

CHARLES & COLVARD LTD
Form DEF 14A
October 01, 2018

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

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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(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 NOVEMBER 8, 2018

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 offices of Charles & Colvard, Ltd. located at 170 Southport Drive, Morrisville, North Carolina 27560, on Thursday, November 8, 2018, at 10:00 a.m., Eastern Standard Time, for the following purposes:

1. To elect six nominees described in the proxy statement to the Board of Directors;
2. To approve the Charles & Colvard, Ltd. 2018 Equity Incentive Plan;
3. To ratify the appointment of BDO USA, LLP as our independent registered public accounting firm for the fiscal year ending June 30, 2019;
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 September 21, 2018 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
Chairman of the Board of Directors

October 1, 2018

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 November 8, 2018:

The Notice of Annual Meeting of Shareholders, Proxy Statement, Form of Proxy, and 2018 Annual Report to Shareholders are available at <http://proxy.charlesandcolvard.com>.

This proxy statement is furnished to the shareholders of Charles & Colvard, Ltd. in connection with the solicitation of proxies by our Board of Directors for use at our company's 2018 Annual Meeting of Shareholders (the "Annual Meeting") and all adjournments thereof. The Annual Meeting will be held at the offices of Charles & Colvard, Ltd. located at 170 Southport Drive, Morrisville, North Carolina 27560, on Thursday, November 8, 2018 at 10:00 a.m., Eastern Standard Time, to conduct the following business and such other business as may be properly brought before the meeting: (1) to elect six nominees described in this proxy statement to the Board of Directors; (2) to approve the Charles & Colvard, Ltd. 2018 Equity Incentive Plan (the "2018 Plan"); (3) to ratify the appointment of BDO USA, LLP ("BDO") as our independent registered public accounting firm for the fiscal year ending June 30, 2019; 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 the 2018 Plan, (3) FOR ratification of the appointment of BDO as our independent registered public accounting firm for the fiscal year ending June 30, 2019, 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 October 1, 2018.

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 September 21, 2018 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 September 21, 2018, there were 21,598,069 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 the 2018 Plan, 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 the 2018 Plan and to ratify the appointment of BDO as the independent registered public accounting firm for the fiscal year ending June 30, 2019 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 and broker non-votes 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 the 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 the 2018 Plan, “for” the proposal to ratify the appointment of BDO as our independent registered public accounting firm for the fiscal year ending June 30, 2019, “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.

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Change in Fiscal Year

On January 30, 2018, the Board of Directors approved a change in our company's fiscal year from a fiscal year beginning on January 1 and ending on December 31 of each year to a fiscal year beginning on July 1 of each year and ending on June 30 of the following year. References to the "Transition Period" in this proxy statement refer to the six-month period beginning on January 1, 2018 and ending on June 30, 2018. We filed a Transition Report on Form 10-KT (the "Transition Report") with the Securities and Exchange Commission (the "SEC") on September 7, 2018 for the Transition Period. Our prior fiscal years referred to in this proxy statement ended December 31, 2017 and December 31, 2016. Our fiscal 2019 will span the full 12 months from July 1, 2018 through June 30, 2019. We expect our 2019 Annual Meeting of Shareholders to take place in November 2019 during fiscal 2020.

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 of Directors, 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 six persons named below have been recommended by our Nominating and Governance Committee and approved by the Board of Directors to be nominated as candidates to serve on the Board of Directors until the 2019 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	74	Chairman of the Board of Directors	June 2014
Anne M. Butler	69	Director	June 2012
Benedetta Casamento	52	Director	May 2017
Jaqui Lividini	56	Director	August 2015
Suzanne Miglucci	58	Director, President and Chief Executive Officer	August 2015
Ollin B. Sykes	67	Director	May 2008

Neal I. Goldman has served as a director of our company since June 2014, as Executive Chairman of the Board of Directors from January 2015 until August 2017, and as Chairman of the Board of Directors since August 2017. 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, Inc. (“PartyLite”), and ViSalus Sciences. 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, and in August 2018, he was appointed to the Board of Directors of iPass Inc. (Nasdaq:IPAS), a leading provider of global mobile connectivity. Our Board of Directors 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.

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Anne M. Butler has served as a director of our company since June 2012. Since January 2012, 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. 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. 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. She also served on the Board of ViSalus Sciences, the weight loss and fitness direct sales subsidiary of Blyth, Inc. She currently serves as a Director of AdvoCare International. Our Board of Directors has determined that Ms. Butler’s leadership in several public companies, as well as her background in marketing and global operations, qualifies her to serve on the Board of Directors.

Benedetta Casamento has served as a director of our company since May 2017. Since August 2017, Ms. Casamento has served as a Retail Consultant specializing in finance, business operations, and financial planning and analysis. Ms. Casamento previously served as Chairman and President of Allyke, Inc., an artificial intelligence company creating digital imagery insights for retail and other industries, from June 2016 to August 2017. From December 2014 to April 2016, she served as Chief Executive Officer of Calypso St. Barth, a luxury boutique retailer of women’s apparel and accessories. Prior to her role as CEO at Calypso St. Barth, Ms. Casamento served as a consultant to private equity firms with portfolio interests in retail and fashion from July 2012 to December 2014. Ms. Casamento previously served as Executive Vice President, Finance & Operations of The Talbots, Inc. (“Talbots”), a specialty retailer and direct marketer of women’s apparel, accessories, and shoes, from March 2009 to July 2012. Prior to joining Talbots, Ms. Casamento served in various leadership roles within Liz Claiborne Inc. from February 1999 to November 2008, culminating in her position as President of Liz Claiborne Brands. Ms. Casamento started her career at Saks Fifth Avenue. Our Board of Directors has determined that Ms. Casamento’s extensive fashion and retail experience, as well as her background in accounting and finance, qualifies her to serve on the Board of Directors.

Jaqui Lividini has served as a director of our company since August 2015. Ms. Lividini has served as Chief Executive Officer and Founding Partner of Lividini & Co., a brand strategy company that specializes in brand development and marketplace positioning, engagement marketing, and retail strategy, since May 2005. Previously, Ms. Lividini served as Senior Vice President Fashion Merchandising & Communications at Saks Fifth Avenue from May 1999 to August 2004. Ms. Lividini also serves as Chairman of the Board of Women In Need, Inc., a non-profit organization that provides housing, programs, and critical services to New York City’s homeless mothers and their children, and serves on the Board of Trustees of the Fashion Institute of Technology, an internationally recognized college for fashion, design, art, communications, and business. Our Board of Directors has determined that Ms. Lividini’s years of brand marketing experience in the fashion, retail, and luxury industries qualify her to serve on the Board of Directors.

Suzanne Miglucci has served as our President and Chief Executive Officer since December 2015 and as a director of our company since August 2015. Prior to joining us, Ms. Miglucci served as Chief Marketing Officer of ChannelAdvisor Corporation (“ChannelAdvisor”), an e-commerce software-as-a-service solution provider, from June 2012 to November 2015, where she oversaw marketing, product management, client services, and business operations. Prior to joining ChannelAdvisor, Ms. Miglucci served as Senior Director, Global Procurement Solution Marketing, at SAP, a worldwide leader of Enterprise Resource Planning solutions, from November 2010 to March 2012. Prior to her time at SAP, Ms. Miglucci served as a Strategic Marketing Consultant for Miglucci on Marketing, LLC, a marketing consultant company, from January 2010 to November 2010. Ms. Miglucci has also held executive positions at SciQuest, Inc., MicroMass Communications, and Arsenal Digital Solutions. Our Board of Directors has determined that Ms. Miglucci’s extensive marketing and e-commerce background working with public and private technology

companies, particularly with global footprints, qualifies her to serve on the Board of Directors.

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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 also served as a director of Bank of Hampton Roads, a wholly owned subsidiary of Hampton Roads Bankshares, Inc. from January 2011 to June 2016. Our Board of Directors 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 of Directors has determined that current directors Ms. Butler, Ms. Casamento, Mr. Goldman, Ms. Lividini, and Mr. Sykes are independent directors in accordance with applicable Nasdaq listing rules. The Board of Directors 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 of Directors, 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 of Directors 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 of Directors and their assigned committees. The Board of Directors meets on a regularly scheduled basis and met 10 times during the year ended December 31, 2017 and five times during the Transition Period. Each incumbent director attended 75% or more of the aggregate of the number of meetings of the Board of Directors 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. Five directors, comprising all of the nominees for election at the 2017 Annual Meeting of Shareholders, attended the 2017 Annual Meeting of Shareholders.

Board Leadership Structure

Currently, Ms. Miglucci serves as our Chief Executive Officer and Mr. Goldman serves as our Chairman of the Board of Directors. The 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 Chairman to be an independent director at this time. The Board of Directors believes that having an independent Chairman furthers the Board of Directors' goal of providing effective, independent leadership and oversight of our company. The Chairman's responsibilities include establishing Board meeting agendas in collaboration with our Chief Executive Officer and presiding at meetings of the Board of Directors and shareholders. The Chairman is also tasked with working 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 of Directors. 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.

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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 of Directors. 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 of Directors 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 of Directors 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 of Directors regarding its activities. These discussions enable the Board of Directors 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 of Directors. Each of these committees is governed by a formal written charter approved by the Board of Directors, copies of which are available on our website at <http://ir.charlesandcolvard.com/governance>. 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 represents and assists the Board of Directors 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 in advance 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 five meetings in 2017 and five meetings during the Transition Period, is currently composed of Ms. Casamento (who was appointed Chairperson on September 20, 2018), Ms. Butler, Mr. Goldman, and Mr. Sykes.

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 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 Ms. Casamento, Mr. Goldman, and Mr. Sykes are "audit committee financial experts" as defined in Item 407(d)(5) of Regulation S-K promulgated by the SEC.

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Compensation Committee

The Compensation Committee carries out the overall responsibility of the Board of Directors 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 of Directors 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 of Directors 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 three meetings in 2017 and eight meetings during the Transition Period, is currently composed of Ms. Butler (Chairperson), Ms. Casamento, Mr. Goldman, and Mr. Sykes. Although the Compensation Committee may delegate authority to subcommittees to fulfill its responsibilities when appropriate, no such authority was delegated during 2017 or during the Transition Period.

The Compensation Committee did not engage an outside compensation consultant and did not consult with any executive officer in setting director compensation for 2017 or the Transition Period. In setting executive compensation for 2017 and the Transition Period, the Compensation Committee did not engage an outside compensation consultant, but received input from the Chief Executive Officer in setting base salaries for executive officers and input from the Chief Executive Officer regarding a structure and potential payout amounts under the 2017 Program (as defined below) and the 2018 Program (as defined below) for executive officers.

Nominating and Governance Committee

The Nominating and Governance Committee is responsible for, among other things, (i) screening and recommending qualified candidates for election and appointment to the Board of Directors; (ii) recommending to the Board of Directors from time to time an appropriate organizational structure (including size and composition) for the Board of Directors; (iii) monitoring the independence of the Board of Directors and ensuring that the requisite number of directors serving on committees of the Board of Directors meet applicable independence requirements and assisting the Board of Directors 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 of Directors 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 of Directors; and (vii) conducting an annual review of the effectiveness of the Board of Directors and its committees and presenting its assessment to the full Board of Directors. 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 one meeting in 2017 and two meetings during the Transition Period, is currently composed of Ms. Butler (Chairperson), Mr. Goldman, and Ms. Lividini.

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.

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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 of Directors 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 of Directors 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 of Directors submitted to us, including those submitted by members of the Board of Directors, 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 members of the Board of Directors will build a Board of Directors 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 of Directors 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. The Nominating and Governance Committee recommended Ms. Casamento as a prospective candidate for nomination to the Board subsequent to the 2017 Annual Meeting of Shareholders.

Shareholder Communication with the Board

As set forth in our Corporate Governance Standards, it is the policy of our company and the Board of Directors to encourage free and open communication between shareholders and the Board of Directors. Any shareholder wishing to communicate with the Board of Directors 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 of Directors 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, employees, agents, and representatives (including consultants, advisors, and independent contractors). Each code is available on our website at <http://ir.charlesandcolvard.com/governance>. 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 of Directors and will be publicly disclosed either by posting such amendment or waiver on our website at <http://ir.charlesandcolvard.com/sec> or by filing a Form 8-K with the SEC, along with the reasons for the waiver, if applicable.

CERTAIN TRANSACTIONS

Since January 1, 2016, we have not been a participant in or a party to any 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 the six-month transition period ended June 30, 2018, the Audit Committee:

- reviewed and discussed the audited financial statements for the six-month transition period ended June 30, 2018 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. 1301, 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 of Directors that the audited financial statements be included in our Transition Report on Form 10-KT for the six-month transition period ended June 30, 2018 for filing with the SEC.

This Report is submitted by the Audit Committee.

Mr. Ollin B. Sykes, Chairperson

Ms. Anne M. Butler

Ms. Benedetta Casamento

Mr. Neal I. Goldman

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 Ms. Miglucci is included in the director nominee profiles set forth above.

Name	Age	Title	Executive Officer Since
Suzanne Miglucci	58	President and Chief Executive Officer	December 2015
Clint J. Pete	56	Chief Financial Officer and Treasurer	December 2016
Don O'Connell	52	Chief Operating Officer and Senior Vice President, Supply Chain	May 2017

Clint J. Pete was appointed as our Chief Financial Officer on May 23, 2017. Mr. Pete previously served as our Interim Chief Financial Officer from December 2016 to May 2017 and as our Corporate Controller from June 2016 to December 2016. Prior to joining our company, Mr. Pete most recently served as Director of Business Planning for Oracle Corporation, a cloud application company, from June 2013 to May 2016. Prior to his employment with Oracle Corporation, Mr. Pete served as Business Unit Controller, Global Signaling Solutions of Tekelec, a telecommunications company, from May 2011 to May 2013. At Tekelec, Mr. Pete also previously served as Global Revenue Controller. Prior to his employment with Tekelec, Mr. Pete served as Vice President of Finance and Controllers at Qualex Inc., a Kodak company. Before joining Qualex Inc., Mr. Pete held various management positions at Ernst & Young, LLP, an international public accounting firm. Mr. Pete holds a Bachelor of Business Administration degree in Accounting and Finance from Texas Tech University and is a Certified Public Accountant.

Don O'Connell was appointed as our Chief Operating Officer and Senior Vice President, Supply Chain on May 23, 2017. Mr. O'Connell previously served as our Senior Vice President, Supply Chain & Distribution from March 2016 to May 2017. Prior to joining our company, Mr. O'Connell served as Executive Vice President Operations & Global Jewelry Business Solutions at OFT Investment & Management Group, a fine jewelry solutions and services group, from February 2012 to March 2016. Prior to his employment with OFT Investment Management Group, Mr. O'Connell spent seven years with the Richline Group, LLC, a wholly owned subsidiary of Berkshire Hathaway, as Vice President, Operations & Procurement, both Foreign & Domestic. Prior to that, he was Vice President, Operations at Aurafin's gem group division in Taramac, FL and La Paz, Bolivia as well as Vice President, Manufacturing & Contracting with OCON Enterprise.

EXECUTIVE COMPENSATION

The following tables and narrative discussion summarize the compensation we paid for services in all capacities rendered to us during the Transition Period and each of the years ended December 31, 2017 and 2016 by our principal executive officer and all other “named executive officers.”

Summary Compensation Table

Name and Principal Position	Year	Salary (\$)	Stock Awards (\$) ⁽¹⁾	Option Awards (\$) ⁽¹⁾	Non-Equity Incentive Plan Compensation (\$)	All Other Compensation (\$)	Total (\$)
Suzanne Miglucci President and Chief Executive Officer	2018T ⁽²⁾	\$ 167,500	\$ 130,725 ⁽³⁾	\$ -	\$ -	\$ 9,207 ⁽⁴⁾	\$ 307,432
	2017	335,000	166,875 ⁽⁵⁾	-	-	18,261 ⁽⁶⁾	520,136
	2016	347,885	136,500 ⁽⁷⁾	-	-	17,691 ⁽⁸⁾	502,076
Clint J. Pete Chief Financial Officer and Treasurer ⁽⁹⁾	2018T ⁽²⁾	120,000	65,363 ⁽¹⁰⁾	-	-	3,985 ⁽¹¹⁾	189,348
	2017	221,696	83,438 ⁽¹²⁾	52,315	14,028 ⁽¹³⁾	4,187 ⁽¹⁴⁾	375,664
	2016	99,718	-	14,047	-	-	113,765
Don O’Connell Chief Operating Officer and Senior Vice President, Supply Chain ⁽¹⁹⁾	2018T ⁽²⁾	137,500	65,363 ⁽¹⁵⁾	-	-	6,058 ⁽¹⁶⁾	208,921
	2017	251,923	83,438 ⁽¹⁷⁾	52,315	-	6,210 ⁽¹⁸⁾	393,886

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 11 to our consolidated financial statements included in our Transition Report on Form 10-KT for the six months ended June 30, 2018 filed with the SEC on September 7, 2018.

(2) 2018T refers to the Transition Period.

Reflects the equity portion of awards granted under the 2018 Program and the 2019 Q1-Q2 Program (as defined below). Pursuant to ASC Topic 718, the aggregate grant date fair value of the equity portion of these performance-based awards to Ms. Miglucci was \$68,775 for the 2018 Program award and \$61,950 for the 2019 Q1-Q2 Program award, in each case assuming that the highest level of performance conditions had been achieved.

(4) Includes \$9,207 of long-term disability insurance and life insurance premiums.

(5) Pursuant to ASC Topic 718, the aggregate grant date fair value of this performance-based award to Ms. Miglucci was \$166,875 assuming that the highest level of performance conditions had been achieved.

(6) Includes \$18,261 of long-term disability insurance and life insurance premiums.

(7) Pursuant to ASC Topic 718, the aggregate grant date fair value of this performance-based award to Ms. Miglucci was \$136,500 assuming that the highest level of performance conditions had been achieved.

(8) Includes \$17,691 of long-term disability insurance and life insurance premiums.

Mr. Pete joined our company as Corporate Controller on June 6, 2016, was appointed as our Interim Chief Financial Officer effective December 2, 2016, and was appointed as our Chief Financial Officer effective May 23, 2017.

(10) Reflects the equity portion of awards granted under the 2018 Program and the 2019 Q1-Q2 Program. Pursuant to ASC Topic 718, the aggregate grant date fair value of the equity portion of these performance-based awards to Mr. Pete was \$34,388 for the 2018 Program award and \$30,975 for the 2019 Q1-Q2 Program award, in each case assuming that the highest level of performance conditions had been achieved.

(11) Includes \$3,985 of long-term disability insurance and life insurance premiums.

(12) Pursuant to ASC Topic 718, the aggregate grant date fair value of this performance-based award to Mr. Pete was \$83,438 assuming that the highest level of performance conditions had been achieved.

(13) Mr. Pete was paid a cash bonus in recognition of his performance as our Corporate Controller in 2016 against pre-established performance measures before he became our principal financial officer.

(14) Includes \$4,187 of long-term disability insurance and life insurance premiums.

(15) Reflects the equity portion of awards granted under the 2018 Program and the 2019 Q1-Q2 Program. Pursuant to ASC Topic 718, the aggregate grant date fair value of the equity portion of these performance-based awards to Mr. O'Connell was \$34,388 for the 2018 Program award and \$30,975 for the 2019 Q1-Q2 Program award, in each case assuming that the highest level of performance conditions had been achieved.

(16) Includes \$3,437 of 401(k) employer matching contributions and \$2,621 of long-term disability insurance and life insurance premiums.

(17) Pursuant to ASC Topic 718, the aggregate grant date fair value of this performance-based award to Mr. O'Connell was \$83,438 assuming that the highest level of performance conditions had been achieved.

(18) Includes \$4,926 of 401(k) employer matching contributions and \$1,284 of long-term disability insurance and life insurance premiums.

(19) Mr. O'Connell joined our company as Senior Vice President, Supply Chain & Distribution on March 1, 2016 and was appointed as our Chief Operating Officer and Senior Vice President, Supply Chain effective May 23, 2017.

Agreements Involving Named Executive Officers

Suzanne Miglucci

In connection with Suzanne Miglucci's appointment as President and Chief Executive Officer, we entered into an employment agreement with Ms. Miglucci, effective as of December 1, 2015, with a term of one year that renews automatically on an annual basis. Under the terms of the employment agreement, Ms. Miglucci received a signing bonus of \$75,000 in December 2015 and received an initial annual base salary of \$335,000. Ms. Miglucci also is entitled 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.

In addition, Ms. Miglucci received, on the effective date of the employment agreement, an initial stock option to purchase 300,000 shares of our common stock. The award vested over a two-year period, with 50% of the option award vesting on the grant date and an additional 25% of the option award vesting on each of the following two anniversaries of the grant date provided Ms. Miglucci remained continuously employed with us through each anniversary.

Pursuant to the employment agreement, if Ms. Miglucci's employment is terminated by us without cause (as defined in the employment agreement) Ms. Miglucci will continue to receive her base salary at the time of termination for a period of one year from such termination (the "Termination Compensation"), so long as she complies with certain covenants in the employment agreement. If we experience a change of control (as defined in the employment agreement), Ms. Miglucci may voluntarily terminate her employment for good reason (as defined in the employment agreement) within six months after such change of control and be entitled to the Termination Compensation. During her employment with us and for a period of one year following termination of her employment, Ms. Miglucci is prohibited from competing with us or attempting to solicit our customers or employees.

Clint J. Pete

In connection with Clint Pete's appointment as Chief Financial Officer and Treasurer, we entered into an employment agreement with Mr. Pete, effective as of May 23, 2017, with a term of one year that renews automatically on an annual basis. Under the terms of the employment agreement, Mr. Pete received an initial annual base salary of \$240,000. Mr. Pete also is entitled 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.

In addition, Mr. Pete received, on the effective date of the employment agreement, a stock option to purchase 100,000 shares of our common stock. The award vests over a three-year period, with 25% of the option award vesting six months after the grant date and an additional 25% of the option award vesting on each of the following three anniversaries of the grant date provided Mr. Pete remains continuously employed with us through each anniversary.

Pursuant to the employment agreement, if we experience a change of control (as defined in the employment agreement), and Mr. Pete's employment is terminated within six months after such change of control by us without cause (as defined in the employment agreement) or by Mr. Pete for good reason (as defined in the employment agreement), Mr. Pete 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 the employment agreement. In addition, Mr. Pete is entitled to receive six months of his base salary in the event we terminate him without cause not occurring within six months following a change of control or if the term of the employment agreement expires following our notice of non-renewal, so long as he complies with certain covenants in the employment agreement. We also agreed to accelerate the vesting of all outstanding unvested equity awards held by Mr. Pete upon the occurrence of a change of control or termination without cause not occurring within six months following a change of control, so long as he

complies with certain covenants in the employment agreement. During Mr. Pete's employment with us and for a period of one year following termination of his employment, Mr. Pete is prohibited from competing with us or attempting to solicit our customers or employees.

Don O'Connell

In connection with Don O'Connell's appointment as Chief Operating Officer and Senior Vice President, Supply Chain, we entered into an employment agreement with Mr. O'Connell, effective as of May 23, 2017, with a term of one year that renews automatically on an annual basis. Under the terms of the employment agreement, Mr. O'Connell received an initial annual base salary of \$275,000. Mr. O'Connell also is entitled 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.

In addition, Mr. O'Connell received, on the effective date of the employment agreement, a stock option to purchase 100,000 shares of our common stock. The award vests over a three-year period, with 25% of the option award vesting six months after the grant date and an additional 25% of the option award vesting on each of the following three anniversaries of the grant date provided Mr. O'Connell remains continuously employed with us through each anniversary.

Pursuant to the employment agreement, if we experience a change of control (as defined in the employment agreement), and Mr. O'Connell's employment is terminated within six months after such change of control by us without cause (as defined in the employment agreement) or by Mr. O'Connell for good reason (as defined in the employment agreement), Mr. O'Connell 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 the employment agreement. In addition, Mr. O'Connell is entitled to receive six months of his base salary in the event we terminate him without cause not occurring within six months following a change of control or if the term of the employment agreement expires following our notice of non-renewal, so long as he complies with certain covenants in the employment agreement. We also agreed to accelerate the vesting of all outstanding unvested equity awards held by Mr. O'Connell upon the occurrence of a change of control or termination without cause not occurring within six months following a change of control, so long as he complies with certain covenants in the employment agreement. During Mr. O'Connell's employment with us and for a period of one year following termination of his employment, Mr. O'Connell is prohibited from competing with us or attempting to solicit our customers or employees.

Termination and Change of Control Arrangements

As discussed above in "Agreements Involving Named Executive Officers," we have entered into agreements with certain of our named executive officers that provide for payments and benefits under specified circumstances to such named executive officers upon termination of employment and/or if we experience a change of control. In addition, the Charles & Colvard, Ltd. 2008 Stock Incentive Plan, as amended (the "2008 Plan"), and, if approved, the 2018 Plan provide for adjustments to or accelerated vesting of equity awards under specified circumstances, as described below.

The 2008 Plan provides that, in the event of a change of control of our company (as defined in the 2008 Plan), the Compensation Committee (taking into account any Internal Revenue Code Section 409A considerations) has sole discretion to determine the effect, if any, on an award, including, but not limited to, the vesting, earning, and/or exercisability of an award. The Compensation Committee's discretion includes, but is not limited to, the determination that an award will vest, be earned, or become exercisable in whole or in part (and discretion to determine that exercise of an award must occur, if at all, within time period(s) specified by the Compensation Committee, after which time period(s) the award will, unless the Compensation Committee determines otherwise, terminate), will be assumed or substituted for another award, will be cancelled without the payment of consideration, will be cancelled in exchange for a cash payment or other consideration, and/or that other actions (or no action) will be taken with respect to the award. The Compensation Committee also has discretion to determine that acceleration or any other effect of a change of control on an award will be subject to both the occurrence of a change of control event and termination of employment or service of the participant. Any such determination of the Compensation Committee may be, but is not

required to be, stated in an individual award agreement.

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If approved by the shareholders at the Annual Meeting, the 2018 Plan provides that in the event of a participant's termination of continuous service without cause (as defined in the 2018 Plan) or for good reason (as defined in the 2018 Plan) during the six-month period following a change in control (as defined in the 2018 Plan), notwithstanding any provision of the 2018 Plan or any applicable award agreement to the contrary, all outstanding awards will become 100% vested (or in the case of restricted stock or restricted stock units, the restricted period will expire). In addition, in the event of a change in control, the Compensation Committee may in its discretion and upon at least 10 days' advance notice to the affected persons, cancel any outstanding awards and pay to the holders thereof, in cash or stock, or any combination thereof, the value of such awards based upon the price per share of common stock received or to be received by other shareholders of our company in the event. In the case of any option or stock appreciation right with an exercise price that equals or exceeds the price paid for a share of common stock in connection with the change in control, the Compensation Committee may cancel the option or stock appreciation right without the payment of consideration therefor. The Compensation Committee also has the power to accelerate the time at which an award may first be exercised or the time during which an award or any part thereof will vest in accordance with the 2018 Plan, notwithstanding the provisions in the award stating the time at which it may first be exercised or the time during which it will vest.

2018 Senior Management Equity Incentive Program

On January 30, 2018, the Compensation Committee approved the Charles & Colvard, Ltd. 2018 Senior Management Equity Incentive Program (the "2018 Program"), with effect as of January 1, 2018. The 2018 Program supersedes and replaces all prior management incentive plans or programs.

The 2018 Program provides an incentive opportunity for our executive officers and vice presidents, other than the Senior Vice President of Sales and Vice Presidents of Sales (the "2018 Eligible Employees"), through the grant of an award, with both performance and service measures (the "Award"), consisting of (i) a restricted stock award representing 70% of the Award's value (the "Restricted Stock Component") and (ii) a cash bonus award representing 30% of the Award's value (the "Cash Component"). The value of Awards is expressed in "Share Equivalents," which is the number of shares of our company's restricted stock that would be granted pursuant to each Award if the Restricted Stock Component equaled 100% of the Award.

Achievement of a 2018 Eligible Employee's performance measures will be measured by the Compensation Committee as follows: (i) 70% of each Award will be based on the achievement of a shared company goal regarding revenue (the "2018 Revenue Measure"), (ii) 10% of each Award will be based on the achievement of a shared company goal regarding EBITDA (together with the 2018 Revenue Measure, the "2018 Company Measures"), and (iii) 20% of each Award will be based on the achievement of individual performance goals (the "2018 Personal Measures"), all for the period from January 1, 2018 to June 30, 2018, reflecting the change in our fiscal year. If we do not achieve 80% of the 2018 Revenue Measure, the Restricted Stock Component of each Award will be forfeited and the Cash Component of each Award will not be paid. We must achieve at least 90% of the 2018 Revenue Measure in order for the portion of the Award attributed to the 2018 Company Measures to be vested/paid, as applicable. Achievement on a sliding scale from 90% to 120% of the 2018 Revenue Measure will result in payment ranging from 75% to 140% of the portion of the Award attributed to the 2018 Revenue Measure. 2018 Eligible Employees may achieve from 0% to 100% of his or her 2018 Personal Measures. The Restricted Stock Component and Cash Component of each Award will be reduced proportionately by any performance that is measured below 100% accordingly. The 2018 Personal Measures and 2018 Company Measures are determined by the Compensation Committee and may be modified by the Compensation Committee to reflect certain types of events as permitted by the 2008 Plan. In addition, a 2018 Eligible Employee must remain in continuous service until July 31, 2018 for restrictions to fully lapse on the Restricted Stock Component and for the Cash Component to be paid.

Under the 2018 Program, the Compensation Committee granted the Chief Executive Officer 75,000 Share Equivalents, the Chief Financial Officer and Chief Operating Officer 37,500 Share Equivalents, and each eligible Vice

President 17,500 Share Equivalents. The 2018 Program also provides the Compensation Committee discretion to make additional Awards above the targeted award level in recognition of extraordinary performance. The Restricted Stock Component of all Awards granted pursuant to the 2018 Program is issued under and pursuant to the 2008 Plan and subject to the terms of our standard performance-based restricted stock award agreement.

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On August 14, 2018, the Compensation Committee reviewed preliminary corporate performance for the Transition Period and determined the achievement levels of the performance goals under the 2018 Program. The Compensation Committee determined that 86% of the 2018 Revenue Measure had been achieved, while the EBITDA goal was not reached. Accordingly, the portion of each Award attributable to the 2018 Company Measures was not vested/paid, as applicable. However, because greater than 80% of the 2018 Revenue Measure was achieved, the 2018 Eligible Employees remained eligible to receive the portion of their Awards attributable to the 2018 Personal Measures. The Compensation Committee determined that Ms. Miglucci, our President and Chief Executive Officer, Mr. Pete, our Chief Financial Officer, and Mr. O'Connell, our Chief Operating Officer, achieved 100%, 94%, and 92.5% of their 2018 Personal Measures during the Transition Period, respectively. As such, on August 14, 2018, the Compensation Committee approved the following awards for our named executive officers: (i) 15,000 Share Equivalents of Ms. Miglucci's original grant of 75,000 Share Equivalents vested, which caused restrictions on 10,500 shares of her original 52,500 restricted stock award to lapse, and she received a cash payment of \$5,895; (ii) 7,050 Share Equivalents of Mr. Pete's original grant of 37,500 Share Equivalents vested, which caused restrictions on 4,935 shares of his original 26,250 restricted stock award to lapse, and he received a cash payment of \$2,771; and (iii) 6,938 Share Equivalents of Mr. O'Connell's original grant of 37,500 Share Equivalents vested, which caused restrictions on 4,856 shares of his original 26,250 restricted stock award to lapse, and he received a cash payment of \$2,726. The remainder of the original awards of Share Equivalents were forfeited.

2017 Senior Management Equity Incentive Program

On February 23, 2017, the Compensation Committee approved the Charles & Colvard, Ltd. 2017 Senior Management Equity Incentive Program (the "2017 Program"), with effect as of January 1, 2017. The 2017 Program superseded and replaced all prior management incentive plans or programs.

The 2017 Program provided a long-term incentive opportunity for our executive officers and vice presidents (the "2017 Eligible Employees"), through grants of restricted stock awards with both performance and service measures. Achievement of a 2017 Eligible Employee's performance measures was measured by the Compensation Committee as follows: (i) 50% of each restricted stock award was based on the achievement of shared company goals regarding revenue, EBITDA, and departmental budgets (the "2017 Company Measures"), and (ii) 50% of each restricted stock award was based on the achievement of individual performance goals (the "2017 Personal Measures"), both for the period from January 1, 2017 to December 31, 2017. We must have achieved 100% of the 2017 Company Measures in order for 50% vesting of the restricted stock award. For the remaining 50% vesting of the restricted stock award, an Eligible Employee could achieve from 0% to 100% of his or her 2017 Personal Measures, and 50% of the amount of his or her restricted stock award would be reduced by any performance that is measured below 100% accordingly. If certain EBITDA or revenue thresholds were not achieved, 100% of the restricted stock awards would be forfeited. The 2017 Personal Measures and 2017 Company Measures would be determined by the Compensation Committee and could be modified by the Compensation Committee to reflect certain types of events as permitted by the 2008 Plan. In addition, an Eligible Employee must have remained in continuous service until February 23, 2018 for restrictions to fully lapse.

Under the 2017 Program, the Compensation Committee granted the Chief Executive Officer 150,000 shares of restricted stock, each of the Chief Financial Officer and the Senior Vice President, Supply Chain & Distribution 75,000 shares of restricted stock, and each Vice President 35,000 shares of restricted stock. The 2017 Program also provided the Compensation Committee discretion to make additional equity compensation awards above the target award level in recognition of extraordinary performance. All awards granted pursuant to the 2017 Program were issued under and pursuant to the 2008 Plan and subject to the terms of our standard performance-based restricted stock award agreement.

On January 30, 2018, the Compensation Committee reviewed preliminary 2017 corporate performance and determined the achievement levels of the performance goals under the 2017 Program. The Compensation Committee

exercised its discretion, as permitted by the 2017 Program, to deem the threshold level to have been achieved, even though our company's shared revenue goal was not achieved at the stretch threshold level due to a mid-year shift in focus towards financial profitability. The Compensation Committee modified the awards granted under the 2017 Program to reflect a 75% achievement level of the 2017 Company Measures. In addition, the Compensation Committee modified the awards from wholly restricted stock awards to awards consisting of 70% restricted stock and 30% cash in lieu of restricted stock. As a result, the following modified awards were granted to our named executive officers: (i) Suzanne Miglucci received a cash payment of \$51,581 and restrictions lapsed on 91,875 of the 150,000 shares of her original restricted stock award; (ii) Clint Pete received a cash payment of \$25,032 and restrictions lapsed on 44,642 of the 75,000 shares of his original restricted stock award; and (iii) Don O'Connell received a cash payment of \$25,732 and restrictions lapsed on 45,982 of the 75,000 shares of his original restricted stock award. The remainder of the original awards of restricted stock was forfeited.

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Outstanding Equity Awards at 2018 Fiscal Year-End

Name	Grant Date	Option Awards				Stock Awards		Equity incentive plan awards: Number of unearned shares, units or rights that have not vested	Equity incentive plan awards: Market or payout value of unearned shares, units or rights that have not vested
		Number of Securities Underlying Unexercised Options (#)	Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (\$)	Option Expiration Date	Number of shares or units of stock that have not vested (#)	Market value of shares or units of stock that have not vested (\$) ⁽¹⁾		
Suzanne Miglucci	8/18/2015	30,991	-	\$ 1.21	8/18/2025				
	12/1/2015	300,000	-	1.21	12/1/2025				
	1/30/2018							52,500 ⁽²⁾	56,175
	5/24/2018							52,500 ⁽³⁾	56,175
Clint J. Pete	8/23/2016	10,000	10,000 ⁽⁴⁾	1.29	8/23/2026				
	5/23/2017	50,000	50,000 ⁽⁵⁾	0.88	5/23/2027				
	1/30/2018							26,250 ⁽²⁾	28,088
	5/24/2018							26,250 ⁽³⁾	28,088
Don O'Connell	3/15/2016	37,500	12,500 ⁽⁶⁾	1.44	3/15/2026				
	5/23/2017	50,000	50,000 ⁽⁵⁾	0.88	5/23/2027				
	1/30/2018							26,250 ⁽²⁾	28,088
	5/24/2018							26,250 ⁽³⁾	28,088

(1) The market value of shares that have not vested is based on a price of \$1.07 per share (the closing price of our common stock as reported by Nasdaq on June 29, 2018).

(2) The restrictions on the stock award lapse on July 31, 2018, subject to achievement of performance goals and to the officer's continued service to our company as of such date. The level of achievement of the performance goals under the 2018 Program as determined by the Compensation Committee is discussed above under the heading "2018 Senior Management Equity Incentive Program."

(3) The restrictions on the stock award lapse on December 31, 2018, subject to achievement of performance goals and to the officer's continued service to our company as of such date.

(4) This option award vests in four equal installments on August 23, 2017, June 6, 2018, June 6, 2019, and June 6, 2020, subject to the officer's continued service to our company as of such dates.

(5) This option award vests in four equal installments on November 23, 2017, May 23, 2018, May 23, 2019, and May 23, 2020, subject to the officer's continued service to our company as of such dates.

(6) This option award vests in four equal installments on each of the grant date, March 1, 2017, March 1, 2018, and March 1, 2019, subject to the officer's continued service to our company as of such dates.

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Cash Compensation and Value of Vesting Equity Table

The following table shows the actual cash compensation and value of vesting equity received for the Transition Period and each of the years ended December 31, 2017 and 2016 by our named executive officers. We believe that this table is important in order to distinguish between the actual cash and vested value received by each named executive officer as opposed to the grant date fair value of equity awards as shown in the Summary Compensation Table.

Name and Principal Position	Year	Realized Salary (\$)	Realized Stock Awards	Realized Option Awards	Realized Non- Equity Incentive Plan Compensation	All Other Compensation	Total (\$)
			(\$) ⁽¹⁾	(\$) ⁽¹⁾	(\$) ⁽¹⁾	(\$)	
Suzanne Miglucci	2018T ⁽²⁾	\$ 167,500	\$ 120,356 ⁽³⁾	\$ -	\$ 51,581		