

CHARLES & COLVARD LTD
Form 10-Q
November 04, 2016

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 September 30, 2016

OR

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

For the transition period from _____ to _____

Commission File Number: 000-23329

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

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

170 Southport Drive
Morrisville, North Carolina 27560
(Address of principal executive offices) (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

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

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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 October 31, 2016, there were 21,444,885 shares of the registrant's common stock, no par value per share, outstanding.

CHARLES & COLVARD, LTD.

FORM 10-Q

For the Quarterly Period Ended September 30, 2016

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

CHARLES & COLVARD, LTD.
CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2016 (unaudited)	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 9,678,329	\$ 5,274,305
Accounts receivable, net	1,946,026	3,852,651
Inventory, net	10,070,966	10,739,798
Prepaid expenses and other assets	839,100	701,105
Assets related to discontinued operations	-	83,000
Total current assets	22,534,421	20,650,859
Long-term assets:		
Inventory, net	17,111,073	21,588,622
Property and equipment, net	1,493,287	1,615,683
Intangible assets, net	5,989	71,086
Other assets	163,664	214,588
Total long-term assets	18,774,013	23,489,979
TOTAL ASSETS	\$ 41,308,434	\$ 44,140,838
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 3,604,625	\$ 3,323,148
Accrued cooperative advertising	9,000	58,000
Accrued expenses and other liabilities	824,948	891,187
Liabilities related to discontinued operations	2,100	349,000
Total current liabilities	4,440,673	4,621,335
Long-term liabilities:		
Accrued expenses and other liabilities	625,391	710,223
Accrued income taxes	430,571	420,503
Total long-term liabilities	1,055,962	1,130,726
Total liabilities	5,496,635	5,752,061
Commitments and contingencies (Note 7)		
Shareholders' equity:		
Common stock, no par value; 50,000,000 shares authorized; 21,444,885 and 21,111,585 shares issued and outstanding at September 30, 2016 and December 31, 2015, respectively	54,243,816	54,240,247
Additional paid-in capital	14,153,203	13,280,920
Accumulated deficit	(32,585,220)	(29,132,390)
Total shareholders' equity	35,811,799	38,388,777
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 41,308,434	\$ 44,140,838

See Notes to Condensed Consolidated Financial Statements.

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CHARLES & COLVARD, LTD.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net sales	\$ 5,212,973	\$ 5,100,152	\$ 23,133,248	\$ 18,299,773
Costs and expenses:				
Cost of goods sold	3,221,007	3,349,062	16,278,989	13,870,543
Sales and marketing	1,891,162	1,166,707	5,222,757	4,312,581
General and administrative	1,244,400	1,162,015	4,380,218	4,219,257
Research and development	-	6,352	2,848	15,456
Total costs and expenses	6,356,569	5,684,136	25,884,812	22,417,837
Loss from operations	(1,143,596)	(583,984)	(2,751,564)	(4,118,064)
Other income (expense):				
Interest income	-	-	-	11
Interest expense	(36)	(17)	(1,548)	(801)
Loss on abandonment of property and equipment	(473)	-	(116,021)	-
Gain on sale of long-term assets	-	-	-	125
Total other expense, net	(509)	(17)	(117,569)	(665)
Loss before income taxes from continuing operations	(1,144,105)	(584,001)	(2,869,133)	(4,118,729)
Income tax net expense from continuing operations	(3,325)	(3,243)	(10,068)	(9,579)
Net loss from continuing operations	(1,147,430)	(587,244)	(2,879,201)	(4,128,308)
Discontinued operations:				
Loss from discontinued operations	(6,949)			