

SOLTA MEDICAL INC
 Form 3
 February 12, 2009

FORM 3 UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

OMB APPROVAL

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INITIAL STATEMENT OF BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934,
 Section 17(a) of the Public Utility Holding Company Act of 1935 or Section
 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
 MERITECH CAPITAL PARTNERS II LP

2. Date of Event Requiring Statement
 (Month/Day/Year)
 12/31/2008

3. Issuer Name and Ticker or Trading Symbol
 SOLTA MEDICAL INC [SLTM]

(Last) (First) (Middle)

4. Relationship of Reporting Person(s) to Issuer

5. If Amendment, Date Original Filed(Month/Day/Year)

245 LYTTON AVENUE, SUITE 350

(Check all applicable)

(Street)

____ Director 10% Owner
 ____ Officer ____ Other
 (give title below) (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
 Form filed by One Reporting Person
 Form filed by More than One Reporting Person

PALO ALTO, CA 94301

(City) (State) (Zip)

Table I - Non-Derivative Securities Beneficially Owned

1. Title of Security (Instr. 4)	2. Amount of Securities Beneficially Owned (Instr. 4)	3. Ownership Form: Direct (D) or Indirect (I) (Instr. 5)	4. Nature of Indirect Beneficial Ownership (Instr. 5)
Common Stock	5,240,591	D ⁽¹⁾	^
Common Stock	134,844	D ⁽²⁾	^
Common Stock	40,069	D ⁽³⁾	^

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

SEC 1473 (7-02)

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Table II - Derivative Securities Beneficially Owned (e.g., puts, calls, warrants, options, convertible securities)

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1. Title of Derivative Security (Instr. 4)	2. Date Exercisable and Expiration Date (Month/Day/Year)	3. Title and Amount of Securities Underlying Derivative Security (Instr. 4)	4. Conversion or Exercise Price of Derivative Security	5. Ownership Form of Derivative Security: Direct (D) or Indirect (I) (Instr. 5)	6. Nature of Indirect Beneficial Ownership (Instr. 5)
	Date Exercisable	Expiration Date	Title	Amount or Number of Shares	

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
MERITECH CAPITAL PARTNERS II LP 245 LYTTON AVENUE SUITE 350 PALO ALTO, CA 94301	^	^ X	^	^
MERITECH CAPITAL AFFILIATES II LP 245 LYTTON AVENUE SUITE 350 PALO ALTO, CA 94301	^	^ X	^	^
MCP ENTREPRENEUR PARTNERS II LP 245 LYTTON AVENUE SUITE 350 PALO ALTO, CA 94301	^	^ X	^	^
Meritech Management Associates II L.L.C. 245 LYTTON AVENUE SUITE 350 PALO ALTO, CA 94301	^	^ X	^	^
Meritech Capital Associates II L.L.C. 245 LYTTON AVENUE SUITE 350 PALO ALTO, CA 94301	^	^ X	^	^
MADERA PAUL S 245 LYTTON AVENUE SUITE 350 PALO ALTO, CA 94301	^	^ X	^	^
GORDON MICHAEL B 245 LYTTON AVENUE SUITE 350 PALO ALTO, CA 94301	^	^ X	^	^

Signatures

Paul S. Madera 02/12/2009

**Signature of
Reporting Person

Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 5(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Shares are held by Meritech Capital Partners II L.P. ("MCP II"). Meritech Management Associates II L.L.C., a managing member of Meritech Capital Associates II L.L.C., the general partner of MCP II, and Paul S. Madera and Michael B. Gordon, the managing members of Meritech Management Associates II L.L.C., may be deemed to share voting and dispositive power over the shares held by MCP II. Such persons and entities disclaim beneficial ownership of shares held by MCP II except to the extent of any pecuniary interest therein.

(2) Shares are held by Meritech Capital Affiliates II L.P. ("MCA II"). Meritech Management Associates II L.L.C., a managing member of Meritech Capital Associates II L.L.C., the general partner of MCA II, and Paul S. Madera and Michael B. Gordon, the managing members of Meritech Management Associates II L.L.C., may be deemed to share voting and dispositive power over the shares held by MCA II. Such persons and entities disclaim beneficial ownership of shares held by MCP II except to the extent of any pecuniary interest therein.

(3) Shares are held by MCP Entrepreneur Partners II L.P. ("Entrepreneur"). Meritech Management Associates II L.L.C., a managing member of Meritech Capital Associates II L.L.C., the general partner of Entrepreneur, and Paul S. Madera and Michael B. Gordon, the managing members of Meritech Management Associates II L.L.C., may be deemed to share voting and dispositive power over the shares held by Entrepreneur. Such persons and entities disclaim beneficial ownership of shares held by Entrepreneur except to the extent of any pecuniary interest therein.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *See* Instruction 6 for procedure.

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12/31/03

Charles & Colvard, Ltd.

100.00 45.74 10.64 11.77 40.60 31.17

Peer Group Index

100.00 96.13 61.76 80.75 65.66 90.29

Nasdaq Market Index - U.S.

100.00 185.59 112.67 88.95 60.91 91.37

The Company's peer group primarily consists of gemstone, watch or jewelry manufacturers that sell their products to retail jewelers, shopping channels and catalogs. While these companies have been selected on the basis of the similarities between their businesses and the business of the Company, the Company, unlike the members of the peer group, manufactures and sells a patented lab-created jewel that is not currently available from other sources. The Company therefore believes that comparisons between the Company and the peer group may not accurately and reliably reflect the relative performance of the Company.

SECURITY OWNERSHIP OF MANAGEMENT AND CERTAIN BENEFICIAL OWNERS

The following table sets forth information with respect to the beneficial ownership of Common Stock as of February 27, 2004 by (i) each person known by the Company to own beneficially five percent or more of the Company's outstanding shares of Common Stock; (ii) each director and director nominee of the Company; (iii) each executive officer of the Company; and (iv) all current directors, director nominees and executive officers as a group.

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Except as indicated in the footnotes to this table and pursuant to applicable community property laws, each shareholder named in the table has sole voting and investment power with respect to the shares set forth opposite such shareholder's name.

Name (1)	Common Stock Beneficially Owned	Percent of Class
Chester L. F. Paulson (2)	1,363,121	9.9%
Robert S. Thomas (3)	1,313,580	9.6%
Rodney D. Baber (4)	783,250	5.7%
Frederick A. Russ (5)	259,020	1.9%
Earl. R. Hines (6)	124,111	*
Walter J. O'Brien (7)	70,700	*
George A. Thornton, III (8)	64,420	*
James R. Braun (9)	63,266	*
Barbara L. Mooty (10)	21,914	*
Dennis M. Reed (11)	17,833	*
Laura C. Kendall	5,000	*
Lisa A. Gavales		
Geraldine L. Sedlar		
Directors, Nominees and Executive Officers as a Group (11 persons) (12)	1,939,844	14.1%

* Indicates less than one percent

- (1) Unless otherwise indicated, the address of each person is 3800 Gateway Boulevard, Suite 310, Morrisville, NC 27560.
- (2) Information obtained from Form 4 dated November 7, 2003 as filed with the Securities Exchange Commission. The mailing address of Mr. Paulson and Paulson Investment Company is 811 S.W. Naito Parkway, Suite 300, Portland, OR 97204.
- (3) Includes (i) 34,000 shares of Common Stock held jointly by Mr. Thomas and his spouse, Mary Ann Thomas, over which Mr. Thomas has shared voting and investment power, and (ii) 223,200 shares of Common Stock issuable to Mr. Thomas upon exercise of options granted under the 1996 Option Plan and 1997 Omnibus Plan.
- (4) Information obtained from Schedule 13G dated February 10, 2004 as filed with the Securities Exchange Commission. The mailing address of Mr. Baber is Morgan Keegan and Co., Inc., 50 N. Front Street, 15th Floor, Memphis, TN 38117.
- (5) Includes 29,500 shares of Common Stock issuable upon exercise of options granted under the 1996 Option Plan and 1997 Omnibus Plan.
- (6) Includes (i) 37,932 shares of Common Stock held jointly by Mr. Hines and his spouse, Jacqueline Hines, over which Mr. Hines has shared voting and investment power, (ii) 79,792 shares of Common Stock issuable to Mr. Hines upon exercise of options granted under the 1996 Option Plan and 1997 Omnibus Plan and (iii) 6,427 shares of Common Stock issuable to Mrs. Hines upon exercise of options granted under the 1996 Option Plan and 1997 Omnibus Plan.
- (7) Includes 70,500 shares of Common Stock issuable upon exercise of options granted under the 1997 Omnibus Plan.
- (8) Includes 18,000 shares of Common Stock issuable upon exercise of options granted under the 1997 Omnibus Plan.
- (9) Includes (i) 5,000 shares of Common Stock held jointly by Mr. Braun and his spouse Cherie Braun, over which Mr. Braun has shared voting and investment power, and (ii) 51,666 shares of Common Stock issuable to Mr. Braun upon exercise of options granted under the 1997 Omnibus Plan.

- (10) Includes 17,500 shares of Common Stock issuable upon exercise of options granted under the 1997 Omnibus Plan.
- (11) Includes 13,333 shares of Common Stock issuable upon exercise of options granted under the 1997 Omnibus Plan.
- (12) Includes (i) 76,932 shares of Common Stock over which certain directors and executive officers have shared voting and investment power, and (ii) 509,918 shares of Common Stock issuable upon exercise of options granted under the 1996 Option Plan and 1997 Omnibus Plan. Does not include 1,363,121 shares owned by Chester L.F. Paulson or 783,250 shares owned by Rodney D. Baber.

CERTAIN TRANSACTIONS

In October 2002, the Board of Directors authorized a follow-on stock repurchase program for up to 1,100,000 shares of the Company’s common stock through open market or privately negotiated transactions, at prices at or below prevailing prices. This program expired in September 2003. There were no shares repurchased during 2002 under the follow-on program. In 2003, the Company repurchased 163,300 shares under this program at an average purchase price of \$4.58 per share. Of these shares 100,000 were purchased from an affiliate of Chester L. F. Paulson, a director of the Company from May 2001 through May 2003, at an average price of \$4.58 per share. In December 2003, the Board of Directors authorized a second follow-on repurchase program for up to 900,000 shares of the Company’s common stock. The Company will determine the time and extent of repurchases based on its evaluation of market conditions and other factors. As of December 31, 2003, there were no shares repurchased since the adoption of the second follow-on program.

Fairness of Transactions

The Company believes that all of the transactions listed under the caption Certain Transactions were made on terms no less favorable to the Company than could have been obtained in substantially similar transactions with unaffiliated third parties. All agreements entered into between the Company and its officers and directors during 2003 were approved by a majority of the Board. Future transactions between the Company and any officer, director, five percent shareholder or affiliate of the Company will be approved by a majority of the Board of Directors and will be on terms no less favorable to the Company than could be obtained in substantially similar transactions with unaffiliated third parties.

PROPOSAL 2

APPOINTMENT OF INDEPENDENT AUDITORS

Audit Fees

The aggregate fees billed the Company during 2003 and 2002 by Deloitte & Touche, LLP for services rendered are set forth in the following table:

<u>Type of Service</u>	<u>Amount of Fee</u>	
	<u>2003</u>	<u>2002</u>
Audit Fees	\$ 100,000	\$ 93,000
Audit-Related Fees	\$ 0	\$ 0
Tax Services	\$ 23,000	\$ 24,000
All Other Fees	\$ 0	\$ 0

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Tax Services are the preparation of the Company's Federal and State Tax return as well as certain tax consulting services which in 2003 and 2002 related to the Company's tax net operating loss carryforward.

Beginning May 6, 2003, the Company was required to obtain prior approval from the Audit Committee for all audit and permissible non-audit related fees incurred with the Company's independent auditors. On December 6, 2003, the Audit Committee recommended and the Board adopted an Audit Committee Pre-Approval Policy. Pursuant to the Pre-Approval Policy, all new projects (and fees) either must be authorized in advance under the guidelines set forth in the Pre-Approval Policy or approved in advance by the full Audit Committee. Pre-Approval under the Policy is generally provided for up to one year, is limited to certain projects listed in the Policy, and is subject to meeting a specific budget for each project, which budget is contained in the Policy. Any project that falls within the scope of the Policy may be approved by the chairperson of the Audit Committee or his or her designee, while all other projects must be specifically approved by the full Audit Committee. All new projects authorized after May 6, 2003 were approved in advance by the Audit Committee.

The Audit Committee considered the compatibility of the non-audit services performed by and fees paid to Deloitte & Touche, LLP in 2003 and the proposed non-audit services and proposed fees for 2004 and determined that such services and fees were compatible with the independence of the auditors. During 2003, Deloitte & Touche, LLP did not utilize any leased personnel in connection with the audit.

The Board of Directors has appointed Deloitte & Touche LLP as independent auditors of the Company for the year ending December 31, 2004, subject to ratification by the Company's shareholders. Deloitte & Touche LLP has acted as independent auditors of the Company since February 1997. Representatives of Deloitte & Touche LLP who are expected to be present at the Annual Meeting will be given the opportunity to make a statement if they desire to do so and will also be available to respond to appropriate questions.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THIS PROPOSAL.

SHAREHOLDER PROPOSALS

Under certain conditions, shareholders may request the Company to include a proposal for action at a forthcoming meeting of the shareholders of the Company in the proxy materials of the Company for such meeting. All shareholder proposals intended to be presented at the 2005 Annual Meeting of the Shareholders of the Company must be received by the Company no later than November 21, 2004 for inclusion in the Proxy Statement and proxy card relating to such meeting. In addition, if a shareholder desires to make a proposal from the floor during the meeting, even if such proposal is not to be included in the Company's proxy statement, the Company's Bylaws provide that the shareholder must give timely written notice of the proposal to the chief executive officer of the Company. Notice will be considered timely if it is mailed or delivered (i) in the case of an annual meeting that is called for a date that is within 30 days before or after the anniversary date of the immediately preceding annual meeting, not less than 60 days and not more than 90 days prior to the anniversary date of the immediately preceding annual meeting, or (ii) 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 after the anniversary date of the immediately preceding annual meeting, not later than the close of business on the tenth day following the day on which notice of meeting was mailed or public disclosure of the date of the meeting was made, whichever occurs first. If written notice is not timely given, the shareholder proposal will be considered untimely and the Company may exclude the proposal from consideration at the meeting. If the proposal is permitted to be considered at the meeting, the proxies appointed pursuant to the proxy cards will have discretionary authority to vote for or against the proposal even if the proposal was not discussed in the proxy statement. Accordingly, notice of proposals to be brought before the 2005 Annual Meeting of Shareholders must be mailed or delivered no earlier than February 11, 2005 and no later than March 12, 2004 to be considered timely.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires directors and certain officers of the Company, and persons who own more than 10% of the outstanding shares of the Company's Common Stock, to file with the Securities and Exchange Commission (the "SEC") initial reports of ownership and reports of changes in ownership of Common Stock. Such persons are required by SEC regulations to furnish the Company with copies of all Section 16(a) forms they file. Based solely on a review of the copies of such reports furnished to the Company by such persons and their written representations that such reports accurately reflect all reportable transactions and holdings, the Company believes that during 2003 all such persons filed such reports on a timely basis.

ADDITIONAL INFORMATION

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Copies of the Company's Annual Report on Form 10-K for the year ended December 31, 2003, including financial statements and schedules are available on the Company's website at www.moissanite.com and will be provided upon written request, without charge, to any person whose proxy is being solicited. Any exhibit to Form 10-K is also available upon written request at a reasonable charge for copying and mailing. Written requests should be made to James R. Braun, Chief Financial Officer, at Charles & Colvard, Ltd., 3800 Gateway Boulevard, Suite 310, Morrisville, North Carolina 27560.

OTHER MATTERS

The Board of Directors is not aware of any other matters to come before the Annual Meeting. However, if any other matters properly come before the Annual Meeting, it is the intention of the persons named on the enclosed proxy card to vote said proxy in accordance with their judgment in such matters.

By Order of the Board of Directors,

Robert S. Thomas

President & CEO

March 21, 2004

Appendix A

Amended and Restated Audit Committee Charter

AUDIT COMMITTEE CHARTER

OF

CHARLES & COLVARD, LTD.

(as amended and restated and adopted by the Board of Directors on December 4, 2003)

The Purpose of the Audit Committee

The purpose of the Audit Committee is to represent and assist the Board of Directors of Charles & Colvard, Ltd. (the "Company") in its general oversight of the Company's accounting and financial reporting processes, audits of the financial statements, and internal control and audit functions. Management is responsible for (a) the preparation, presentation and integrity of the Company's financial statements; (b) accounting and financial reporting principles; and (c) the Company's internal controls and procedures designed to promote compliance with accounting standards and applicable laws and regulations. The Company's independent auditing firm is responsible for performing an independent audit of the consolidated financial statements in accordance with generally accepted auditing standards.

The Audit Committee members are not professional auditors and their functions are not intended to duplicate or to certify the activities of management and the independent auditor, nor can the Committee certify that the independent auditor is independent under applicable rules. The Audit Committee serves a board level oversight role where it oversees the relationship with the independent auditor, as set forth in this charter, and provides advice, counsel and general direction, as it deems appropriate, to management, the full board and the auditors on the basis of the information it receives, discussions with the auditor, and the experience of the Committee's members in business, financial and accounting matters.

Membership

The Audit Committee is comprised of at least three independent directors. All of the Audit Committee members must be determined by the Board of Directors to meet the independence and financial literacy requirements of The Nasdaq Stock Market, Inc. ("Nasdaq") and applicable federal law. Appointment to the Committee, including the designation of the Chair of the Committee and the designation of any Committee members as "audit committee financial experts" as defined by the SEC, shall be made on an annual basis by the full Board upon recommendation of the Nominating/Corporate Governance Committee and may be removed by the Board of Directors in its discretion. At least one member of the Committee must have, in the judgment of the Board, employment experience in finance or accounting, requisite professional certification in accounting or any other comparable experience or background that results in the individual's financial sophistication, including being or having been a chief executive officer, chief financial officer or other senior officer with financial oversight responsibilities, or otherwise satisfy the applicable Nasdaq experience requirement. In addition, the Company shall use reasonable efforts to appoint at least one Audit Committee member with the requisite accounting or related financial management competency in order to be an "audit committee financial expert" as defined by the SEC, and as determined by the full Board.

Responsibilities

The Audit Committee:

Is directly responsible for the appointment, compensation, retention and oversight of the work of any registered public accounting firm (as defined by the SEC) engaged (including resolution of disagreements between management and the auditor regarding financial reporting) for the purpose of preparing or issuing an audit report or performing other audit, review or attest services. Each such registered public accounting firm shall report directly to the Audit Committee.

Obtains and reviews annually a report by the registered public accounting firm as independent auditor describing (i) the independent auditor's internal quality-control procedures; (ii) any material issues raised by the most recent internal quality-control review or peer review or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the firm; and (iii) any steps taken to deal with any such issues.

Obtain on an annual basis a formal written statement from the independent auditor delineating all relationships between the independent auditor and the Company consistent with Independence Standards Board Standard No. 1, and review and discuss with the independent auditor all significant relationships the independent auditors have with the Company which may affect the independent auditor's independence. The Audit Committee is responsible for taking, or recommending that the full board take, appropriate action to oversee the independence of the independent auditor.

Establishes policies and procedures for the review and pre-approval by the Committee of all auditing services and permissible non-audit services (including the fees and terms thereof) to be performed by the independent auditor, with exceptions provided for de minimis amounts under certain circumstances as described by law.

Reviews and discusses with the independent auditor: (a) its audit plans, and audit procedures, including the scope, fees and timing of the audit and adequacy of the independent auditor's staffing; (b) the results of the annual audit examination and accompanying management letters; and (c) the results of the independent auditor's procedures with respect to interim periods.

Reviews and discusses reports from the independent auditors on (a) all critical accounting policies and practices used by the Company, (b) alternative accounting treatments within GAAP related to material items that have been discussed with management, including the ramifications of the use of the alternative treatments and the treatment preferred by the independent auditor, and (c) other material written communications between the independent auditor and management.

Reviews with the independent auditor its judgments as to the quality, not just the acceptability, of the Company's accounting principles and such matters as are required to be discussed with the Committee under generally accepted auditing standards, including Statement on Auditing Standards No. 61, such as any difficulties encountered in the course of the audit work, any restrictions on the scope of activities or access to requested information, and any significant disagreements with management.

Reviews and discusses with management and the independent auditor quarterly earnings press releases, including the interim financial information and business outlook included therein, reviews the Company's quarterly and annual financial statements and related disclosures, including the MD&A portion of the Company's SEC reports, prior to filing with the SEC, and, if deemed appropriate, recommends to the Board of Directors that the annual audited financial statements be approved for inclusion in the Annual Report on Form 10-K for the year.

Reviews and discusses with management and the independent auditor various topics and events that may have significant financial impact on the Company or that are the subject of discussions between management and the independent auditors.

Reviews and discusses with management the Company's major financial risk exposures and the steps management has taken to monitor and control such exposures.

Reviews all related-party transactions and potential conflict of interest situations.

Reviews and approves policies and procedures regarding officers' and directors' expense accounts and perquisites, including their use of Company assets.

Reviews and discusses with management, the independent auditor, and any provider of internal audit services to the Company: (a) the adequacy and effectiveness of the Company's internal controls (including any significant deficiencies and significant changes in internal controls reported to the Committee by the independent auditor or management; (b) the Company's internal audit procedures; and (c) the adequacy and effectiveness of the Company's disclosures controls and procedures, and management reports thereon.

Reviews annually with any provider of internal audit services to the Company the scope of the internal audit program, and reviews annually the performance of both the internal audit group and the independent auditor in executing their plans and meeting their

objectives.

Reviews the use of auditors other than the independent auditor in cases such as management's request for second opinions.

Reviews matters related to the corporate compliance activities of the Company, including the review of reports from the Company's Disclosure Committee and other related groups.

Serves, if and for so long as designated by the full Board, as a Qualified Legal Compliance Committee as defined by SEC to respond as it determines to be appropriate to any report of evidence of a material violation of the securities laws that the Committee receives from the Company's chief legal officer, if any, or from any attorney appearing and practicing before the SEC in the representation of the Company, and establishes written procedures for the confidential receipt, retention and consideration of any such reports.

Establishes written procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters, and the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.

Establishes policies for the hiring of employees and former employees of the independent auditor.

Reviews accounting and financial human resources and succession planning within the Company.

Submits minutes of all meetings of the Committee to, and discuss matters discussed at each Committee meeting with, the full Board.

Prepares and publishes the report of the Committee required by the rules of the Securities and Exchange Commission to be included in the Company's annual proxy statement.

When appropriate, designates one or more of its members to perform certain of its duties on its behalf, subject to such reporting to or ratification by the Committee as the Committee shall direct.

Performs any other activities consistent with this Charter, the Company's bylaws and governing law as the Committee or the full Board deems necessary or appropriate.

The Audit Committee will engage in an annual self-assessment with the goal of continuing improvement, and will annually review and reassess the adequacy of its charter, and recommend any changes to the full Board.

The Audit Committee is authorized to investigate any matter brought to its attention with full access to all books, records, facilities, and personnel of the Company. The Audit Committee shall have the authority to engage independent legal, accounting and other advisers, as it determines necessary to carry out its duties. The Company shall provide appropriate funding to the Audit Committee as determined by the Audit Committee, for payment of (1) compensation to any registered public accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Company, (2) compensation to any advisers retained by the Audit Committee, and (3) ordinary administrative expenses of the Audit Committee that are necessary or appropriate in carrying out its duties.

The Audit Committee shall meet not less than quarterly at such times and places as the Audit Committee shall determine. The Audit Committee shall meet in executive session with the independent auditor, the provider of internal audit services to the Company and management periodically. The Chairman of the Audit Committee shall report on Audit Committee activities to the full Board.

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The Chairman of the Audit Committee is to be contacted directly by the provider of internal audit services to the Company or the independent auditor (1) to review items of a sensitive nature that can impact the accuracy of financial reporting or (2) to discuss significant issues relative to the overall Board responsibility that have been communicated to management but, in their judgment, may warrant follow-up by the Audit Committee.

PROXY

Charles & Colvard, Ltd.

3800 Gateway Boulevard, Suite 310

Morrisville, North Carolina 27560

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS

The undersigned shareholder of Charles & Colvard, Ltd., a North Carolina corporation (the Company), hereby appoints Robert S. Thomas and James R. Braun as Proxies, each with the power to appoint his substitute, and hereby authorizes them to represent and to vote, as designated below, all of the shares of common stock, no par value, of the Company held of record by the undersigned on March 22, 2004 at the Annual Meeting of the Shareholders of the Company to be held on May 11, 2004 or any adjournment thereof.

1. ELECTION OF DIRECTORS

FOR all nominees listed below (except as marked below)

WITHHOLD AUTHORITY for all nominees

INSTRUCTION: To withhold authority to vote for any individual nominee, mark the box next to that nominee's name.

Nominees:

Walter J. O'Brien Frederick A. Russ Robert S. Thomas George A. Thornton, III Laura C. Kendall Lisa A. Gavales Geraldine L. Sedlar

2. PROPOSAL TO RATIFY THE APPOINTMENT OF DELOITTE & TOUCHE LLP as independent auditors for the year ending December 31, 2004.

FOR

AGAINST

ABSTAIN

3. In their discretion, the Proxies are authorized to vote upon such other matters as may properly come before the Annual Meeting of the Shareholders.

THIS PROXY, WHEN PROPERLY EXECUTED, WILL BE VOTED IN THE MANNER SPECIFIED HEREIN BY THE UNDERSIGNED SHAREHOLDER. IF NO SPECIFICATION IS MADE, THIS PROXY WILL BE VOTED FOR THE PROPOSAL TO ELECT THE PERSONS NAMED ABOVE AND FOR THE PROPOSAL TO RATIFY THE APPOINTMENT OF DELOITTE & TOUCHE LLP AS

Explanation of Responses:

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INDEPENDENT AUDITORS FOR THE YEAR ENDING DECEMBER 31, 2004.

(continued on other side)

Please sign this proxy exactly as your name appears below. When shares are held by joint tenants, both should sign. When signing as attorney, executor, administrator, trustee or guardian, please give your full title as such. If shares are held by a corporation, please sign the full name of the corporation by an authorized officer. If shares are held by a partnership, please sign the full name of the partnership by an authorized person.

Signature: _____

Signature: _____

(if held jointly)

Dated: _____

Please mark, sign, date and return this proxy card promptly, using the enclosed envelope.