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**IDEX Online Research**  
**Charles & Colvard: A Success Story Worth Understanding**  
By Ken Gassman

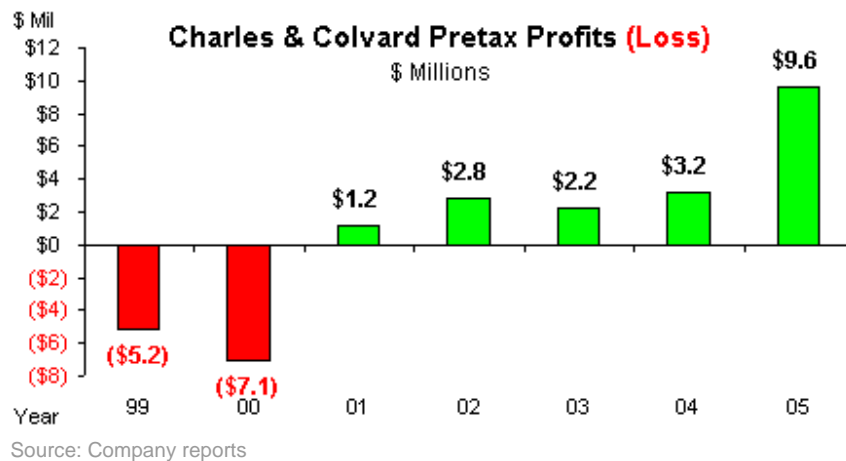
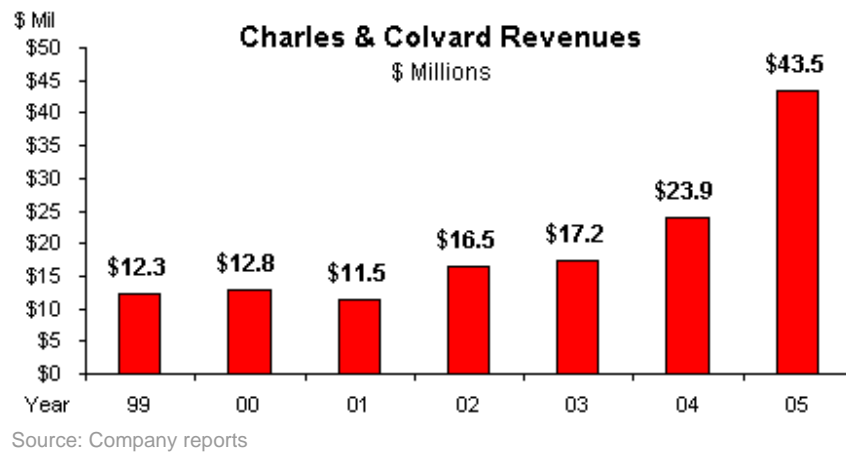
Charles & Colvard posted stellar results for the year ended December. With everything else going on in the jewelry industry, it may have been easy to overlook this recent news story.

Here's why you should take a second look at Charles & Colvard's financial results and how chairman Bob Thomas and his team achieved them:

Charles & Colvard's financial results for the year ended December 2005 surged.

- Sales increased 82 percent to \$43.5 million.
- Carats shipped increased 88 percent to 254,500.
- Pretax profits tripled to \$9.6 million.
- Pretax margins rose to 22 percent. Charles & Colvard's profit margin is well above any of the other publicly held jewelry suppliers, including well-known names such as Movado, Lazare Kaplan, and De Beers. Only Aber Diamond's pretax returns exceed Charles & Colvard.
- Cash on hand rose by over \$8 million to \$21 million at year-end.
- The company has no long-term debt.
- It paid a first-ever cash and stock dividends in 2005.
- CTHR shares are now included in the Russell 3000 and Russell Micro Cap indexes.
- The price of CTHR shares more than doubled during 2005.

The graphs below summarize financial results for the past seven years.



### It Hasn't Always Been This Sweet

In the late 1990s, almost everyone in the jewelry industry was laughing at Charles & Colvard's moissanite jewelry. "This is just another cubic zirconium," they said. For a while, the company's critics were correct. Moissanite failed to catch on with jewelers because of bad marketing, bad positioning (the product was originally positioned as a diamond look-alike, something historically intolerable in fine jewelers' stores), and lack of research about the potential market and customers.

Today, Charles & Colvard is one of the jewelry industry's great success stories. Charles & Colvard chairman Bob Thomas and his team have successfully overcome the bad press and ill will that was initially created when moissanite was introduced. That was no easy feat. Once this created gemstone was properly

repositioned, it was still a very tough battle getting jewelers to sign up to sell moissanite jewelry.

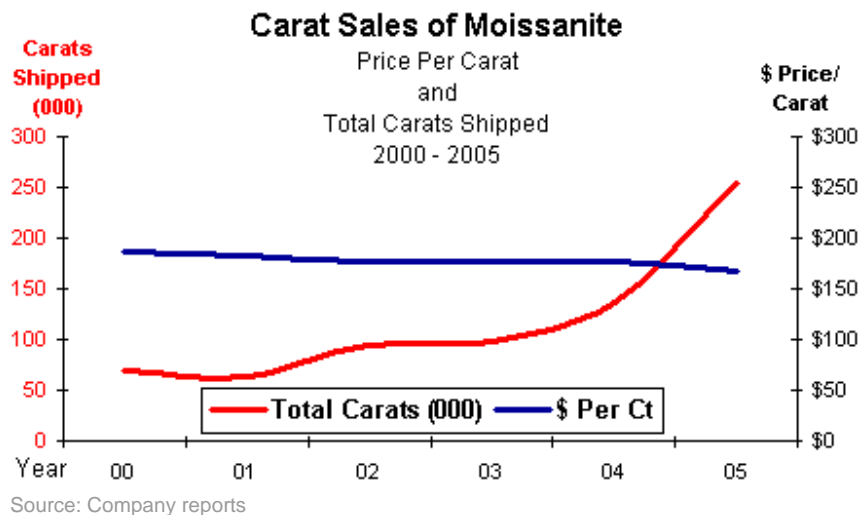
### Moissanite Market Positioning

Moissanite, a created gemstone, is now positioned as a unique fine jewel. Its target customer is the self-purchasing woman who understands that because of moissanite's superior brilliance and fire, it provides her with greater notice and attention, and it typically garners more compliments than some other jewelry.

The company got a couple of big breaks in 2004 and early 2005 when J.C. Penney and Finlay agreed to put moissanite jewelry into some of their retail locations. Demand was strong. Since then, other major chains have begun to line up behind moissanite.

Today, Charles & Colvard customers include not only Penney and Finlay, but also Helzberg and Zales as well as a number of other independent chains. Finlay chairman Art Reiner often mentions moissanite jewelry as a driver of his company's sales in the leased departments which Finlay operates in American's leading department stores. Further, Charles & Colvard has significant international distribution, especially in Asia.

The graph below summarizes total carat sales as well as the price per carat of moissanite. The price per carat has fallen very modestly since the beginning of the decade due primarily to a shift in mix toward slightly smaller, less expensive stones.



## **Research, Marketing & Sales Programs Fueled Revenue Gains**

In an effort to jump-start sales of moissanite, Bob Thomas and his team implemented a wide range of programs over the past several years. Some have been successful; others have failed. As Thomas said in a recent conference call, “the path [our strategy has taken] is not a straight line.”

Here’s the point: Charles & Colvard has not been afraid to spend money for research, marketing, and sales support. Management has not “sat on their hands,” waiting for the next customer to come through the door. They wake up in the morning thinking not about who they will do their next stone trade with but about their marketing plans. They think globally. And, they have initiated all of these programs on their own; they were not pushed by their source of moissanite, Cree Industries (diamantaires could substitute the words “De Beers” for Cree). Diamond and jewelry suppliers could take lessons from Charles & Colvard.

IDEX Online Research has summarized some of the more important marketing milestones. The list illustrates the vitality of Charles & Colvard’s marketing programs.

### **Year 2006**

- **Helzberg & Zales to carry moissanite jewelry** – Moissanite jewelry will be in 90 Helzberg Diamonds stores by the end of the first quarter of 2006, an increase of 50 stores over the previous announcement. Zales Corporation has expanded its testing of moissanite jewelry to include 20 stores within its 105-store Zales Outlet chain and will begin testing moissanite jewelry during the second quarter of 2006 in Zales-Canada, People’s Division, a 160-store chain.
- **Sarah Ferguson to create moissanite jewelry** – Sarah Ferguson, the Duchess of York, has signed an exclusive jewelry licensing agreement to create a collection of unique jewelry designs featuring moissanite.

### **Year 2005**

- **“Moissanite Is Me” campaign implemented** – Charles & Colvard implemented a new advertising campaign, “Moissanite is Me,” which extends and strengthens the positioning of moissanite jewelry as the self-reward of choice for the self-purchasing woman.
- **Major Holiday season 2005 ad campaign roll-out** – In the fourth quarter of 2005, Charles & Colvard implemented an advertising campaign in Elle, House Beautiful, InStyle, Ladies Home Journal, Oprah, and Vogue. Those advertisements are tagged to various retailers according to geographic region and included the following: Belk, Boston Store, Carson Pirie Scott,

Daniel's Jewelers, Day's Jewelers, Dillard's, Famous Barr, Filene's, Foley's, JCPenney, King's, Lord & Taylor, Macy's, Marshall Fields, Meier & Frank, Parisian, Robinsons-May, and The Jones Store. Additionally, there were newspaper advertisements supporting those retailers as well as Harry Ritchie Jewelers, Helzberg Diamonds, Landau, Morgan, Samuels, Von Maur, and others.

- **International sales efforts increased** – Charles & Colvard launched moissanite jewelry on Jupiter TV, a sales channel on Japanese television. JoAlan Design, in the person of Josephine Lee, the founder of JoAlan, introduced her range of moissanite jewelry during three one-hour programs. This represented the first serious marketing effort for moissanite jewelry in Japan, the second largest market for fine jewelry in the world. Even though Charles & Colvard had no distribution in Japan prior to the Jupiter launch, many of the callers to the programs were familiar with moissanite, and were apparently anxious to purchase the designs offered by JoAlan.
- **Other international television sales efforts continued** – Additional moissanite presentations were scheduled for the UK in November (2005), as well as for France. Those efforts helped build awareness for moissanite, and should result in permanent distribution in more traditional retail outlets.
- **Trunk shows planned** – Preparations for a trunk show test distribution with two nationally recognized fine jewelers were formulated. Marketing support plans, staff training, and jewelry production were coordinated. About 130 trunk show events were planned at retailers' locations in the fourth quarter of 2005.
- **500 moissanite jewelry events planned** – Charles & Colvard supported, with advertising and staffing, approximately 500 fine moissanite jewelry events in the third and fourth quarters of 2005.
- **JCPenney & Finlay rollout continued** – At March 31, 2005, fine moissanite jewelry was available at approximately 703 JCPenney locations, and by the end of April, at approximately 131 Finlay counters. The Finlay counters are located in retailers such as Lord & Taylor, Robinson May, Boston Store, Filene's, and Belks
- **International retailers carrying moissanite jewelry** – Rhomberg Jewelers, a 23-store chain in Switzerland, added moissanite jewelry. Further, six of the 40 Taiwan stores of the Carrefour retail chain carry moissanite.

- **Department store rollout** – Boscov's has expanded moissanite distribution from 14 to 31 stores and Migerobe is expanding from 12 to all 38 of their leased jewelry departments within Saks Inc. department stores.
- **Finlay announced plans to carry moissanite jewelry** – In early 2005, Charles & Colvard announced, along with its manufacturing customer K&G Creations, distribution of moissanite jewelry into 114 Finlay Enterprises leased department store jewelry counters.

#### Year 2004

- **Charles & Colvard tests memo inventory at retailers** – In an effort to put moissanite jewelry in retailers' store for the all-important holiday selling season, Charles & Colvard began offering consignment inventory for selected merchants.
- **New distribution tests with Daniel's, Alvin's, and others** – K & G Creations, a manufacturer of moissanite jewelry, obtained a ten-store test in the forty-four store Daniel's Jewelry store chain as well as a three-store test in the sixteen store Alvin's jewelry store chain. In addition, the previously announced test at one store of the Boscov's department store chain has led to a fourth quarter (2004) rollout at fourteen of their stores and the previously announced trunk shows at the forty-store Migerobe leased department store chain has led to a twelve-store rollout.
- **Moissanite sales strong at Landau** – Landau's posted a September (2004) sales gain of 118 percent for its moissanite jewelry.
- **New retail tests announced** – Charles & Colvard launched test distribution at 10 Daniels Jewelers locations in southern California. Daniels is a "top 40" jewelry retailer with 44 locations. Test distribution also began at three Alvin's Jewelry locations. Alvin's, also a "top 40" retailer, operates 16 locations, primarily in northern Ohio, and is a member of the trade group, "The Leading Jewelers of America".
- **Boscov's, Migerobe test moissanite** – Boscov's initially agreed to offer fine moissanite jewelry at 14 locations in the northeast, and Migerobe, the operator of 40 leased jewelry departments in retailers such as Proffitt's and McRae's, located primarily in the southeast, is featuring fine moissanite jewelry in 12 locations. Samuel Aaron is the jewelry manufacturer supplying Boscov's, and Reeves Park is supporting the Migerobe efforts.

- **Finlay to offer moissanite on website** – Finlay Enterprises is providing finished moissanite jewelry as the fulfillment entity for the independent web retailer, Smartbargains.com
- **AAFES adds moissanite jewelry in more stores** – The Army Air Force Exchange Service agreed to add an assortment of moissanite jewelry to 23 additional stores.
- **International marketing efforts increase** – Charles and Colvard launched moissanite jewelry on Jupiter Shop Channel, a Japanese TV shopping channel and the scheduled October 2004 introduction on a new French TV shopping channel called M 6. International shipments into Korea, Taiwan, and Singapore increased.
- **Domestic shipments of moissanite jewelry increase** – Increased domestic shipments are attributable to expanded distribution into a number of new retailers (including King's Jewelry and HSN.com) and increased volume with existing retailers.
- **Carlyle to test moissanite** – A test at four Carlyle Jewelers locations in North Carolina, with a branded range of high-end moissanite jewelry, the Estrella range, began in 2004. Carlyle, a 38-door chain, has locations in the southeastern US. JoAlan Design Inc., GemVeto, and Quadamas, each designers and manufacturers of high-end jewelry products, are supplying the Estrella range to Carlyle.
- **HSN.com selling moissanite** – HSN.com has recently completed the selection of the range of moissanite jewelry that it will offer to their online customers.
- **New advertising planned** – New advertising will appear in fashion magazines including InStyle, Marie Claire, Elle and Vogue. Those ads are "tagged" to a specific retailer depending on the geographic region of the country. For example, in the Northeast, the Landau chain, in the Southeast, Carlyle, in the west Morgan Jewelers, and in the upper Midwest King's are each "tagged" in the advertisements to lead consumers to locations where they can see, and purchase fine moissanite jewelry. The advertisements' primary purpose is to build awareness for moissanite, and to direct consumers to locations where they can discover the beauty and value proposition of moissanite.
- **Billboard ads tested** – Billboard advertising with the slogan "moissanite is made for me" were tested in Pittsburgh PA, Durham and Greensboro, NC, Salt Lake City, UT, and Las Vegas, NV. The billboards were visually

identical to the magazine ads, and are in each instance, "tagged" to a specific retailer.

- **Moissanite “Jewels of Fire” collection featured in Stuller catalog** – Stuller Inc., the largest supplier to the US jewelry industry has recently completed a new range of moissanite jewelry, "Jewels of Fire." Comprised of over 180 SKU's, this moissanite jewelry is featured in a new catalog being distributed to Stuller customers throughout the US and Canada. Stuller initially tested moissanite jewelry in 2003.
- **Mark Mann featured** – Charles & Colvard sponsored a Stuller event featuring Mark Mann, a well-known and widely respected bench jeweler who is a Charles & Colvard spokesperson.
- **International marketing efforts intensify in Asia** – Charles & Colvard's new distributor in Vietnam opened its first moissanite store in Ho Chi Minh City. Moissanite debuted on Chinese television in Shanghai, in the Peoples Republic of China. The company has had discussions with possible television selling opportunities in Korea. During the third quarter (2004), Charles & Colvard successfully opened its third retail location in the Peoples Republic of China. That store is located in the China Hotel, operated by Marriott in Guangzhou City, in southern China. The company is seeking similar opportunities in other China locations, primarily in Shanghai and Beijing. Charles & Colvard continues to invest in Asia. Its Hong Kong staff has gained necessary licenses and cooperation of the various Chinese government agencies.

#### **Year 2003**

- **ShopNBC shows slated** – Charles & Colvard has developed a schedule for moissanite shows at ShopNBC for mid-2003, and will develop a schedule for the September to December period. ShopNBC sales efforts will be supported with increased marketing activities for the remainder of the year and into future periods.
- **Advertising support developed** – Charles & Colvard developed an aggressive schedule for sales efforts with Kings Jewelers, a 51-door chain headquartered in New Castle, Pennsylvania. Moissanite jewelry was initially offered at 10 King's locations, with the possibility of an eventual rollout to all 51 doors in the chain in 2004. Additionally, advertising support was provided for Morgan Jewelers, Ultra Stores, Saslows, Harris and HSN.com, with headquarters in Salt Lake City, Utah; Chicago, Illinois; Greensboro, NC; Islanda, NY and Tampa, Florida, respectively. These retailers operate approximately 200 locations, with initial distribution in over 54 doors.



- **Cruise ship distribution tested** – Charles & Colvard has begun test distribution of moissanite jewelry with the Starboard Cruise Services Company. Starboard is the concessionaire to most of the entire cruise ship industry, with hundreds of on-ship jewelry sales counters. The test program consists of five counters.
- **Stuller to debut “Jewels of Fire”** – Stuller Inc., the largest distributor of jewelry products to domestic independent retail jewelers, debuted a new range of moissanite jewelry, "Jewels of Fire", at the JA trade fair. It supported that introduction with a heavy promotional effort.
- **AAFES selects moissanite jewelry** – K&G, a distributor of Charles & Colvard’s moissanite, was selected as the moissanite jewelry supplier to AAFES, the Army and Air Force Exchange System.
- **Asian TV shopping network sells moissanite jewelry** – Moissanite jewelry debuted on the Eastern Home Shopping Network in Taiwan in mid-2003. The program was a success, with the available inventory completely sold out in slightly less than the scheduled one-hour broadcast. The price points were approximately \$1,100 and \$2,200 US dollars with the total retail sales for the hour being in excess of \$125,000 US dollars. Immediately following the non-prime time program, the network management scheduled the next moissanite program for prime time airing in early August.
- **Moissanite store opens in Kowloon** – Moissanite distributors in Asia opened the first moissanite shop in Kowloon, a shopping hub of Hong Kong. This store primarily caters to tourists from the Peoples Republic of China. Management of this store will also work with Charles & Colvard’s Chinese partners on expanding the distribution of moissanite jewelry in southern China.

*The author of this report owns 100 shares or less of all publicly held jewelers, including Charles & Colvard.*

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