

# **NOMINATING AND GOVERNANCE COMMITTEE CHARTER OF CHARLES & COLVARD, LTD.**

(as adopted by the Board of Directors on February 16, 2004)

## **Purpose**

The Nominating and Governance Committee shall recommend candidates for election to the Board of Directors of Charles & Colvard, Ltd. (the "Company"). In addition, the Nominating and Governance Committee shall (i) make other recommendations to the Board for the improvement of the Company's overall corporate governance, conflicts of interest and other related policies, principles and guidelines applicable to the Company and (ii) lead the Board in its annual review of the Board's performance.

## **Membership and Procedure**

The Nominating and Governance Committee shall be comprised of not less than three directors each of whom shall meet the independence requirements of the Securities and Exchange Commission and the Nasdaq Stock Market, Inc. Committee members shall be appointed by the Board of Directors and shall serve until their successors are appointed and qualify or until their earlier resignation, death or removal. The Board shall designate the Chairman of the Nominating and Governance Committee or, if it fails to do so, the members of the Nominating and Governance Committee shall elect a Chairman by majority vote. The Board shall have the power at any time to change the size and membership of the Nominating and Governance Committee and to fill vacancies in it, provided that any new member satisfies the independence requirements established by the Securities and Exchange Commission and the Nasdaq Stock Market, Inc. and any other applicable regulatory requirements. The rules and procedures of the Committee will be governed by the North Carolina Business Corporation Act (the "NCBCA") and the Company's bylaws and, to the extent not inconsistent with the NCBCA and the bylaws, this Charter and the Company's corporate governance, conflicts of interest and other related policies, principles and guidelines.

The Committee will meet at least once a year and at such other times as are necessary to carry out the Committee's responsibilities. The Chairman of the Committee, the Chairman of the Board or the Chief Executive Officer may call meetings of the Committee.

The Committee will record and maintain minutes of its meetings. The Chairman of the Committee or a Committee member designated by the Chairman will make a report to the Board of the Committee's meetings, actions taken at meetings or by consent, and recommendations made since the most recent Board meeting, unless the Committee has previously circulated an interim report addressing the matter or matters.

## **Responsibilities**

**Nominating.** The nominating responsibilities of the Nominating and Governance Committee shall include:

- Screening and recommending to the Board of Directors qualified candidates for election and appointment to the Company's Board of Directors;
- Recommending to the Board of Directors from time to time an appropriate organizational structure (including size and composition) for the Board.
- Reviewing from time to time the appropriate qualifications, skills and characteristics required of directors in the context of the then-current make-up of the Board, including such factors as business experience, diversity, and personal skills in technology, finance, marketing, international business, financial reporting and other areas that are expected to contribute to an effective Board.
- Developing procedures to receive and evaluate Board nominations received from shareholders and other third parties.

**Corporate Governance.** The corporate governance responsibilities of the Nominating and Governance Committee shall include:

- Establishing appropriate Director orientation and training.
- Generally advising the Board as a whole on corporate governance matters.
- Advising the Board with regard to an appropriate process for shareholders to send communications to the Board.
- Periodically reviewing and reassessing the adequacy of the Company's corporate governance, conflicts of interest and business ethics policies, principles, codes of conduct and guidelines in light of emerging issues and developments related to corporate governance and other factors and formulating and recommending any proposed changes to the Board for approval.
- Solicit input from all directors and conduct an annual review of the effectiveness of the Board and its committees and present its assessment of the performance of the Board and its committees to the full Board following the end of each fiscal year.
- Periodically reviewing the Company's Shareholders Rights Plan to determine whether its provisions are in the best interests of the Company's shareholders.

**Other.** The Nominating and Governance Committee shall:

- Have full access to the Company's executives as necessary to carry out its responsibilities.

- Engage in a periodic self-assessment with the goal of continuing improvement, including a review and reassessment the adequacy of its Charter, and recommend any changes to the full Board.
- Have authority to retain such consultants (including search firms), outside counsel and other advisors as the Committee may deem appropriate in its sole discretion. The Committee shall have sole authority to approve related fees and retention terms. The Committee will keep the Company's Chief Financial Officer advised as to the general range of anticipated expenses for outside consultants and advisers and will obtain Board approval for expenditures exceeding \$10,000 in any one year.
- Perform any other activities consistent with this Charter, the Company's Bylaws and governing law as the Nominating and Governance Committee or the Board deems necessary or appropriate.
- Have the authority to delegate any of its responsibilities to subcommittees as the Committee may deem appropriate in its sole discretion.

The Committee may condition its approval of any action on ratification by the Board if Board action is required to comply with applicable law, including the NCBCA.