 1**ELECTION OF DIRECTORS**

Our business and affairs are managed under the direction of the Board of Directors, as provided by North Carolina law and our Bylaws. The Board of Directors establishes corporate policies and strategies and supervises the implementation and execution of those policies and strategies by our officers and employees. The directors are kept informed of our operations at meetings of the Board, through reports and analyses prepared by our management, and in discussions with our management.

Our Bylaws currently provide that the Board of Directors shall consist of not less than five nor more than 10 members and that at any time that it consists of nine or more members, the terms shall be staggered. The five persons named below have been recommended by our Nominating and Governance Committee and approved by the Board to be nominated as candidates to serve on the Board of Directors until the 2016 Annual Meeting of Shareholders or until his or her successor is elected and qualified, or until his or her death, resignation, removal, or disqualification or until there is a decrease in the number of directors. The age and a brief biographical description of each director nominee are set forth below. The information appearing below and certain information regarding beneficial ownership of securities by such nominees contained in this proxy statement has been furnished to us by the nominees. Each nominee for director has indicated that he or she is willing and able to serve as a director if elected. However, if any nominee should become unable to serve or for good cause will not serve, the proxies named on the enclosed proxy card will vote for such other nominees and substitute nominees as designated by the Board of Directors.

Nominees for Election as Directors

Name	Age	Position(s) with Charles & Colvard, Ltd.	Director Since
Neal I. Goldman	70	Executive Chairman of the Board	June 2014
H. Marvin Beasley	71	Director, President and Chief Executive Officer	November 2009
Anne M. Butler	66	Director	June 2012
George R. Cattermole	73	Director	May 2008
Ollin B. Sykes	64	Director	May 2008

Neal I. Goldman has served as a director of our company since June 2014 and as Executive Chairman of the Board since January 2015. Mr. Goldman has served as President of Goldman Capital Management, Inc., an investment advisory firm, since he founded the firm in 1985. Prior to that, Mr. Goldman was an analyst and portfolio manager at Shearson/American Express Inc. Mr. Goldman served on the Board of Directors of Blyth, Inc. (NYSE: BTH), a multi-channel company focused on the direct-to-consumer market, and includes in its portfolio two direct sales companies, PartyLite Gifts and ViSalus. Since August 2012, Mr. Goldman has served on the Board of Imageware

Systems, Inc. (OTCQB: IWSY), a leading company in the emerging market for biometrically enabled software-based identity management solutions. Our Board has determined that Mr. Goldman's extensive experience with the investment advisory industry, including his service as President of Goldman Capital Management, Inc., qualifies him to serve on the Board of Directors.

H. Marvin Beasley has served as a director of our company since November 2009 and was appointed as our President and Chief Executive Officer on March 17, 2015. In 2009, Mr. Beasley retired from retailing after 44 years. Mr. Beasley began his retailing career in 1965 as a store manager for Gunst Corporation, a startup catalog showroom operation in Richmond, Virginia. In 1973, Mr. Beasley joined Best Products Co., Inc. ("Best Products") in Richmond, Virginia. During his 16 years at Best Products, Mr. Beasley served in many capacities, including 10 years as Vice President of Jewelry Merchandising and Supply Chain Management. In 1989, Mr. Beasley joined Helzberg Diamond Shops ("Helzberg") as Senior Vice President of Merchandising and was promoted in 2000 to President/Chief Operating Officer. In 2004, Mr. Beasley was promoted to Chief Executive Officer and served until his retirement in 2009. Mr. Beasley is a National Jeweler Retailer Hall of Fame inductee and has served on many boards including Jewelers of America and Jewelers for Children. Our Board has determined that Mr. Beasley's extensive experience in the retail jewelry industry, including service as the Chief Executive Officer at Helzberg, qualifies him to serve on the Board of Directors.

Anne M. Butler has served as a director of our company since June 2012. As a leading executive in the direct selling industry, Ms. Butler has successfully run global businesses for Avon Products, Inc. (“Avon”), Aloette Cosmetics, Mary Kay Cosmetics, Inc. (“Mary Kay”), and PartyLite Gifts, Inc. (“PartyLite”). Ms. Butler started her career with Avon, where she held a variety of progressive assignments across marketing, sales, new market expansion, and new business development while serving as Director of Marketing in Spain, Vice President of Avon Fashions in Brazil, and as General Manager, Avon Fashions for Continental Europe. At Mary Kay, Ms. Butler served as President of the Western and Central Europe business and subsequently successfully expanded the European business at PartyLite where she advanced to President, PartyLite International. Ms. Butler was appointed Worldwide President of PartyLite in May 2007, a position she held until January 2012. Since then, Ms. Butler has served as CEO of Butler Advisors, a consulting firm specializing in strategic and operational advising to private equity, venture capital, and institutional investors on direct selling acquisitions and management, while also serving as Senior Advisor to the Chairman of Blyth, Inc. (“Blyth”). She also served on the Board of ViSalus Sciences, the weight loss and fitness direct sales subsidiary of Blyth. Ms. Butler served on the Board of the Direct Selling Education Foundation until 2014, and in June 2012 concluded two years of service as Vice Chairman of the Board of the Direct Selling Association. Our Board has determined that Ms. Butler’s leadership in several public direct sales companies, as well as her background in marketing and global operations, qualifies her to serve on the Board of Directors.

George R. Cattermole has served as a director of our company since May 2008 and as Chairman of the Board from February 2009 through December 2014. Mr. Cattermole also served as our Interim Chief Executive Officer from July 2009 through November 2009. From May 2005 to March 2012, Mr. Cattermole served as Chairman of the Board of Directors of Outlast Technologies Inc. (“OTI”), a Boulder, Colorado technology company that provides “phase change materials” to the fiber, textile, bedding, and apparel markets worldwide. In addition, Mr. Cattermole served as President and Chief Executive Officer of OTI from October 2000 to May 2005. After attending University of Santa Clara and University of Colorado, Mr. Cattermole joined E.I. DuPont in 1966 where he held a variety of operating, business leader, and corporate assignments, retiring in 1999 as head of Corporate Marketing. Our Board has determined that Mr. Cattermole’s leadership experiences, including service as our Chairman of the Board and our Interim Chief Executive Officer, and his background in global operations and marketing qualify him to serve on the Board of Directors.

Ollin B. Sykes has served as a director of our company since May 2008. Since 1984, he has served as the President of Sykes & Company, P.A., a regional accounting firm specializing in accounting, tax, and financial advisory services. Mr. Sykes earned his Bachelor of Science degree in accounting at Mars Hill College and is a Certified Public Accountant, a Certified Information Technology Professional, and a Certified Management Accountant. Mr. Sykes served as a director of Hampton Roads Bankshares, Inc. (NASDAQ: HMPR), a financial holding company operating in North Carolina, Maryland eastern shore, and Virginia, from December 2008 until December 31, 2010. He currently serves as a director of Bank of Hampton Roads, a wholly owned subsidiary of Hampton Roads Bankshares, Inc. Our Board has determined that Mr. Sykes’s background in accounting and finance and his accounting certifications qualify him to serve on the Board of Directors.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE “FOR” THE ELECTION OF EACH OF THE DIRECTOR NOMINEES.

CORPORATE GOVERNANCE MATTERS

Independent Directors

In accordance with the listing rules of The NASDAQ Stock Market LLC (“NASDAQ”), our Board of Directors must consist of a majority of “independent directors,” as determined in accordance with NASDAQ Rule 5605(a)(2). The Board has determined that current directors Ms. Butler, Mr. Cattermole, Mr. Goldman, and Mr. Sykes are independent directors in accordance with applicable NASDAQ listing rules. Mr. Beasley was determined to be independent until he was appointed as our President and Chief Executive Officer on March 17, 2015. Additionally, the Board determined that each of Dr. Charles D. Lein, who did not stand for re-election at our 2014 Annual Meeting of Shareholders, and David B. Barr, who resigned from our Board on March 31, 2015, also qualified as an independent director during the time in which they served. The Board performed a review to determine the independence of its members and made a subjective determination as to each member that no transactions, relationships, or arrangements exist that, in the opinion of the Board, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director of our company. In making these determinations, the Board reviewed the information provided by the directors with regard to each individual’s business and personal activities as they may relate to us and our management.

Meetings of the Board of Directors

Pursuant to our Corporate Governance Standards, all directors are expected to attend meetings of the Board and their assigned committees. The Board of Directors meets on a regularly scheduled basis and met 11 times during the year ended December 31, 2014. Each incumbent director attended 75% or more of the aggregate of the number of meetings of the Board held during the period that individual was a director and the number of meetings of committees on which that director served that were held during the period of that director's service. We also expect all directors to attend each annual meeting of shareholders. Seven directors, comprising all six nominees for election at the 2014 Annual Meeting of Shareholders and Dr. Lein, who did not stand for re-election, attended the 2014 Annual Meeting of Shareholders.

Board Leadership Structure

On November 4, 2014, the Board of Directors approved the creation of the position of Executive Chairman to replace the role of Chairman of the Board, effective January 1, 2015. The Executive Chairman is not an employee of our company. The Board of Directors has determined that it is in the best interest of our company for our Executive Chairman to be an independent director at this time. The Board believes that having an independent Executive Chairman furthers the Board's goal of providing effective, independent leadership and oversight of our company. Until January 1, 2015, the Chairman of the Board's responsibilities included establishing Board meeting agendas in collaboration with our Chief Executive Officer and presiding at meetings of the Board and shareholders. The Executive Chairman has expanded duties to work closely with senior management of our company regarding business strategy and the effective achievement of objectives and strategy following presentation to and approval by the Board, particularly in light of expected succession planning for the Chief Executive Officer. The Chief Executive Officer has general supervision, direction, and control of the business and affairs of our company in the ordinary course of its business.

To ensure free and open discussion and communication among the non-management directors, such directors meet regularly in executive session in conjunction with regularly scheduled meetings of the Board. The director who presides at these meetings is chosen by the independent directors. Executive sessions of the independent directors are to occur at least four times a year.

Board's Role in Risk Oversight

We operate in a complex environment and are subject to a number of significant risks. The Board of Directors works with our senior management to manage the various risks we face. The role of the Board is one of oversight of our risk management processes and procedures; the role of our management is to implement those processes and procedures

on a daily basis and to identify, manage, and mitigate the risks that we face. As part of its oversight role, the Board regularly discusses, both with and without management present, our risk profile and how our business strategy effectively manages and leverages the risks that we face.

To facilitate its oversight of our company, the Board of Directors has delegated certain functions (including the oversight of risks related to these functions) to Board committees. The Audit Committee reviews and discusses with management our major financial risk exposures and the steps management has taken to monitor and control such exposures, the Compensation Committee evaluates the risks presented by our compensation programs and analyzes these risks when making compensation decisions, and the Nominating and Governance Committee evaluates whether the composition of the Board of Directors is appropriate to respond to the risks that we face. The roles of these committees are discussed in more detail below.

Although the Board of Directors has delegated certain functions to various committees, each of these committees regularly reports to and solicits input from the full Board regarding its activities. These discussions enable the Board to monitor our risk exposure and evaluate our risk mitigation efforts.

Standing Committees of the Board of Directors

The Board of Directors has established an Audit Committee, a Compensation Committee, and a Nominating and Governance Committee as standing committees of the Board. Each of these committees is governed by a formal written charter approved by the Board, copies of which are available on our website at www.charlesandcolvard.com. Each committee is composed solely of independent directors. The following is a brief description of the responsibilities of each of these standing committees and their composition.

Audit Committee

The Audit Committee, established in October 1997, represents and assists the Board in its general oversight of our company's accounting and financial reporting processes, audits of the financial statements, and internal control and audit functions. The Audit Committee has the authority to, among other things, (i) appoint an independent registered public accounting firm to serve as our external auditor; (ii) review and discuss with such auditor the scope, timing, and results of its audit; (iii) review and discuss with management and the independent registered public accounting firm our internal control over financial reporting and related reports; (iv) review and approve all "related person" transactions, as that term is defined in Item 404 of Regulation S-K; and (v) review our annual financial statements and approve their inclusion in our Annual Report on Form 10-K. The Audit Committee, which held eight meetings in 2014, is currently composed of Mr. Sykes (Chairperson), Ms. Butler, and Mr. Goldman.

The Board of Directors has determined that each of the members of the Audit Committee is an independent director in accordance with applicable NASDAQ listing rules and the additional independence rules for audit committee members promulgated by the Securities and Exchange Commission (the "SEC"). Each member is able to read and understand fundamental financial statements, including our company's balance sheet, income statement, and cash flow statement. The Board of Directors has determined that Mr. Sykes and Mr. Goldman are "audit committee financial experts" as defined in Item 407(d)(5) of Regulation S-K promulgated by the SEC.

Compensation Committee

The Compensation Committee, established in October 1997, carries out the overall responsibility of the Board relating to executive compensation, evaluation, and development. The Compensation Committee has the authority to, among other things, (i) review and approve the corporate goals and objectives with respect to the compensation of our Chief Executive Officer and set the Chief Executive Officer's annual compensation, including salary, bonus, incentive compensation, and equity compensation; (ii) review and approve the evaluation process and compensation structure for our officers and approve their annual compensation, including salary, bonus, incentive compensation, and equity compensation, and any special or supplemental benefits; (iii) review, approve and when appropriate, recommend to

the Board for approval, incentive and equity compensation plans, which includes the ability to adopt, amend and terminate such plans; and (iv) evaluate and make recommendations to the Board concerning the compensation for directors, including if applicable, equity-based compensation. Each of the members of the Compensation Committee is an independent director in accordance with NASDAQ listing rules. The Compensation Committee, which held 11 meetings in 2014, is currently composed of Mr. Goldman (Chairperson), Ms. Butler, and Mr. Sykes. Although the Compensation Committee may delegate authority to subcommittees to fulfill its responsibilities when appropriate, no such authority was delegated during 2014.

In 2013, the Compensation Committee engaged FosterThomas, Inc. (“FosterThomas”) to provide a comprehensive executive compensation analysis for our named executive officers in order to assist the Compensation Committee in structuring the 2014 compensation program. In 2014, the Compensation Committee determined to separate the Company’s incentive plan into two separate plans, the Charles & Colvard, Ltd. Short-Term Incentive Plan (the “STI Plan”) and the Charles & Colvard, Ltd. Long-Term Incentive Program (the “LTI Program”). In setting 2014 executive compensation, the Compensation Committee engaged FosterThomas to provide recommendations for the metrics of the STI Plan and LTI Program and received input from the Chief Executive Officer in setting base salaries for executive officers and input from the Chief Executive Officer and Chief Financial Officer regarding a structure and potential payout amounts under the STI Plan and the LTI Program for executive officers as well as other company employees.

Nominating and Governance Committee

The Nominating and Governance Committee, established in December 2003, is responsible for, among other things, (i) screening and recommending qualified candidates for election and appointment to the Board; (ii) recommending to the Board from time to time an appropriate organizational structure (including size and composition) for the Board; (iii) monitoring the independence of the Board and ensuring that the requisite number of directors serving on committees of the Board meet applicable independence requirements and assisting the Board in making related determinations; (iv) reviewing from time to time the appropriate qualifications, skills, and characteristics required of directors; (v) developing procedures to receive and evaluate Board nominations received from shareholders and other third parties; (vi) periodically reviewing and reassessing the adequacy of our company's corporate governance; conflicts of interest; and business ethics policies, principles, codes of conduct, and guidelines; and formulating and recommending any proposed changes to the Board; and (vii) conducting an annual review of the effectiveness of the Board and its committees and presenting its assessment to the full Board. Each of the members of the Nominating and Governance Committee is an independent director in accordance with NASDAQ listing rules. The Nominating and Governance Committee, which held five meetings in 2014, is currently composed of Ms. Butler (Chairperson), Mr. Cattermole, and Mr. Goldman.

Director Nominations

Our Bylaws contain provisions that address the process by which a shareholder may nominate an individual to stand for election to the Board of Directors at our Annual Meeting of Shareholders. These provisions state that nominations for election as a director must be made in writing and be delivered to or mailed and received at our principal executive office not fewer than 60 days and not more than 90 days prior to the anniversary date of the notice date with respect to the previous year's annual meeting of shareholders. In the case of a special meeting or an annual meeting that is called for a date that is not within 30 days before or 60 days after the anniversary date of the immediately preceding annual meeting, notice must be received no earlier than 90 days prior to such annual meeting or special meeting and no later than 60 days prior to such annual meeting or special meeting, or the close of business on the tenth day following the day on which notice of the meeting was mailed or public disclosure of the date of the meeting was made, whichever occurs first. The Chief Executive Officer will provide the Nominating and Governance Committee with a copy of any such notification received by us from a shareholder purporting to nominate a candidate for election as a director. Any shareholder wishing to submit a nomination for a director of our company should send the nomination to the Chief Executive Officer, Charles & Colvard, Ltd., 170 Southport Drive, Morrisville, North Carolina 27560.

When submitting a nomination to us for consideration by the Nominating and Governance Committee, a shareholder must provide the following minimum information for each director nominee: (i) the name, age, business address, and residence address of such person, (ii) the principal occupation or employment of such person, (iii) the class and number of shares of our company that are beneficially owned by such person, (iv) a description of all arrangements or understandings between the shareholder (or the beneficial owner, if any, on whose behalf such nomination is made) and each nominee and any other person or persons (naming such person or persons) pursuant to which the nominations are to be made by the shareholder, (v) any other information relating to such person that is required to be

disclosed in solicitations of proxies for elections, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), (including, without limitation, such person’s written consent to being named in the proxy statement, if any, as a nominee and to serving as a director if elected), and (vi) such additional information relating to such person as is deemed sufficient by the Board to establish that the person meets all minimum qualification standards or other criteria to serve as a director as may have been established by the Board or applicable law or listing standard. The shareholder also must provide the name and address, as they appear on our company’s books, of the shareholder proposing such business and the beneficial owner, if any, on whose behalf such proposal is made; the class and number of shares of our company that are beneficially owned by the shareholder and the beneficial owner on whose behalf the proposal is made; any material interest, direct or indirect, of the shareholder and such beneficial owner in such business; and a representation that the shareholder is a holder of record of shares of our company entitled to vote at the meeting and intends to appear in person or by proxy at the meeting. Shareholder nominations for a director must be made in a timely manner and otherwise in accordance with our Bylaws and applicable law.

It is the policy of our company and the Nominating and Governance Committee to evaluate suggestions concerning possible candidates for election to the Board submitted to us, including those submitted by Board members, shareholders, and third parties. Criteria used by the Nominating and Governance Committee in its evaluation of all candidates for nomination are set forth in our Corporate Governance Standards and include, but are not limited to (i) judgment, character, expertise, skills, and knowledge useful to the oversight of our business; (ii) diversity of viewpoints, backgrounds, ages, experiences, and other demographics; (iii) business or other relevant experience; and (iv) the extent to which the interplay of the candidate's expertise, skills, knowledge, and experience with that of other Board members will build a Board that is effective, collegial, and responsive to the needs of our company. After this evaluation process is concluded, the Nominating and Governance Committee recommends nominees to the Board for further consideration and approval.

No fees have been paid to any third party to identify or evaluate or assist in identifying or evaluating potential nominees. Mr. Sykes recommended Mr. Goldman as a prospective candidate for nomination to the Board.

Shareholder Communication with the Board

As set forth in our Corporate Governance Standards, it is the policy of our company and the Board to encourage free and open communication between shareholders and the Board. Any shareholder wishing to communicate with the Board should send any communication to the Corporate Secretary, Charles & Colvard, Ltd., 170 Southport Drive, Morrisville, North Carolina 27560. Any such communication must be in writing and must state the number of shares beneficially owned by the shareholder making the communication. Our Corporate Secretary will generally forward such communication to the full Board or to any individual director or directors to whom the communication is directed unless the communication is unduly hostile, threatening, illegal, or similarly inappropriate, in which case the Corporate Secretary has the authority to discard the communication or take appropriate legal action regarding the communication. This process is intended to provide shareholders one means of communicating with directors and is not intended to be exclusive.

Codes of Conduct

The Board of Directors has adopted two separate codes of conduct: a Code of Ethics for Senior Financial Officers that applies to persons holding the offices of the Chief Executive Officer, Chief Financial Officer, Treasurer, and Principal Accounting Officer of our company, and a Code of Business Conduct and Ethics that applies to all of our officers, directors, agents, and representatives (including consultants, advisors, and independent contractors). Each code is available on our website at www.charlesandcolvard.com. We intend to satisfy the disclosure requirement regarding any material amendment to a provision of either code that applies to the Chief Executive Officer, Chief Financial Officer, Treasurer, and Principal Accounting Officer by posting such information on our website. Any amendments or waivers of either code for any executive officer or director must be approved by the Board and will be publicly disclosed either by posting such amendment or waiver on our website at www.charlesandcolvard.com or by filing a

Form 8-K with the SEC, along with the reasons for the waiver, if applicable.

CERTAIN TRANSACTIONS AND LEGAL PROCEEDINGS

For a description of our consulting arrangements with Ms. Butler, please see “Executive Compensation—2014 Director Compensation—Consulting Arrangements with Anne M. Butler.” During 2014, we were not a participant in or a party to any other related person transactions requiring disclosure under the SEC’s rules.

AUDIT COMMITTEE REPORT

The Audit Committee is responsible for overseeing our overall financial reporting process. In fulfilling its responsibilities for the financial statements for fiscal year 2014, the Audit Committee:

· reviewed and discussed the audited financial statements for the year ended December 31, 2014 with management and BDO USA, LLP, our independent registered public accounting firm;

· discussed with BDO USA, LLP the matters required to be discussed by the Public Company Accounting Oversight Board Auditing Standard No. 16, Communications with Audit Committees; and

· received the written disclosures and the letter from BDO USA, LLP required by applicable requirements of the Public Company Accounting Oversight Board regarding BDO USA, LLP's communications with the Audit Committee concerning independence and discussed with BDO USA, LLP its independence.

Based on the Audit Committee's review and discussions referred to above, the Audit Committee recommended to the Board that the audited financial statements be included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014 for filing with the SEC.

This Report is submitted by the Audit Committee.

Mr. Ollin B. Sykes, Chairperson

Mr. H. Marvin Beasley*

Mr. Neal I. Goldman

*Mr. Beasley relinquished his membership on the Audit Committee upon his appointment as our President and Chief Executive Officer on March 17, 2015.

INFORMATION CONCERNING EXECUTIVE OFFICERS

Certain information regarding our executive officers is set forth below. Executive officers are appointed by the Board of Directors to hold office until their successors are duly appointed and qualified, or until their resignation, retirement, death, removal, or disqualification. The information appearing below and certain information regarding beneficial ownership of securities by certain executive officers contained in this proxy statement has been furnished to us by the executive officers. Information regarding Mr. Beasley is included in the director nominee profiles set forth above.

Name	Age	Title	Executive Officer Since
H. Marvin Beasley	71	President and Chief Executive Officer	March 2015
Kyle S. Macemore	43	Senior Vice President, Chief Financial Officer, and Treasurer	August 2013
Steven M. Larkin	56	Chief Operating Officer	May 2013

Kyle S. Macemore has served as our Senior Vice President, Chief Financial Officer, and Treasurer since August 2013. Mr. Macemore mostly recently served as Chief Financial Officer and Vice President Global Signaling Solutions of Tekelec, a telecommunications company, from January 2012 to August 2013. At Tekelec, Mr. Macemore previously served as Vice President Finance and Investor Relations from May 2010 to January 2012, Director Financial Planning and Analysis from June 2007 to May 2010, Controller Signaling and Communications Software from April 2006 to June 2007, and Controller Communications Software from November 2005 to April 2006. Prior to his employment with Tekelec, Mr. Macemore held various financial positions at IBM Corporation, including Chief Financial Officer of its Americas Storage Division. Mr. Macemore holds a Bachelor of Science degree in Business Administration and a Master of Accounting from the University of North Carolina at Chapel Hill and a Master of Business Administration degree from the Duke University Fuqua School of Business.

Steven M. Larkin was appointed as our Chief Operating Officer effective as of May 6, 2013. Mr. Larkin served as a director of our company beginning in February 2011 and resigned from the Board effective as of May 6, 2013. From January 2010 to April 2013, Mr. Larkin served as Senior Vice President, Direct, of Golfsmith International Holdings, Inc. (“Golfsmith”), a specialty retailer of golf and tennis equipment, apparel, and accessories. From November 2009 to January 2010, he was a consultant to Golfsmith. From August 2008 to June 2009, Mr. Larkin served as Executive Vice President, Chief Marketing and E-Commerce Officer at Zale Corporation, a specialty retailer of diamonds and other jewelry products. He was Zale Corporation’s Senior Vice President, Brand Marketing and E-Commerce, from February 2008 to August 2008 and its Senior Vice President, Direct to Consumer, from January 2006 to February 2008. Before joining Zale Corporation, Mr. Larkin served in a variety of e-commerce and marketing-related executive positions with various companies in the retail industry for over 20 years, including ShopNBC, The Fingerhut Corporation, and Federated Department Stores/Macy’s, Inc.

EXECUTIVE COMPENSATION

The following tables and narrative discussion summarize the compensation we paid for services in all capacities rendered to us during the years ended December 31, 2014 and 2013 by our principal executive officer and all other “named executive officers” during fiscal 2014.

Summary Compensation Table

Name and Principal Position	Year	Salary (\$)	Stock Awards (\$) ⁽¹⁾	Option Awards (\$) ⁽¹⁾	Non-Equity	All Other Compensation (\$)	Total (\$)
					Incentive Plan Compensation (\$) ⁽²⁾		
Randall N. McCullough	2014	\$335,000	\$—	\$—	\$	—\$ 17,745 ⁽⁹⁾	\$352,745
Former President and Chief Executive Officer ⁽³⁾	2013	335,000	—	17,745	—	7,088	359,833
Kyle S. Macemore	2014	250,000	—	148,150	—	14,631 ⁽¹⁰⁾	412,781
Senior Vice President and Chief Financial Officer ⁽⁴⁾	2013	96,154	483,200	343,715	—	812	923,881
Steven M. Larkin	2014	300,000	—	—	—	18,031 ⁽¹¹⁾	318,031
Chief Operating Officer ⁽⁵⁾	2013	204,385 ⁽⁶⁾	404,000 ⁽⁷⁾	285,442 ⁽⁷⁾	—	37,143 ⁽⁸⁾	930,970

(1) The amounts shown in these columns reflect the aggregate grant date fair value computed in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification Topic 718, Compensation – Stock Compensation (“ASC Topic 718”), of the restricted stock awards or option awards, as applicable, granted to each of our named executive officers. The assumptions made in determining these values are set forth in Note 10 to our consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2014 filed with the SEC on March 13, 2015.

(2) Reflects short-term incentive awards earned under the STI Plan as described below under “Incentive Plans—STI Plan.”

(3) On March 17, 2015, Mr. McCullough resigned as our President and Chief Executive Officer and as a director.

(4) Mr. Macemore was appointed as our Senior Vice President, Chief Financial Officer, and Treasurer effective as of August 5, 2013.

(5) Mr. Larkin resigned from our Board and was appointed as our Chief Operating Officer effective as of May 6, 2013.

- (6) Includes \$190,385 received as salary for service as our Chief Operating Officer and \$14,000 cash compensation for Board retainer and meeting fees received in 2013 prior to resigning from the Board.
- (7) Awarded in connection with Mr. Larkin's appointment as our Chief Operating Officer.
- (8) Includes \$35,000 of relocation expense reimbursements, \$1,735 of 401(k) employer matching contributions, and \$408 of long-term disability insurance premiums.
- (9) Includes \$7,800 of 401(k) employer matching contributions and \$9,945 of long-term disability insurance and life insurance premiums.
- (10) Includes \$7,516 of 401(k) employer matching contributions and \$7,116 of long-term disability insurance and life insurance premiums.
- (11) Includes \$7,800 of 401(k) employer matching contributions and \$10,231 of long-term disability insurance and life insurance premiums.

Agreements Involving Named Executive Officers

Randall N. McCullough

In connection with Randall N. McCullough's appointment as President and Chief Executive Officer, we entered into an employment agreement with Mr. McCullough effective as of November 5, 2009. The employment agreement had a term of one year and renewed automatically on an annual basis. Under the terms of his employment agreement, Mr. McCullough received an initial annual base salary of \$325,000. Beginning in 2010 and for each year thereafter for the term of his employment agreement, Mr. McCullough was entitled to compensation under a mutually agreed upon incentive bonus plan up to 75% of his existing salary, based upon our performance toward achieving targets in a business plan and budget submitted by Mr. McCullough and approved by the Board. In addition, on November 5, 2009, Mr. McCullough was granted an incentive stock option to purchase 189,252 shares of our common stock at an exercise price of \$0.58 per share. The option vested over a three-year period, with 25% of the award vesting on the grant date and 25% of the award vesting on each of the following three anniversary dates of the grant date. The employment agreement also provided that Mr. McCullough was entitled to additional incentive stock option grants for 100,000 shares of our common stock on each of the first two anniversary dates of employment with an identical vesting schedule. Mr. McCullough was entitled to receive such benefits as were made available to our other executives, including, but not limited to, life, medical, and disability insurance, retirement benefits, and such vacation as was provided to our other executives.

On March 17, 2015, Mr. McCullough resigned as our President and Chief Executive Officer and as a member of our Board effective immediately. In connection with his resignation, Mr. McCullough entered into a Separation of Employment Agreement (the "Separation Agreement"), dated March 23, 2015, and a Consulting Agreement (the "Consulting Agreement"), dated March 23, 2015.

Under the Separation Agreement, Mr. McCullough is entitled to receive severance in an amount equal to one year of his current base annual salary (less applicable taxes and withholdings), payable in bi-weekly installment payments in accordance with our regular payroll schedule in exchange for a standard release of employment claims. We will also pay COBRA premiums for coverage of Mr. McCullough and his eligible dependents for one year if Mr. McCullough timely and properly elects continuation coverage. We have also agreed to accelerate the vesting of 3,297 options previously granted to Mr. McCullough. Those options, and all other options held by Mr. McCullough, will be exercisable as set forth in the applicable option agreement, except that any options whose exercise price is greater than the fair market value of our common stock as of March 23, 2015 will be exercisable through March 17, 2017. Furthermore, we have agreed that the restrictions on 34,000 shares of restricted stock previously granted to Mr. McCullough lapse effective March 17, 2015. The Separation Agreement also contains such confidentiality provisions and other terms and conditions as are usual and customary for agreements of this type. All of Mr. McCullough's obligations under his employment agreement regarding confidentiality and proprietary information will continue.

Pursuant to the Consulting Agreement, for the two-year period following the date of the Consulting Agreement, Mr. McCullough will provide consulting services as may be reasonably requested by us upon reasonable notice to him. The parties intend that (i) during the first three months of the consulting period the number of consulting hours will not exceed 32 hours in any one-month period and (ii) during the final 21 months of the consulting period the number of consulting hours will not exceed 20 hours in any one-month period. Mr. McCullough will be paid a total consulting fee of \$100,000 for all services provided during the consulting period, payable in two equal installments of \$50,000, the first payable within 10 days of the effective date of the Consulting Agreement, and the second payable between March 1 and March 15, 2016, subject to his compliance with the terms of the Consulting Agreement and all other written agreements, or surviving provisions thereof, between him and our company. For a period of two years following the date of the Consulting Agreement, Mr. McCullough is generally prohibited from competing with us or attempting to solicit our customers or employees.

Kyle S. Macemore

In connection with Mr. Macemore's appointment as Senior Vice President and Chief Financial Officer, we entered into an employment agreement with Mr. Macemore effective as of August 5, 2013. The employment agreement has a term of one year and renews automatically on an annual basis. Under the terms of his employment agreement, Mr. Macemore received an initial annual base salary of \$250,000. In addition, Mr. Macemore received an initial stock option award to purchase 80,000 shares of stock of our company and an award of 80,000 shares of restricted stock. Each award vests over a three-year period, with 25% of the option award vesting on the grant date, 25% of the restricted stock award vesting on January 1, 2014, and 25% of each award vesting on each of the following three anniversary dates of the grant date. Mr. Macemore was also eligible for a bonus opportunity in 2013 under our company's Corporate Incentive Plan of up to 75% of his base salary. Mr. Macemore also has the right to receive such benefits as are made available to our other similarly-situated executive employees, including, but not limited to, life, medical, and disability insurance, as well as retirement benefits.

If Mr. Macemore's employment is terminated by us by notice of non-renewal or without cause (as defined in his employment agreement), Mr. Macemore will continue to receive his base salary at the time of termination for a period of one year from such termination, so long as he complies with certain covenants in his employment agreement.

If our company experiences a change of control (as defined in his employment agreement), Mr. Macemore may voluntarily terminate his employment for good reason (as defined in his employment agreement) within six months after such change of control and be entitled to receive in a lump sum any compensation due but not yet paid through the date of termination and an amount equal to his base salary at the time of termination for a period of one year from such termination. During his employment with us and for a period of one year following termination of his employment, Mr. Macemore is prohibited from competing with us or attempting to solicit our customers or employees.

Steven M. Larkin

In connection with Mr. Larkin's appointment as Chief Operating Officer, we entered into an employment agreement with Mr. Larkin effective as of May 6, 2013. The employment agreement has a term of one year and renews automatically on an annual basis. Under the terms of his employment agreement, Mr. Larkin received an initial annual base salary of \$300,000. In addition, Mr. Larkin received an initial stock option award to purchase 100,000 shares of stock of our company and an initial award of 100,000 shares of restricted stock. Each award vests in four equal installments of one-fourth on each of the grant date and the first, second, and third anniversary of the grant date. Mr. Larkin was also eligible for a bonus opportunity in 2013 under our company's Corporate Incentive Plan of up to 75% of his base salary and received a relocation allowance of up to \$35,000, reimbursement of commuting expenses for lodging and travel during the first three months of his employment, and such benefits as are made available to our other employees, including, but not limited to, life, medical, and disability insurance, as well as retirement benefits.

If Mr. Larkin's employment is terminated by us by notice of non-renewal or without just cause (as defined in his employment agreement), Mr. Larkin will continue to receive his base salary at the time of termination for a period of one year from such termination, so long as he complies with certain covenants in his employment agreement.

If our company experiences a change of control (as defined in his employment agreement), Mr. Larkin may voluntarily terminate his employment for good reason (as defined in his employment agreement) within six months after such change of control and be entitled to receive in a lump sum any compensation due but not yet paid through the date of termination and an amount equal to his base salary at the time of termination for a period of one year from such termination. During his employment with us and for a period of one year following termination of his employment, Mr. Larkin is prohibited from competing with us or attempting to solicit our customers or employees.

Incentive Plans

STI Plan

On April 17, 2014, the Compensation Committee approved the terms of the STI Plan and the LTI Program, each of which became effective for fiscal 2014 and superseded and replaced all prior annual bonus and long-term incentive plans or programs, including the Corporate Incentive Plan.

The STI Plan provides a short-term incentive opportunity payable as a cash award to our eligible employees. Executive officers are eligible for awards under the STI Plan based on threshold, target, and maximum performance levels set by the Compensation Committee, and the actual award amounts, if any, will therefore vary depending on our company's achievement of certain performance goals. Awards are determined based on the achievement of different target levels of EBITDA, revenues and personal objectives as set forth by the Compensation Committee. The Compensation Committee assigns the following weight to each factor for our executive officers: Chief Executive Officer and Chief Financial Officer performance achievement is based 70% on EBITDA, 20% on revenues, and 10% on personal objectives; Chief Operating Officer performance achievement is based 50% on EBITDA, 40% on revenues, and 10% on personal objectives; and President level and below performance achievement is weighted according to recommendations from management. The target award opportunity under the STI Plan for our executive officers is calculated based on a percentage of each executive officer's total base salary, with the Chief Executive Officer's target bonus equal to 50% of his base salary, the Chief Financial Officer's and the Chief Operating Officer's target bonus equal to 45% of his base salary, and the target bonus of officers at the President level and below equal to 40% of such officer's base salary.

There will be no payout under the STI Plan for any performance cycle unless EBITDA is at least equal to a threshold level established by the Compensation Committee for this purpose. Any of our performance levels on the performance measures or the threshold EBITDA target can be adjusted for one-time events, including accounting charges not forecasted, as approved by the Compensation Committee. Under the STI Plan, each performance measure operates independently of the other measure. That is, an award may be paid when the threshold performance level is achieved for a single measure, without regard to results for any other measure. Actual award payouts for our executive officers can vary from 80% of target awards to 150% of target awards for achieving the maximum performance level. For performance below the threshold performance level of 80%, the payout percentage is 0%. The final determination of achievement with respect to the applicable targets and whether to pay in excess of, or below, the performance level achieved, is made by the Committee in its sole discretion. Because the threshold level of EBITDA was not achieved, no awards were earned by executive officers under the STI Plan for 2014 performance.

LTI Program

The LTI Program provides a long-term incentive opportunity through annual equity grants with three-year vesting periods to our executive officers. The target equity compensation under the LTI Program for our executive officers is calculated based on a percentage of each executive officer's total base salary, with the Chief Executive Officer's target grant equal to 80% of his base salary and the Chief Financial Officer's, Chief Operating Officer's and Presidents' target grants equal to 60% of their base salary. The grants are 70% in the form of stock options with performance- and time-based elements and 30% in the form of time-based restricted stock grants.

Stock options and restricted stock granted under the LTI Program vest in three equal annual installments, beginning on the one-year anniversary of the grant date. In addition, the vesting of the stock options is subject to the achievement of a budgeted level of EBITDA for the year in which they are granted. For eligible employees below the President level, equity grants are only in the form of stock options that vest in three equal annual installments, beginning on the one-year anniversary of the grant date.

No stock option awards were earned under the LTI Program for 2014 performance because the threshold level of EBITDA was not achieved. In addition, the Board determined not to grant restricted stock to executive officers under the LTI Program for 2014 performance in light of our company's 2014 financial performance.