

CHARLES & COLVARD LTD

Form 4

December 18, 2002

|   |   |   |
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| <p><b>FORM 4</b></p> <p><input type="checkbox"/> Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. See Instruction 1(b).</p> <p>(Print or Type Responses)</p> | <p><b>UNITED STATES SECURITIES AND EXCHANGE COMMISSION</b></p> <p>Washington, D.C. 20549</p> <p><b>STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP</b></p> <p>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</p> | <p>OMB APPROVAL</p> <hr/> <p>OMB Number: 3235-0287<br/>Expires: January 31, 2005<br/>Estimated average burden hours per response. . . 0.5</p> |
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|  |  |   |   |
|--|--|---|---|
| <p>1. Name and Address of Reporting Person *</p> <p style="text-align: center;"><b>Paulson Capital Corp.</b></p> <p>(Last)      (First)      (Middle)</p> <p><b>811 SW Naito Parkway, Suite 200</b></p> <p style="text-align: center;">(Street)</p> <p><b>Portland, OR 97204</b></p> <p>(City)    (State)    (Zip)</p> | <p>2. Issuer Name and Ticker or Trading Symbol</p> <p style="text-align: center;"><b>Charles and Colvard Ltd. (CTHR)</b></p> | <p>4. Statement for (Month/Day/Year)</p> <p style="text-align: center;"><b>12/17/02</b></p> | <p>6. Relationship of Reporting Person(s) to Issuer</p> <p>(Check all applicable)</p> <p><input checked="" type="checkbox"/> Director</p> <p><input checked="" type="checkbox"/> 10% Owner</p> <p><input type="checkbox"/> Officer (give title below)</p> <p><input type="checkbox"/> Other (specify below)</p> <p>7. Individual or Joint/Group Filing (Check Applicable Line)</p> <p><input type="checkbox"/> Form filed by One Reporting Person</p> <p><input checked="" type="checkbox"/> Form filed by More than One Reporting Person</p> |
|--|--|---|---|

**Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned**

| 1. Title of Security (Instr. 3) | 2. Transaction Date (Month/Day/Year) | 2A. Deemed Execution Date, if any (Month/Day/Year) | 3. Transaction Code and Voluntary Code (Instr. 8) |          | 4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5) |              |               | 5. Amount of Securities Beneficially Owned Following Reported Transactions(s) (Instr. 3 and 4) | 6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4) | 7. Nature of Indirect Beneficial Ownership (Instr. 4) |
|---------------------------------|--------------------------------------|--|---|----------|---|--------------|---------------|--|--|---|
|                                 |                                      |  | S Code  | V        | 17,900 Amount   | D (A) or (D) | \$6.00 Price  |  |  |   |
| <b>Common Stock</b>             | <b>12/17/02</b>                      |  | <b>S</b>  | <b>V</b> | <b>17,900</b>   | <b>D</b>     | <b>\$6.00</b> | <b>1,632,900 (3)</b>   | <b>I</b>   | <b>(4)</b>  |
|                                 |                                      |  |   |          |   |              |               |  |  |   |
|                                 |                                      |  |   |          |   |              |               |  |  |   |
|                                 |                                      |  |   |          |   |              |               |  |  |   |
|                                 |                                      |  |   |          |   |              |               |  |  |   |
|                                 |                                      |  |   |          |   |              |               |  |  |   |
|                                 |                                      |  |   |          |   |              |               |  |  |   |

**Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned**  
*(e.g., puts, calls, warrants, options, convertible securities)*

| 1. Title of Derivative Security (Instr. 3) | 2. Conversion or Exercise Price of Derivative Security | 3. Transaction Date (Month/Day/Year) | 3A. Deemed Execution Date, if any (Month/Day/Year) | 4. Transaction Code (Instr. 8) |   |     |     | 5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5) |                 | 6. Date Exercisable and Expiration Date (Month/Day/Year) |                            | 7. Title and Amount of Underlying Securities (Instr. 3 and 4) |  | 8. Price of Derivative Security (Instr. 5) | 9. Number of Derivative Securities Beneficially Owned Following Reported Transaction(s) (Instr. 4) | 10. Ownership Form of Derivative Securities: Direct (D) or Indirect (I) (Instr. 4) | 11. Name of Beneficial Owner (Instr. 4) |
|--|--|--------------------------------------|--|--------------------------------|---|-----|-----|--|-----------------|--|----------------------------|---|--|--|--|--|---|
|  |  |                                      |  | Code                           | V | (A) | (D) | Date Exercisable   | Expiration Date | Title  | Amount or Number of Shares |   |  |  |  |  |   |
|  |  |                                      |  |                                |   |     |     |  |                 |  |                            |   |  |  |  |  |   |
|  |  |                                      |  |                                |   |     |     |  |                 |  |                            |   |  |  |  |  |   |
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|  |  |                                      |  |                                |   |     |     |  |                 |  |                            |   |  |  |  |  |   |
|  |  |                                      |  |                                |   |     |     |  |                 |  |                            |   |  |  |  |  |   |
|  |  |                                      |  |                                |   |     |     |  |                 |  |                            |   |  |  |  |  |   |

Explanation of Responses:

(1) Chester L.F. Paulson, a member of the filing group described below, became a director on 5/14/01.

(2) In addition to Paulson Capital Corp. ("PCC"), the following are reporting parties: Chester L.F. Paulson, Paulson Family LLC ("LLC") and Paulson Investment Company ("PIC"). The address for each of the reporting parties is the same as that provided for PCC.

(3) Of the 1,632,900 shares of common stock owned by the reporting group, 1,448,500 is held in the name of PIC and 184,400 is held in the name of the LLC.

(4) Chester Paulson is a controlling manager of the LLC, which is a controlling shareholder of PCC, which is the parent company of PIC. The securities are held in the name of PIC. Chester Paulson and the LLC expressly disclaim any beneficial ownership of securities in the name of PIC.

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/s/ CHESTER L.F. PAULSON

Chester L.F. Paulson, Individually

12/17/02

Date

Paulson Family LLC

/s/ CHESTER L.F. PAULSON

By: Chester L.F. Paulson, Manager

Paulson Capital Corp.

/s/ CHESTER L.F. PAULSON

By: Chester L.F. Paulson, Chairman of the Board

Paulson Investment Company

/s/ CHESTER L.F. PAULSON

By: Chester L.F. Paulson, Chariman of the Board

\*\* Signature of Reporting Person

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

\* If the form is filed by more than one reporting person, *see* Instruction 4(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).

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

