

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

FORM 8-K

CURRENT REPORT

PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of Report (Date of earliest event reported): **May 24, 2018**

Charles & Colvard, Ltd.

(Exact name of registrant as specified in its charter)

North Carolina

(State or other jurisdiction of incorporation)

000-23329

(Commission File Number)

56-1928817

(I.R.S. Employer Identification No.)

170 Southport Drive

Morrisville, North Carolina

(Address of principal executive offices)

27560

(Zip Code)

(919) 468-0399

(Registrant's telephone number, including area code)

N/A

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (17 CFR 230.405) or Rule 12b-2 of the Securities Exchange Act of 1934 (17 CFR 240.12b-2).

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Item 5.02 Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers.

Adoption of Fiscal 2019 Q1-Q2 Senior Management Equity Incentive Program

On May 24, 2018, the Compensation Committee of the Board of Directors (the “Board”) of Charles & Colvard, Ltd. (the “Company”) approved the Charles & Colvard, Ltd. Fiscal 2019 Q1-Q2 Senior Management Equity Incentive Program (the “Program”) for the first six months of the Company’s new fiscal year, with effect as of July 1, 2018. The Program supersedes and replaces all prior management incentive plans or programs for all periods commencing on or after July 1, 2018.

The Program provides an incentive opportunity for the Company’s executive officers and vice presidents, other than senior sales executives (the “Eligible Employees”), through the grant of an award, with both performance and service measures (the “Award”), consisting of (i) a restricted stock award representing 70% of the Award’s value (the “Restricted Stock Component”) and (ii) a cash bonus award representing 30% of the Award’s value (the “Cash Component”). The value of Awards is expressed in “Share Equivalents,” which is the number of shares of the Company’s restricted stock that would be granted pursuant to each Award if the Restricted Stock Component equaled 100% of the Award.

Achievement of an Eligible Employee’s performance measures will be measured by the Compensation Committee as follows: (i) 60% of each Award will be based on the achievement of a shared Company goal regarding revenue growth (the “Revenue Measure”), (ii) 15% of each Award will be based on the achievement of a shared Company goal regarding gross margin (the “Margin Measure”), (iii) 15% of each Award will be based on the achievement of a shared Company goal regarding EBITDA (the “EBITDA Measure”), and (iv) 10% of each Award will be based on the achievement of a shared Company goal regarding cash and cash equivalents on the Company’s balance sheet (the “Cash Measure,” and together with the Revenue Measure, the Margin Measure, and the EBITDA Measure, the “Company Measures”), all for the period from July 1, 2018 to December 31, 2018. If the Company does not achieve 80% of the Revenue Measure, the Restricted Stock Component of each Award will be forfeited and the Cash Component of each Award will not be paid. The Company must achieve at least 80% of the Revenue Measure in order for the portion of the Award attributed to the Margin Measure, the EBITDA Measure, and the Cash Measure to be vested/paid, as applicable. The Company must achieve at least 90% of the Revenue Measure in order for the portion of the Award attributed to the Revenue Measure to be vested/paid, as applicable. Achievement on a sliding scale from 90% to 120% of the Revenue Measure will result in payment ranging from 75% to 140% of the portion of the Award attributed to the Revenue Measure. The Restricted Stock Component and Cash Component of each Award will be reduced proportionately by any performance that is measured below 100%. The Company 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 Company’s 2008 Stock Incentive Plan (the “2008 Plan”). In addition, an Eligible Employee must remain in continuous service until December 31, 2018 for restrictions to fully lapse on the Restricted Stock Component and for the Cash Component to be paid.

Under the Program, the Compensation Committee has granted the Chief Executive Officer 75,000 Share Equivalents, the Chief Financial Officer and Chief Operating Officer 37,500 Share Equivalents, and each eligible Vice President 17,500 Share Equivalents. The Program also provides the Compensation Committee discretion to make additional Awards above the targeted award level in recognition of extraordinary performance. The Restricted Stock Component of all Awards granted pursuant to the Program is issued under and pursuant to the 2008 Plan and subject to the terms of the Company’s standard performance-based restricted stock award agreement.

The foregoing description of the Program does not purport to be complete and is qualified in its entirety by reference to the Program, a copy of which is filed as Exhibit 10.1 to this Form 8-K and is incorporated herein by reference.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits.

Exhibit No.	Description of Document
10.1	Charles & Colvard, Ltd. Fiscal 2019 Q1-Q2 Senior Management Equity Incentive Program, effective July 1, 2018

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Charles & Colvard, Ltd.

May 29, 2018

By: /s/ Clint J. Pete
Clint J. Pete
Chief Financial Officer

CHARLES & COLVARD, LTD.
FISCAL 2019 Q1-Q2 SENIOR MANAGEMENT EQUITY INCENTIVE PROGRAM

Adopted May 24, 2018

The Charles & Colvard Fiscal 2019 Q1-Q2 Senior Management Equity Incentive Program (the "Program") is a compensatory program established pursuant to the Charles & Colvard, Ltd. 2008 Stock Incentive Plan (the "2008 Plan") for the first six months of the 2019 fiscal year (i.e., July 1, 2018 through December 31, 2018). The Compensation Committee (the "Committee") of the Board of Directors of Charles & Colvard Ltd. (the "Company") is charged with administering the Program. The Program covers performance-based restricted stock awards and cash bonus awards for Company personnel at the level of Vice-President and above, other than the Senior Vice President of Sales and Vice Presidents of Sales (the "Eligible Employees").

The Program supersedes and replaces all prior management incentive plans or programs for all periods commencing on or after July 1, 2018.

Purpose and Objective

The Program is intended to further strengthen the Company's pay for performance philosophy and more closely align the Eligible Employees' interests with those of the Company and its shareholders by granting Eligible Employees significant equity and cash compensation awards that are tied to Company performance. The Program provides for a mixture of both performance-based and time-based vesting of equity compensation awards to permit the Committee to tie vesting to the attainment of specific performance measures under the 2008 Plan while also encouraging the longer-term retention of Eligible Employees.

Description of Awards

Each award (an "Award") granted under this Program shall consist of (1) a restricted stock award representing 70% of the Award's value (the "Restricted Stock Component"), to be granted to Eligible Employees upon approval of this Program, and (2) a cash bonus award representing 30% of the Award's value (the "Cash Component"), to be paid to Eligible Employees on the payroll date following the Vesting Date (as defined below).

The value of Awards shall be expressed in "Share Equivalents," which is the number of shares of the Company's restricted stock that would be granted pursuant to each Award if the Restricted Stock Component equaled 100% of the Award. For example, if an Award is expressed as 100 Share Equivalents and all performance goals are achieved at the 100% level (as more fully described below), the Restricted Stock Component would equal 70 Share Equivalents and the Cash Component would equal 30 Share Equivalents. The value of the Share Equivalents shall be set on the grant date of the Restricted Stock Component of the Awards.

Achievement of Awards

Awards granted under this Program have both performance and service measures. Achievement of an Eligible Employee's performance measures shall be measured by the Committee as follows: (1) 60% of each Award shall be based on the achievement of a shared Company goal regarding revenue growth (the "Revenue Measure"), (2) 15% of each Award shall be based on the achievement of a shared Company goal regarding margin (the "Margin Measure"), (3) 15% of each Award shall be based on the achievement of a shared Company goal regarding EBITDA (the "EBITDA Measure"), and (4) 10% of each Award shall be based on the achievement of a shared Company goal regarding cash and cash equivalents on the Company's balance sheet (the "Cash Measure," and together with the Revenue Measure, the Margin Measure, and the EBITDA Measure, the "Company Measures"), all for the period from July 1, 2018 to December 31, 2018 (the "Performance Measurement Period"). If the Company does not achieve 80% of the Revenue Measure, the Restricted Stock Component of each Award shall be forfeited and the Cash Component of each Award shall not be paid. The Company must achieve at least 80% of the Revenue Measure in order for the portion of the Award attributed to the Margin Measure, the EBITDA Measure, and the Cash Measure to be vested/paid, as applicable. The Company must achieve at least 90% of the Revenue Measure in order for the portion of the Award attributed to the Revenue Measure to be vested/paid, as applicable. Achievement on a sliding scale from 90% to 120% of the Revenue Measure shall result in payment ranging from 75% to 140% of the portion of the Award attributed to the Revenue Measure. The Restricted Stock Component and Cash Component of each Award shall be reduced proportionately by any performance that is measured below 100%. The Company Measures are determined by the Committee and may be modified by the Committee during, and after the end of, the Performance Measurement Period to reflect extraordinary, unusual, or nonrecurring events that occur during the restriction period as permitted by the 2008 Plan. In addition, an Eligible Employee must remain in continuous service until December 31, 2018 (the "Vesting Date") for restrictions to fully lapse on the Restricted Stock Component and for the Cash Component to be paid.

Under this Program, the Committee has granted the following Awards:

Position	Maximum Share Equivalents
Chief Executive Officer	75,000
Chief Financial Officer and Chief Operating Officer	37,500
Eligible Vice President(s)	17,500

The Program provides the Committee discretion to make additional Awards above the targeted award level in recognition of extraordinary performance.

Source of Equity Compensation Awards; Coordination with 2008 Plan

The Restricted Stock Component of all Awards granted pursuant to the Program shall be issued under and pursuant to the 2008 Plan. All terms, conditions, and requirements of the 2008 Plan are expressly incorporated into the Program by reference. The Restricted Stock Component of all Awards granted pursuant to the Program shall be evidenced by an appropriate Award Agreement in the form approved by the Committee for use under the 2008 Plan, and the Restricted Stock Component of each Award hereunder shall be subject to the terms and conditions set forth in the applicable Award Agreement and the 2008 Plan. To the extent there is any conflict or ambiguity between the terms of this Program and the 2008 Plan or between this Program and any applicable Award Agreement, the terms of the 2008 Plan or the applicable Award Agreement shall control.

Amendment and Termination of the Program

The Program may be amended or terminated at any time by the Committee or the Company's Board of Directors. The Committee shall have unilateral authority to amend the Program and any Award granted pursuant to the Program (without the recipient's consent) to the extent necessary to comply with applicable laws, rules, or regulations or changes to applicable laws, rules, or regulations (including but not limited to Section 409A of the Internal Revenue Code of 1986, as amended, federal securities laws, or related regulations or other guidance).

Withholding; Tax Matters

In accordance with the terms of the 2008 Plan and applicable Award Agreements thereunder, the Company shall withhold, or shall require the recipient to pay the Company in cash, the amount of any local, state, federal, foreign, or other tax or other amount required by any governmental authority to be withheld and paid over by the Company to such authority for the account of the recipient. The Company makes no warranties or representations with respect to the tax consequences (including but not limited to income tax consequences) related to the transactions contemplated by this Program and the 2008 Plan. A recipient should consult with his/her own attorney, accountant, and/or tax advisor regarding the decision to accept equity compensation awards under the Program and the consequences thereof. The Company has no responsibility to take or refrain from taking any actions in order to achieve a certain tax result for any recipient.