

CHARLES & COLVARD LTD
Form 10-Q
May 14, 2012

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2012

OR

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

For the transition period from _____ to _____

Commission File Number: 000-23329

Charles & Colvard, Ltd.
(Exact name of registrant as specified in its charter)

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

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

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

27560
(Zip Code)

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

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

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

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

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

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

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

As of May 9, 2012, there were approximately 19,528,879 shares of the registrant's common stock, no par value per share, outstanding.

CHARLES & COLVARD, LTD.

FORM 10-Q

For the Quarterly Period Ended March 31, 2012

TABLE OF CONTENTS

	Page Number
<u>PART I – FINANCIAL INFORMATION</u>	
<u>Item 1.</u>	<u>Financial Statements</u>
	<u>Condensed Consolidated Balance Sheets</u> <u>3</u>
	<u>(unaudited) as of March 31, 2012 and December</u>
	<u>31, 2011</u>
	<u>Condensed Consolidated Statements of Operations</u> <u>4</u>
	<u>(unaudited) for the three months ended March 31,</u>
	<u>2012 and 2011</u>
	<u>Condensed Consolidated Statements of Cash</u> <u>5</u>
	<u>Flows (unaudited) for the three months ended</u>
	<u>March 31, 2012 and 2011</u>
	<u>Notes to Condensed Consolidated Financial</u> <u>6</u>
	<u>Statements (unaudited)</u>
<u>Item 2.</u>	<u>Management’s Discussion and Analysis of</u> <u>15</u>
	<u>Financial Condition and Results of Operations</u>
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About</u> <u>24</u>
	<u>Market Risk</u>
<u>Item 4.</u>	<u>Controls and Procedures</u> <u>24</u>
<u>PART II – OTHER INFORMATION</u>	
<u>Item 1.</u>	<u>Legal Proceedings</u> <u>25</u>
<u>Item 1A.</u>	<u>Risk Factors</u> <u>25</u>
<u>Item 6.</u>	<u>Exhibits</u> <u>25</u>
	<u>Signatures</u> <u>26</u>

Table of Contents

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

CHARLES & COLVARD, LTD.
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited)

	March 31, 2012	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	\$6,836,283	\$6,701,701
Accounts receivable, net	5,942,003	6,064,764
Interest receivable	14,412	12,109
Inventory, net	7,202,319	6,849,592
Prepaid expenses and other assets	439,518	419,729
Total current assets	20,434,535	20,047,895
Long-term assets:		
Held-to-maturity investments	3,759,076	3,760,399
Inventory, net	27,360,983	28,157,497
Property and equipment, net	1,670,555	1,420,971
Intangible assets, net	238,098	248,812
Other assets	13,116	13,746
Total long-term assets	33,041,828	33,601,425
TOTAL ASSETS	\$53,476,363	\$53,649,320
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$1,567,508	\$1,060,937
Accrued cooperative advertising	150,000	213,000
Accrued expenses and other liabilities	305,651	581,009
Total current liabilities	2,023,159	1,854,946
Long-term liabilities:		
Accrued income taxes	380,447	741,645
Total liabilities	2,403,606	2,596,591
Commitments and contingencies		
Shareholders' equity:		
Common stock, no par value	53,236,809	52,833,716
Additional paid-in capital – stock-based compensation	7,760,658	7,767,877
Accumulated deficit	(9,924,710)	(9,548,864)
Total shareholders' equity	51,072,757	51,052,729
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$53,476,363	\$53,649,320

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

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

	Three Months Ended March 31,	
	2012	2011
Net sales	\$4,178,385	\$2,977,556
Costs and expenses:		
Cost of goods sold	2,027,686	1,328,521
Sales and marketing	1,501,921	681,285
General and administrative	1,357,172	1,184,972
Research and development	8,408	12,548
Total costs and expenses	4,895,187	3,207,326
Loss from operations	(716,802)	(229,770)
Other income (expense):		
Interest income	23,865	17,919
Interest expense	(477)	(12)
Loss on call of long-term investments	-	(2,913)
Total other income	23,388	14,994
Loss before income taxes	(693,414)	(214,776)
Income tax net benefit (expense)	317,568	(21,612)
Net loss	\$(375,846)	\$(236,388)
Net loss per common share:		
Basic	\$(0.02)	\$(0.01)
Fully diluted	\$(0.02)	\$(0.01)
Weighted average number of shares used in computing net loss per common share:		
Basic	19,470,511	19,297,861
Fully diluted	19,470,511	19,297,861

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

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

Three Months Ended March 31,
2012