

CHARLES & COLVARD LTD  
Form DEF 14A  
April 20, 2016

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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.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

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(1) Amount Previously Paid:

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(3) Filing Party:

(4) Date Filed:

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170 Southport Drive  
Morrisville, North Carolina 27560  
(919) 468-0399

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS  
TO BE HELD ON MAY 18, 2016

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 Wednesday, May 18, 2016, 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, as amended, to increase the number of shares authorized for issuance under the plan by 1,500,000 shares;
3. To re-approve the material terms of the performance goals included in the Charles & Colvard, Ltd. 2008 Stock Incentive Plan, as amended;
4. To ratify the appointment of BDO USA, LLP as our independent registered public accounting firm for the year ending December 31, 2016;
5. To vote, on an advisory (nonbinding) basis, to approve executive compensation; and
6. 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, 2016 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 20, 2016

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.

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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 18, 2016:

The Notice of Annual Meeting of Shareholders, Proxy Statement, Form of Proxy, and 2015 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 2016 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 Wednesday, May 18, 2016 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, as amended (the “2008 Plan”), to increase the number of shares authorized for issuance under the plan by 1,500,000 shares; (3) to re-approve the material terms of the performance goals included in the 2008 Plan; (4) to ratify the appointment of BDO USA, LLP (“BDO”) as our independent registered public accounting firm for the year ending December 31, 2016; and (5) 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 re-approval of the material terms of the performance goals included in the 2008 Plan, (4) FOR ratification of the appointment of BDO as our independent registered public accounting firm for the year ending December 31, 2016, and (5) FOR the approval of executive compensation.

This proxy statement and the accompanying proxy card are first being delivered to shareholders on or about April 20, 2016.

## 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, 2016 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, 2016, there were 21,504,735 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, the proposal to re-approve the material terms of the performance goals included in the 2008 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 an amendment to the 2008 Plan to increase the number of shares authorized for issuance under the plan by 1,500,000 shares, to re-approve the material terms of the performance goals included in the 2008 Plan, and to ratify the appointment of BDO as the independent registered public accounting firm for the year ending December 31, 2016 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 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 re-approve the material terms of the performance goals included in the 2008 Plan, “for” the proposal to ratify the appointment of BDO as our independent registered public accounting firm for the year ending December 31, 2016, “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 2017 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. One of our current directors, George R. Cattermole, has chosen not to stand for re-election at the Annual Meeting.

## Nominees for Election as Directors

Name	Age	Position(s) with Charles & Colvard, Ltd.	Director Since
Neal I. Goldman	71	Executive Chairman of the Board	June 2014
Anne M. Butler	67	Director	June 2012
Jaqui Lividini	54	Director	August 2015
Suzanne T. Miglucci	55	Director, President and Chief Executive Officer	August 2015
Ollin B. Sykes	65	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.





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”). She currently serves as the Vice Chairman of AdvoCare International. 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. She also served on the Board of ViSalus Sciences, the weight loss and fitness direct sales subsidiary of Blyth, Inc. Our Board 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.

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 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 T. 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 has determined that Ms. Miglucci’s extensive marketing background working with public and private technology companies, particularly with global footprints, qualify her 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, Ms. Lividini and Mr. Sykes are independent directors in accordance with applicable NASDAQ listing rules. Ms. Miglucci was determined to be independent until she was appointed as our President and Chief Executive Officer, effective December 1, 2015, on November 11, 2015. Additionally, our Board determined that David B. Barr, who resigned from our Board on March 31, 2015, qualified as an independent director during the time in which he served and H. Marvin Beasley, who resigned from our Board on December 1, 2015, qualified as an independent director until he was appointed as our President and Chief Executive Officer on March 17, 2015. 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 17 times during the year ended December 31, 2015. 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. Four directors, comprising all but one of the nominees for election at the 2015 Annual Meeting of Shareholders, attended the 2015 Annual Meeting of Shareholders.

### Board Leadership Structure

Currently, Ms. Miglucci serves as our Chief Executive Officer and Mr. Goldman serves as our Executive Chairman. 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. The Executive Chairman’s responsibilities include establishing Board meeting agendas in collaboration with our Chief Executive Officer and presiding at meetings of the Board and shareholders. The Executive 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. 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](http://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 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 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 seven meetings in 2015, 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 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 13 meetings in 2015, 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 2015.

The Compensation Committee did not engage an outside compensation consultant and did not consult with any executive officer in setting 2015 director compensation. In setting 2015 executive compensation, 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 and Chief Financial Officer regarding a structure and potential payout amounts under the Charles & Colvard, Ltd. 2015 Senior Management Equity Incentive Program (the “2015 Program”) 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; (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 nine meetings in 2015, is currently composed of Ms. Butler (Chairperson), Mr. Cattermole, Mr. Goldman, and Ms. Lividini. Mr. Cattermole has chosen not to stand for re-election and will no longer serve on the Nominating and Governance Committee after the Annual Meeting.

#### 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. The Nominating and Governance Committee recommended Ms. Lividini and Ms. Miglucci as prospective candidates 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](http://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](http://www.charlesandcolvard.com) or by filing a Form 8-K with the SEC, along with the reasons for the waiver, if applicable.

#### CERTAIN TRANSACTIONS

During 2015, we were not 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 fiscal year 2015, the Audit Committee:

- reviewed and discussed the audited financial statements for the year ended December 31, 2015 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 that the audited financial statements be included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015 for filing with the SEC.

This Report is submitted by the Audit Committee.

Mr. Ollin B. Sykes, Chairperson

Ms. Anne M. Butler

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 T. Miglucci	55	President and Chief Executive Officer	December 2015
Kyle S. Macemore	44	Senior Vice President, Chief Financial Officer, and Treasurer	August 2013
Steven M. Larkin	57	Chief Revenue Officer	May 2013

Kyle S. Macemore has served as our Senior Vice President, Chief Financial Officer, and Treasurer since August 2013. Mr. Macemore most 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 Chief Revenue Officer on March 8, 2016 after serving as our Chief Operating Officer since May 2013. Mr. Larkin served as a director of our company beginning in February 2011 and resigned from the Board in May 2013 in connection with his appointment as Chief Operating Officer. 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, 2015 and 2014 by our principal executive officer and all other “named executive officers” during fiscal 2015.

### Summary Compensation Table

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$) <sup>(1)</sup>	Option Awards (\$) <sup>(1)</sup>	All Other Compensation (\$)	Total (\$)
Suzanne T. Miglucci President and Chief Executive Officer <sup>(2)</sup>	2015	\$22,413 <sup>(3)</sup>	\$75,000 <sup>(4)</sup>	\$ -	\$ 226,711 <sup>(5)</sup>	\$ -	\$324,124
H. Marvin Beasley Former President and Chief Executive Officer <sup>(6)</sup>	2015	266,084 <sup>(7)</sup>	-	121,000	110,625 <sup>(8)</sup>	95,362 <sup>(9)</sup>	593,071
Randall N. McCullough Former President and Chief Executive Officer <sup>(10)</sup>	2015	92,270	-	-	-	299,787 <sup>(11)</sup>	392,057
		335,000	-	-	-	17,745 <sup>(12)</sup>	352,745
Kyle S. Macemore Senior Vice President and Chief Financial Officer	2014						
	2015	265,192 <sup>(13)</sup>	-	89,460 <sup>(14)</sup>	34,070	15,938 <sup>(15)</sup>	404,660
		250,000	-	-	148,150	14,631 <sup>(16)</sup>	412,781
Steven M. Larkin Chief Revenue Officer <sup>(17)</sup>	2015	300,000	-	85,200 <sup>(14)</sup>	34,070	19,221 <sup>(18)</sup>	438,491
	2014	300,000	-	-	-	18,031 <sup>(19)</sup>	318,031

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, 2015 filed with the SEC on March 8, 2016.

Ms. Miglucci was appointed as a member of our Board on August 18, 2015 and as our President and Chief  
(2)Executive Officer on December 1, 2015. During Ms. Miglucci's service as our President and Chief Executive Officer, she did not receive compensation for her service on our Board.

Includes \$18,038 received as salary for service as our President and Chief Executive Officer and \$4,375 cash  
(3)compensation for Board retainer fees received in 2015 prior to becoming our President and Chief Executive Officer.

(4)Ms. Miglucci's employment agreement entitled her to a one-time signing bonus of \$75,000.

- Includes an option award with a grant date fair value of \$201,270 received in connection with Ms. Miglucci's  
(5) appointment as our President and Chief Executive Officer and an option award with a grant date fair value of \$25,441 for service as a member of our Board.
- Mr. Beasley, a director since 2009, served as our President and Chief Executive Officer between March 17, 2015  
(6) and December 1, 2015, at which time he resigned as our President and Chief Executive Officer and as a director. During Mr. Beasley's service as our President and Chief Executive Officer, he did not receive compensation for his service on our Board.
- Includes \$246,433 received as salary for service as our President and Chief Executive Officer and \$19,651 cash  
(7) compensation for Board retainer fees received in 2015 prior to becoming our President and Chief Executive Officer.
- (8) Represents an option award received in connection with Mr. Beasley's appointment as our President and Chief Executive Officer.
- Includes \$18,038 in severance paid pursuant to the Transition Agreement (as defined below) between Mr. Beasley  
(9) and our company, \$72,629 of travel expenses paid on his behalf in connection with his commute from his home in Kansas to our offices in Morrisville, NC, \$4,345 of 401(k) employer matching contributions, and \$350 of long-term disability insurance and life insurance premiums.
- (10) On March 17, 2015, Mr. McCullough resigned as our President and Chief Executive Officer and as a director.
- Includes \$50,000 in consulting fees paid pursuant to the Consulting Agreement (as defined below) between Mr.  
(11) McCullough and our company, \$244,808 in severance paid pursuant to the Separation Agreement (as defined below) between Mr. McCullough and our company, \$2,382 of 401(k) employer matching contributions, and \$2,597 of long-term disability insurance and life insurance premiums.
- (12) Includes \$7,800 of 401(k) employer matching contributions and \$9,945 of long-term disability insurance and life insurance premiums.
- (13) Effective September 1, 2015, Mr. Macemore's annual base salary was increased from \$250,000 to \$300,000.
- Pursuant to ASC Topic 718, the aggregate grant date fair value of each of these performance-based awards to Mr.  
(14) Macemore and Mr. Larkin was \$106,500 assuming that the highest level of performance conditions had been achieved.
- (15) Includes \$7,800 of 401(k) employer matching contributions and \$8,138 of long-term disability insurance and life insurance premiums.
- (16) Includes \$7,516 of 401(k) employer matching contributions and \$7,116 of long-term disability insurance and life insurance premiums.
- (17) On March 8, 2016, Mr. Larkin's title changed from Chief Operating Officer to Chief Revenue Officer.
- (18) Includes \$7,800 of 401(k) employer matching contributions and \$11,421 of long-term disability insurance and life insurance premiums.
- (19) 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

Suzanne T. 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 will receive an annual base salary of \$335,000. Ms. Miglucci also will be 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, a stock option to purchase 300,000 shares of our common stock. The award will vest 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 remains 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.

H. Marvin Beasley

In connection with H. Marvin Beasley's appointment as President and Chief Executive Officer, we entered into an employment agreement with Mr. Beasley, effective as of March 17, 2015. The employment agreement had a term of one year and renewed automatically on an annual basis. Under the terms of his employment agreement, Mr. Beasley received an annual base salary of \$335,000. Mr. Beasley was also 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. Beasley was granted, on the effective date of his employment agreement, a stock option to purchase 150,000 shares of our common stock. The award was set to vest over a two-year period, with 33% of the option award vesting on the grant date and an additional 33% of the option award vesting on each of the following two anniversaries of the grant date provided Mr. Beasley remained continuously employed with us and/or served on the Board through each anniversary. Mr. Beasley was also granted, on the effective date of his employment agreement, an award of 100,000 shares of restricted stock. The restricted stock grant was set to vest on March 17, 2016, contingent upon the overall degree of achievement of specified performance goals.

On November 11, 2015, Mr. Beasley resigned as our President and Chief Executive Officer and as a member of our Board effective December 1, 2015. In connection with his resignation, Mr. Beasley entered into a Transition Agreement (the "Transition Agreement"), dated December 1, 2015.

Under the Transition Agreement, Mr. Beasley was entitled to receive severance in an amount equal to the remainder of his current base annual salary not already paid prior to December 1, 2015 through March 17, 2016 (less applicable taxes and withholdings), payable in substantially equal installments on the same payroll schedule that was applicable to Mr. Beasley immediately prior to December 1, 2015, in exchange for a standard release of employment claims. We



also agreed as of December 1, 2015 to accelerate the vesting of 100,000 options previously granted to Mr. Beasley. Furthermore, we agreed that the restrictions on 100,000 shares of restricted stock previously granted to Mr. Beasley would lapse effective December 1, 2015. The Transition Agreement also contained such confidentiality provisions and other terms and conditions as are usual and customary for agreements of this type. All of Mr. Beasley's obligations under his employment agreement regarding covenants not to compete, confidentiality, and proprietary information continue.

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") and a Consulting Agreement (the "Consulting Agreement"), each dated March 23, 2015.

Under the Separation Agreement, Mr. McCullough was 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 also agreed to pay COBRA premiums for coverage of Mr. McCullough and his eligible dependents for one year if Mr. McCullough timely and properly elected continuation coverage. We 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, became exercisable as set forth in the applicable option agreement, except that any options whose exercise price was greater than the fair market value of our common stock as of March 23, 2015 would become exercisable through March 17, 2017. Furthermore, we agreed that the restrictions on 34,000 shares of restricted stock previously granted to Mr. McCullough would lapse effective March 17, 2015. The Separation Agreement also contained such confidentiality provisions and other terms and conditions as are usual and customary for agreements of this type.

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 was 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. On March 8, 2016, Mr. Larkin's employment agreement was amended solely to change his title from Chief Operating Officer to Chief Revenue Officer. 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.



## 2015 Senior Management Equity Incentive Program

On May 6, 2015, the Compensation Committee approved the 2015 Program with effect as of January 1, 2015. The 2015 Program supersedes and replaces all prior long-term incentive plans or programs. In addition, for fiscal 2015, the Compensation Committee determined that our personnel at the level of Vice President and above would not be eligible to participate in our existing cash-based Short-Term Incentive Plan.

The 2015 Program provides a long-term incentive opportunity for our personnel at the level of Vice President and above except for our Chief Executive Officer (the “Eligible Employees”) through grants of restricted stock awards with both performance and service measures. Achievement of an Eligible Employee’s individual performance measures are measured by the Compensation Committee based upon his or her performance from January 1, 2015 to December 31, 2015. An Eligible Employee may achieve from 0% to 100% of his or her performance measures, and the amount of his or her restricted stock award will be reduced by any performance that is measured below 100%, making each Eligible Employee’s restricted stock award fully at risk of forfeiture. The performance 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, an Eligible Employee must remain in continuous service until March 17, 2016 for restrictions to fully lapse.

Under the 2015 Program, the Compensation Committee granted our Chief Financial Officer, Chief Operating Officer and each President 75,000 shares of restricted stock and each Vice President 35,000 shares of restricted stock. The 2015 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 2015 Program were issued under and pursuant to the 2008 Plan and subject to the terms of our standard performance-based restricted stock award agreement.

For fiscal 2015, the Compensation Committee determined that Mr. Macemore, our Chief Financial Officer, and Mr. Larkin, our Chief Operating Officer during 2015, achieved 84% and 80% of their individual performance measures, respectively. As such, on March 17, 2016 restrictions on 63,000 shares of Mr. Macemore’s original 75,000 restricted stock award lapsed due to partial achievement of his performance measures, and restrictions on 60,000 shares of Mr. Larkin’s original 75,000 restricted stock award lapsed due to partial achievement of his performance measures. The remainder of these restricted stock awards were forfeited.

## 2015 Discretionary Stock Option Awards

On September 9, 2015, the Compensation Committee granted discretionary stock options to purchase 50,000 shares of our common stock to each of Mr. Macemore and Mr. Larkin. The stock options have an exercise price of \$1.23 per share and vest 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 option grants were made pursuant to the 2008 Plan and subject to the terms of our standard employee incentive stock option agreement. These discretionary stock option awards are reflected in the Summary Compensation Table above.

Outstanding Equity Awards at 2015 Fiscal Year-End

Name	Grant Date	Option Awards			Stock Awards			Equity incentive plan awards: Market or payout value of unearned shares, units or other rights that have not vested (\$) <sup>(2)</sup>
		Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price (\$) <sup>(1)</sup>	Option Expiration Date	Number of shares or Market units of that stock that have not vested (#) (\$) <sup>(2)</sup>	Equity incentive plan awards: Number of unearned shares, units or other rights that have not vested (#)	
Suzanne T. Miglucci	8/18/2015	-	30,991	\$ 1.21	8/18/2025			
	12/1/2015	150,000	150,000	1.21	12/1/2025			
H. Marvin Beasley	3/17/2015	100,000	-	1.20	3/1/2016			
Randall N. McCullough	11/5/2010	100,000	-	2.13	3/17/2017			
	3/7/2011	10,567	-	3.46	3/17/2017			
	11/5/2011	100,000	-	2.68	3/17/2017			
	3/5/2012	11,216	-	4.48	3/17/2017			
	4/16/2013	6,594	-	3.81	3/17/2017			