

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 8-K**

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**CURRENT REPORT**

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

**December 29, 2006 (Date of earliest event reported)**

**Commission file number: 0-23329**

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**Charles & Colvard, Ltd.**

(Exact name of registrant as specified in its charter)

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**North Carolina**  
(State or other jurisdiction of  
incorporation or organization)

**56-1928817**  
(I.R.S. Employer  
Identification No.)

**300 Perimeter Park Drive, Suite A**  
**Morrisville, North Carolina 27560**  
(Address of principal executive offices)  
(Zip code)

**(919) 468-0399**  
(Registrant's telephone number, including area code)

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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 (see General Instruction A.2. below):

- 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))
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### **Item 1.01 Entry into a Material Definitive Agreement**

On December 29, 2006, Charles & Colvard, Ltd. (the "Company") entered into a letter agreement with Cree, Inc. ("Cree"), effective on and after December 25, 2006 (the "New Letter Agreement"), which amended and supplemented the letter agreement between the Company and Cree dated February 14, 2006 (filed with the Securities and Exchange Commission (the "SEC") on February 17, 2006 as Exhibit 10.86 to the Current Report on Form 8-K). The New Letter Agreement provides a framework for the Company's quarterly purchases of silicon carbide production crystals from Cree during calendar year 2007 under the Amended and Restated Exclusive Supply Agreement, dated as of June 6, 1997, between the Company and Cree (filed with the SEC on September 30, 1997 as Exhibit 10.11 to the Registration Statement on Form S-1 (file no. 333-36809)). Pursuant to the terms of the New Letter Agreement, the Company is obligated to purchase a minimum quantity of "usable material," as defined in the New Letter Agreement, on a quarterly basis if Cree meets certain minimum quality levels. For each quarter during calendar year 2007, the Company has committed to purchase approximately \$3,200,000 of usable material. Although the amount of usable material to be purchased by the Company is expected to remain constant each quarter, the Company's cost per quarter for the usable material may be less than \$3,200,000 depending upon the quality of the usable material provided by Cree during that quarter.

The description of the New Letter Agreement set forth in this Item 1.01 is a summary of the material terms of the New Letter Agreement and is qualified in its entirety by reference to the copy of the New Letter Agreement attached hereto as Exhibit 10.96.

### **Item 9.01 Financial Statements and Exhibits**

#### (d) Exhibits

Exhibit 10.96      Letter Agreement, effective December 25, 2006, between Cree, Inc. and Charles & Colvard, Ltd.\*

\* Portions of this Exhibit have been omitted and filed separately with the Securities and Exchange Commission as part of an application for confidential treatment pursuant to the Securities Exchange Act of 1934, as amended.

**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.

By: /s/ James R. Braun

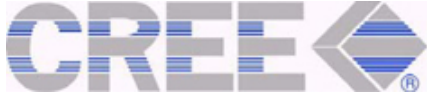
James R. Braun  
Vice President of Finance  
& Chief Financial Officer

Date: January 4, 2007

**EXHIBIT INDEX**

<b>Exhibit No.</b>	<b>Exhibit Description</b>
Exhibit 10.96	Letter Agreement, effective December 25, 2006, between Cree, Inc. and Charles & Colvard, Ltd.*

\* Portions of this Exhibit have been omitted and filed separately with the Securities and Exchange Commission as part of an application for confidential treatment pursuant to the Securities Exchange Act of 1934, as amended.



Robert S. Thomas  
President & CEO  
Charles & Colvard, Ltd.  
300 Perimeter Park, Suite A  
Morrisville, NC 27560

Charles M. Swoboda  
President & CEO  
Cree, Inc.  
4600 Silicon Drive  
Durham, NC 27703

This letter, when signed on behalf of Charles & Colvard, Ltd. ("C&C") and Cree, Inc. ("Cree"), will serve as an agreement between C&C and Cree to provide the following terms effective on and after December 25, 2006, amending the parties' February 14, 2006 letter agreement:

1. Cree will supply Silicon Carbide ("SiC") production crystals to C&C, and C&C will purchase SiC production crystals from Cree, according to the terms stated in this letter agreement.
2. C&C will purchase \*\*\*\*\* kg each quarter of calendar 2007 of "usable material" (where "usable material" will be determined in the manner described in Paragraph 3) at a price of \$\*\*\*\*\*/gram. Provided that Cree uses its best commercially reasonable efforts to deliver the quantities of usable material required by this letter agreement, Cree will not be held in breach for delays in delivery. As used in this letter agreement, "quarter" refers to fiscal quarters of Cree ending during the indicated period.
3. The quantity of "usable material" of crystals delivered to C&C pursuant to this letter agreement will be determined according to the following:
  - A. Material will be graded according to the specifications in Attachment A.
  - B. Grams of usable material will be calculated on a crystal-by-crystal basis according to the following equation: (usable mm) as a percent of total length of the crystal in mm multiplied by the actual weight of the crystal in grams. "Usable mm" means millimeters of usable material as defined in Attachment A.
  - C. Crystals shipped to C&C must contain at least \*\*\*\*\* grams of usable material for the 2" crystals, \*\*\*\*\* grams for 2.25" crystals or \*\*\*\*\* grams for 3" crystals. This usable area must be contiguous. Crystal diameter to be shipped will be 2", 2.25" or 3" as determined by Cree.
4. Except as expressly provided herein, the supply and purchase of SiC material will be governed by the terms and conditions of the parties' Amended and Restated Exclusive Supply Agreement dated June 6, 1997 (the "Supply Agreement", as amended).

5. The contents of this letter agreement shall be considered “Confidential Information” of each party subject to the provisions of Section 5 of the Supply Agreement.

CHARLES & COLVARD, LTD.

CREE, INC.

By: /s/ Robert S. Thomas

Robert S. Thomas  
President & CEO

By: /s/ Charles M. Swoboda

Charles M. Swoboda  
President & CEO

Date: 29 Dec 2006

Date: 12/28/06

**ATTACHMENT A**

**Specification of usable material as referenced in paragraph 2 above.**

**COLOR:** Usable material is calculated as “light gray” or “very light gray”. Specifically tone/color number 20 and 10<sup>1</sup> as used in the C&C boule-grading screen will be considered acceptable tone and color material. (Note: Grade 10 is preferred. Grade 20 material will be valued at \$\*\*\*\*\* per-gram.)

**DEFECTS:**

Material volume of acceptable color will be reduced by the percentage of the defects listed in the table below. C&C shall set the acceptable standards for the quality of both the color and defects of all material purchased pursuant to this letter agreement. Unless otherwise mutually agreed by the parties in writing, however, the grading of the material by both Cree and C&C will adhere to those standards and methods identified in Notes 1 & 2 below, applied on a consistent basis in the same manner as applied during September, October and November of calendar 2003. Should C&C deem such standards and methods or new defects unacceptable, it can request changes to its volume commitment or the methods, standards or list of price reducing defects, with such changes to be effective 60 days after giving Cree notice of the changes. Cree may request changes to its pricing and/or volume commitment. If the parties do not agree in writing on the changes to be made, before the effective date of the requested changes, either party can terminate this letter agreement upon notice and, in that event, the Supply Agreement will govern the parties’ obligations thereafter.

<u>ID</u>	<u>D-Type</u>	
1	*****	Reduce
2	*****	Reduce
3	*****	Reduce
4	*****	No reduction
5	*****	Reduce
6	***** 2	Reduce
7	*****	No reduction
8	*****	Reduce
9	*****	Reduce

**Notes**

- 1 CH0257R 17.4mm tone/color 20 (lightest 20), new gray boules that are lighter than this will grade as 10, CE0269R 9.5mm tone/color 30 (lightest 30), new gray boules that are lighter than this will grade as 20
- 2 Micropipe grading will be performed according to the Cree document identified as the CCG– 948 Rev C, Dense Fine Pipe Grading procedure (Revision 8/17/06). The area determined according to this procedure multiplied by 1.2, (“20% adder”), defines the area of non-usable material for micropipes.