

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): **November 8, 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.

On November 8, 2018, the shareholders of Charles & Colvard, Ltd. (the “Company”) approved the adoption of the Charles & Colvard, Ltd. 2018 Equity Incentive Plan (the “Plan”) to provide for the grant of equity-based awards to selected employees, directors, and consultants of the Company and its affiliates. The Board of Directors of the Company previously approved the adoption of the Plan on September 20, 2018, subject to shareholder approval of the Plan. Also on September 20, 2018, the Compensation Committee of the Board of Directors approved the forms of award agreements to be used under the Plan, including a Restricted Stock Award Agreement, Employee Incentive Stock Option Agreement, Employee Nonqualified Stock Option Agreement, Non-Employee Director Nonqualified Stock Option Agreement, and Independent Contractor Nonqualified Stock Option Agreement (each, a “Form Award Agreement,” and collectively, the “Form Award Agreements”). The Plan will terminate automatically on September 20, 2028.

The terms of the Plan are set forth under the caption “Proposal No. 2—Approval of Charles & Colvard, Ltd. 2018 Equity Incentive Plan” in the Company’s definitive proxy statement for the Company’s 2018 Annual Meeting of Shareholders filed with the Securities and Exchange Commission on October 1, 2018 (the “Proxy Statement”). Such description is incorporated herein by reference and is qualified in its entirety by reference to the Plan, which is filed as Exhibit 10.1 to this Current Report on Form 8-K.

The Form Award Agreements provide more specific terms with regard to, among other things, the size and term of each respective award, vesting of awards (including acceleration of vesting in the event of a change in control, subject to certain limitations), and forfeiture of awards in connection with a termination of continuous service. The form of Restricted Stock Award Agreement also contains provisions related to the vesting and forfeiture of awards based on the achievement of performance goals. The foregoing description of the Form Award Agreements is qualified in its entirety by reference to the Form Award Agreements, which are filed as Exhibits 10.2, 10.3, 10.4, 10.5, and 10.6 to this Current Report on Form 8-K.

Item 5.07 Submission of Matters to a Vote of Security Holders.

The Company held its Annual Meeting of Shareholders on November 8, 2018. The shareholders considered four proposals, each of which is described in more detail in the Proxy Statement.

Proposal 1: To elect six nominees described in the Proxy Statement to the Company’s Board of Directors. The votes were cast as follows:

	For	Withheld	Broker Non-Votes
Anne M. Butler	6,737,033	683,838	11,762,098
Benedetta Casamento	6,730,720	690,151	11,762,098
Neal I. Goldman	6,387,091	1,033,780	11,762,098
Jaqui Lividini	6,738,901	681,970	11,762,098
Suzanne Miglucci	6,821,589	599,282	11,762,098
Ollin B. Sykes	6,832,061	588,810	11,762,098

All director nominees were duly elected.

Proposal 2: To approve the Charles & Colvard, Ltd. 2018 Equity Incentive Plan. The votes were cast as follows:

For	Against	Abstain	Broker Non-Votes
5,281,719	1,676,603	462,549	11,762,098

Proposal 2 was approved.

Proposal 3: To ratify the appointment of BDO USA, LLP as the Company's independent registered public accounting firm for the fiscal year ending June 30, 2019. The votes were cast as follows:

For	Against	Abstain
18,522,505	44,480	615,991

Proposal 3 was approved.

Proposal 4: To vote, on an advisory (nonbinding) basis, to approve executive compensation. The votes were cast as follows:

For	Against	Abstain	Broker Non-Votes
4,941,295	2,053,544	426,031	11,762,099

Proposal 4 was approved.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits.

Exhibit No.	Description of Document
10.1	Charles & Colvard, Ltd. 2018 Equity Incentive Plan
10.2	Form of Restricted Stock Award Agreement under the Charles & Colvard, Ltd. 2018 Equity Incentive Plan
10.3	Form of Employee Incentive Stock Option Agreement under the Charles & Colvard, Ltd. 2018 Equity Incentive Plan
10.4	Form of Employee Nonqualified Stock Option Agreement under the Charles & Colvard, Ltd. 2018 Equity Incentive Plan
10.5	Form of Non-Employee Director Nonqualified Stock Option Agreement under the Charles & Colvard, Ltd. 2018 Equity Incentive Plan
10.6	Form of Independent Contractor Nonqualified Stock Option Agreement under the Charles & Colvard, Ltd. 2018 Equity Incentive Plan

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.

November 9, 2018

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

CHARLES & COLVARD, LTD.

2018 EQUITY INCENTIVE PLAN

1. Purpose; Eligibility.

1.1 General Purpose. The name of this plan is the Charles & Colvard, Ltd. 2018 Equity Incentive Plan (the “**Plan**”). The purposes of the Plan are to (a) enable Charles & Colvard, Ltd., a North Carolina corporation (the “**Company**”), and any Affiliate to attract and retain the types of Employees, Consultants and Directors who will contribute to the Company’s long-term success; (b) provide incentives that align the interests of Employees, Consultants and Directors with those of the shareholders of the Company; and (c) promote the success of the Company’s business.

1.2 Eligible Award Recipients. The persons eligible to receive Awards are the Employees, Consultants and Directors of the Company and its Affiliates and such other individuals as may be designated by the Committee, in the Committee’s sole discretion, who are reasonably expected to become Employees, Consultants and Directors after the receipt of Awards.

1.3 Available Awards. Awards that may be granted under the Plan include: (a) Incentive Stock Options, (b) Nonqualified Stock Options, (c) Stock Appreciation Rights, (d) Restricted Awards, (e) Performance Share Awards, (f) Cash Awards, and (g) Other Equity-Based Awards not inconsistent with the terms of this Plan as the Committee, in the Committee’s discretion, may determine from time to time.

2. Definitions.

“**Administrator**” means the Board, and upon its delegation of all or part of its authority to administer the Plan to the Committee, the Committee.

“**Affiliate**” means a corporation or other entity that, directly or through one or more intermediaries, controls, is controlled by or is under common control with, the Company.

“**Applicable Laws**” means the requirements related to or implicated by the administration of the Plan under applicable state corporate law, United States federal and state securities laws, the Code, any stock exchange or quotation system on which the shares of Common Stock are listed or quoted, and the applicable laws of any foreign country or jurisdiction where Awards are granted under the Plan.

“**Award**” means any right granted under the Plan, including an Incentive Stock Option, a Nonqualified Stock Option, a Stock Appreciation Right, a Restricted Award, a Performance Share Award, a Cash Award, or an Other Equity-Based Award.

“**Award Agreement**” means a written agreement, contract, certificate or other instrument or document (along with any amendments or supplements thereto) evidencing the terms and conditions of an individual Award granted under the Plan which may, in the discretion of the Company, be transmitted electronically to any Participant. Each Award Agreement shall be subject to the terms and conditions of the Plan as well as state such other terms, conditions, and restrictions, including but not limited to terms, conditions and restrictions applicable to shares or any other benefit underlying an Award, as may be established by the Committee.

“**Beneficial Owner**” has the meaning assigned to such term in Rule 13d-3 and Rule 13d-5 under the Exchange Act, except that in calculating the beneficial ownership of any particular Person, such Person shall be deemed to have beneficial ownership of all securities that such Person has the right to acquire by conversion or exercise of other securities, whether such right is currently exercisable or is exercisable only after the passage of time. The terms “Beneficially Owns” and “Beneficially Owned” have a corresponding meaning.

“**Board**” means the Board of Directors of the Company, as constituted at any time.

“**Cash Award**” means an Award denominated in cash that is granted under Section 7.4 of the Plan.

“**Cause**” means:

With respect to any Employee or Consultant, unless the applicable Award Agreement states otherwise:

(a) If the Employee or Consultant is a party to an employment or service agreement with the Company or its Affiliates and such agreement provides for a definition of Cause, the definition contained therein; or

(b) If no such agreement exists: (i) the commission of, or plea of guilty or no contest to, a felony or a crime involving moral turpitude or the commission of any other act involving willful malfeasance or material fiduciary breach with respect to the Company or an Affiliate; (ii) conduct that results in or is reasonably likely to result in harm to the reputation or business of the Company or any of its Affiliates; (iii) gross negligence or willful misconduct with respect to the Company or an Affiliate; or (iv) material violation of state or federal securities laws.

With respect to any Director, unless the applicable Award Agreement states otherwise, a determination by a majority of the disinterested Board members that the Director has engaged in any of the following:

- (a) malfeasance in office;
- (b) gross misconduct or neglect;
- (c) false or fraudulent misrepresentation inducing the director’s appointment;
- (d) wilful conversion of corporate funds; or
- (e) repeated failure to participate in Board meetings on a regular basis despite having received proper notice of the meetings in advance.

Without in any way limiting the effect of the foregoing, for purposes of the Plan and an Award, a Participant's employment or service shall be deemed to have terminated for Cause if, after the Participant's employment or service has terminated, facts and circumstances are discovered that would have justified, in the Committee's opinion, a termination for Cause. The Committee, in the Committee's absolute discretion, shall determine the effect of all matters and questions relating to whether a Participant has been discharged for Cause.

"Change in Control" means, unless the applicable Award Agreement expressly states otherwise, the occurrence of the following:

(a) One Person (or more than one Person acting as a group) acquires ownership of stock of the Company that, together with the stock held by such person or group, constitutes more than fifty percent (50%) of the total fair market value or total voting power of the stock of the Company; *provided, that*, a Change in Control shall not occur if any Person (or more than one Person acting as a group) owns more than fifty percent (50%) of the total fair market value or total voting power of the Company's stock and acquires additional stock;

(b) One person (or more than one person acting as a group) acquires (or has acquired during the twelve-month period ending on the date of the most recent acquisition) ownership of the Company's stock possessing thirty percent (30%) or more of the total voting power of the stock of such corporation;

(c) A majority of the members of the Board are replaced during any twelve-month period by directors whose appointment or election is not endorsed by a majority of the Board before the date of appointment or election; or

(d) One person (or more than one person acting as a group), acquires (or has acquired during the twelve-month period ending on the date of the most recent acquisition) assets from the Company that have a total gross fair market value equal to or more than fifty percent (50%) of the total gross fair market value of all of the assets of the Company immediately before such acquisition(s).

"Code" means the Internal Revenue Code of 1986, as it may be amended from time to time. Any reference to a section of the Code shall be deemed to include a reference to any regulations promulgated thereunder.

"Committee" means the Compensation Committee of the Board or such other committee comprised of one or more members of the Board and appointed to administer the Plan in whole or in part in accordance with Section 3.3 and Section 3.4.

"Common Stock" means the common stock, no par value per share, of the Company, or such other securities of the Company as may be designated by the Committee from time to time in substitution thereof.

"Company" means Charles & Colvard, Ltd., a North Carolina corporation, and any successor thereto.

“**Consultant**” means any individual or entity which performs bona fide services to the Company or an Affiliate, other than as an Employee or Director, and who may be offered securities registerable pursuant to a registration statement on Form S-8 under the Securities Act.

“**Continuous Service**” means that the Participant’s service with the Company or an Affiliate, whether as an Employee, Consultant or Director, is not interrupted or terminated. The Participant’s Continuous Service shall not be deemed to have terminated merely because of a change in the capacity in which the Participant renders service to the Company or an Affiliate as an Employee, Consultant or Director or a change in the entity for which the Participant renders such service, *provided that* there is no interruption or termination of the Participant’s Continuous Service; *provided further that* if any Award is subject to Section 409A of the Code, this sentence shall only be given effect to the extent consistent with Section 409A of the Code. For example, a change in status from an Employee of the Company to a Director of an Affiliate will not constitute an interruption of Continuous Service. The Committee or its delegate, in its sole discretion, may determine whether Continuous Service shall be considered interrupted in the case of any leave of absence approved by that party, including sick leave, military leave or any other personal or family leave of absence. The Committee or its delegate, in its sole discretion, may determine whether a Company transaction, such as a sale or spin-off of a division or subsidiary that employs a Participant, shall be deemed to result in a termination of Continuous Service for purposes of affected Awards, and such decision shall be final, conclusive and binding.

“**Deferred Stock Units (DSUs)**” has the meaning set forth in Section 7.2 hereof.

“**Director**” means a member of the Board.

“**Disability**” means, with respect to any Incentive Stock Option, disability as determined under Code Section 422(c)(6) and Code Section 22(e)(3), and with respect to any other Award, unless provided otherwise in the Award Agreement or a Participant’s employment or consulting agreement, (i) with respect to a Participant who is eligible to participate in the Company’s plan or program providing group long-term disability (LTD) benefits, if any, a condition with respect to which the Participant is entitled to commence benefits under such LTD program and which results in Participant’s Termination of Service, and (ii) with respect to any Participant (including a Participant who is eligible to participate in the Company’s LTD program, if any), a determination of total disability by the Social Security Administration. Notwithstanding the foregoing, if specified in an Award Agreement or otherwise required in order for an Award to comply with Code Section 409A, a Disability shall not be deemed to occur unless the event also qualifies as a disability under Code Section 409A(a)(2)(C).

“**Disqualifying Disposition**” has the meaning set forth in Section 14.11.

“**Effective Date**” shall mean the date as of which this Plan is adopted by the Board provided the Company’s shareholders approve this Plan before the first anniversary of the Board’s adoption date.

“**Employee**” means any person, including an Officer or Director, legally employed by the Company or an Affiliate; *provided, that*, for purposes of determining eligibility to receive Incentive Stock Options, an Employee shall mean an employee of the Company or a parent or subsidiary corporation within the meaning of Section 424 of the Code in accordance with Treas. Reg. Section 1.421-1(h) (or any successor provision related thereto). Mere service as a Director or payment of a director’s fee by the Company or an Affiliate shall not be sufficient to constitute “employment” by the Company or an Affiliate.

“**Exchange Act**” means the Securities Exchange Act of 1934, as amended.

“**Fair Market Value**” means, as of any date, the value of the Common Stock as determined below. If the Common Stock is listed on any established stock exchange or a national market system, including without limitation, the New York Stock Exchange or the Nasdaq Stock Market, the Fair Market Value shall be the closing price of a share of Common Stock (or if no sales were reported the closing price on the date immediately preceding such date) as quoted on such exchange or system on the day of determination, as reported on the website maintained by such stock exchange or national market system or such other source as the Committee deems reliable. In the absence of such an established market for the Common Stock, the Fair Market Value shall be determined in good faith by the Committee and such determination shall be conclusive and binding on all persons. Notwithstanding the foregoing, if the Committee determines in the Committee’s discretion that an alternative definition of Fair Market Value should be used in connection with the grant, exercise, vesting, settlement or payout of any Award, it may specify such alternative definition in the Award Agreement. Such alternative definition may include a price that is based on the opening, actual, high, low, or average selling price of a share of Common Stock on The Nasdaq Stock Market or other securities exchange on the given date, the trading date preceding the given date, the trading date next succeeding the given date, or an average of trading dates. Notwithstanding the foregoing, (i) in the case of a Nonqualified Stock Option or Stock Appreciation Right, Fair Market Value shall be determined in accordance with a definition of fair market value that permits the Award to be exempt from Section 409A of the Code, (ii) in the case of an Incentive Stock Option Fair Market Value shall be determined in accordance with the requirements of Section 422 of the Code.

“**Fiscal Year**” means the Company’s fiscal year.

“**Free Standing Rights**” has the meaning set forth in Section 7.1(a).

“**Good Reason**” means, unless the applicable Award Agreement states otherwise:

(a) If an Employee or Consultant is a party to an employment or service agreement with the Company or its Affiliates and such agreement provides for a definition of Good Reason, the definition contained therein; or

(b) If no such agreement exists or if such agreement does not define Good Reason, the occurrence of one or more of the following without the Participant’s express written consent, which circumstances are not remedied by the Company within thirty (30) days of its receipt of a written notice from the Participant describing the applicable circumstances (which notice must be provided by the Participant within ninety (90) days of the Participant’s knowledge of the applicable circumstances): (i) any material, adverse change in the Participant’s duties, responsibilities, authority, title, status or reporting structure; (ii) a material reduction in the Participant’s base salary or bonus opportunity; or (iii) a geographical relocation of the Participant’s principal office location by more than fifty (50) miles.

“**Grant Date**” means the date on which the Committee adopts a resolution, or takes other appropriate corporate action, expressly granting an Award to a Participant that specifies the key terms and conditions of the Award or, if a later date is set forth in such resolution, then such date as is set forth in such resolution.

“**Incentive Stock Option**” means an Option that is designated by the Committee as an incentive stock option within the meaning of Section 422 of the Code and that meets the requirements set out in the Plan.

“**Incumbent Directors**” means individuals who, on the Effective Date, constitute the Board, *provided that* any individual becoming a Director subsequent to the Effective Date whose election or nomination for election to the Board was approved by a vote of at least two-thirds of the Incumbent Directors then on the Board (either by a specific vote or by approval of the proxy statement of the Company in which such person is named as a nominee for Director without objection to such nomination) shall be an Incumbent Director. No individual initially elected or nominated as a director of the Company as a result of an actual or threatened election contest with respect to Directors or as a result of any other actual or threatened solicitation of proxies by or on behalf of any person other than the Board shall be an Incumbent Director.

“**Independent Contractor**” means a Consultant or other independent contractor or advisor providing services to the Company or an Affiliate.

“**Non-Employee Director**” means a Director who is a “non-employee director” within the meaning of Rule 16b-3.

“**Nonqualified Stock Option**” means an Option that by its terms does not qualify or is not intended to qualify as an Incentive Stock Option.

“**Officer**” means a person who is an officer of the Company within the meaning of Section 16 of the Exchange Act and the rules and regulations promulgated thereunder.

“**Option**” means an Incentive Stock Option or a Nonqualified Stock Option granted pursuant to the Plan.

“**Optionholder**” means a person to whom an Option is granted pursuant to the Plan or, if applicable, such other person who holds an outstanding Option.

“**Option Exercise Price**” or “**Option Price**” means the price at which a share of Common Stock may be purchased upon the exercise of an Option.

“**Option Period**” means the term of an Option as determined by the Committee at the time the Option is granted and set forth in the applicable Award Agreement.

“Other Equity-Based Award” means an Award that is not an Option, Stock Appreciation Right, Restricted Stock, Restricted Stock Unit, or Performance Share Award that is granted under Section 7.4 and is payable by delivery of Common Stock and/or which is measured by reference to the value of Common Stock.

“Participant” means an eligible person to whom an Award is granted pursuant to the Plan or, if applicable, such other person who holds an outstanding Award.

“Performance Goals” means, for a Performance Period, the one or more goals established by the Committee for the Performance Period based upon business criteria or other performance measures determined by the Committee in its discretion.

“Performance Period” means the one or more periods of time not less than one fiscal quarter in duration, as the Committee may select, over which the attainment of one or more Performance Goals will be measured for the purpose of determining a Participant’s right to and the payment of a Performance Share Award or a Cash Award.

“Performance Share Award” means any Award granted pursuant to Section 7.3 hereof.

“Performance Share” means the grant of a right to receive a number of actual shares of Common Stock or share units based upon the performance of the Company during a Performance Period, as determined by the Committee.

“Permitted Transferee” means: (a) a member of the Optionholder’s immediate family (child, stepchild, grandchild, parent, stepparent, grandparent, spouse, former spouse, sibling, niece, nephew, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law, including adoptive relationships), any person sharing the Optionholder’s household (other than a tenant or employee), a trust in which these persons have more than 50% of the beneficial interest, a foundation in which these persons (or the Optionholder) control the management of assets, and any other entity in which these persons (or the Optionholder) own more than fifty percent (50%) of the voting interests; (b) third parties designated by the Committee in connection with a program established and approved by the Committee pursuant to which Participants may receive a cash payment or other consideration in consideration for the transfer of a Nonqualified Stock Option; and (c) such other transferees as may be permitted by the Committee in its sole discretion.

“Person” means a person as defined in Section 13(d)(3) of the Exchange Act.

“Plan” means this Charles & Colvard 2018 Equity Incentive Plan, as amended and/or amended and restated from time to time.

“Prior Plan” or “Prior Plans” mean the 1997 Omnibus Stock Plan of Charles & Colvard, Ltd., the 1996 Stock Option Plan of C3, Inc., the Charles & Colvard, Ltd. 2008 Stock Incentive Plan, each as amended, and any other stock incentive plan maintained by the Company prior to the Effective Date of this Plan. (For the avoidance of doubt, this Plan is not meant to terminate or supersede any currently outstanding awards under the Company’s Prior Plans nor under the Company’s Senior Management Equity Incentive Programs.)

“**Related Rights**” has the meaning set forth in Section 7.1(a).

“**Restricted Award**” means any Award granted pursuant to Section 7.2(a).

“**Restricted Period**” has the meaning set forth in Section 7.2(a).

“**Rule 16b-3**” means Rule 16b-3 promulgated under the Exchange Act or any successor to Rule 16b-3, as in effect from time to time.

“**Securities Act**” means the Securities Act of 1933, as amended.

“**Stock Appreciation Right**” means the right pursuant to an Award granted under Section 7.1 to receive, upon exercise, an amount payable in cash or shares equal to the number of shares subject to the Stock Appreciation Right that is being exercised multiplied by the excess of (a) the Fair Market Value of a share of Common Stock on the date the Award is exercised, over (b) the exercise price specified in the Stock Appreciation Right Award Agreement.

“**Stock for Stock Exchange**” has the meaning set forth in Section 6.4.

“**Substitute Award**” has the meaning set forth in Section 4.6.

“**Ten Percent Shareholder**” means a person who owns (or is deemed to own pursuant to Section 424(d) of the Code) stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or of any of its Affiliates.

“**Termination Date**” means the date of termination of a Participant’s Continuous Service for any reason, as may be determined by the Committee, in the Committee’s sole discretion.

“**Termination of Service**” means, unless provided otherwise in an Award Agreement, the discontinuance of Continuous Service to the Company by any Non-Employee Director, for any reason, whether voluntary or involuntary. If a Non-Employee Director becomes an Employee of or Consultant to the Company or an Affiliate before or upon terminating service as a Non-Employee Director, such employment or consulting service shall constitute a continuation of service with respect to Awards granted to the Participant while he or she served as a member of the Board. The determination of whether a Participant has discontinued employment or service shall be made by the Committee in its sole discretion. “Termination of Employment” as may be used in an Award Agreement shall mean Termination of Service and vice-versa.

“**Total Share Reserve**” has the meaning set forth in Section 4.1.

3. Administration.

3.1 Authority of Committee. The Plan shall be administered by the Committee or, in the Board’s sole discretion or failure to establish or re-establish such Committee, by the Board. Subject to the terms of the Plan, the Committee’s charter and Applicable Laws, and in addition to other express powers and authorization conferred by the Plan, the Committee shall have the authority:

- (a) to construe and interpret the Plan and apply its provisions;
- (b) to promulgate, amend, and rescind rules and regulations relating to the administration of the Plan;
- (c) to authorize any person to execute, on behalf of the Company, any instrument required to carry out the purposes of the

Plan;

(d) to delegate its authority to one or more Officers of the Company with respect to Awards that do not involve “insiders” within the meaning of Section 16 of the Exchange Act;

(e) to determine when Awards are to be granted under the Plan and the applicable Grant Date;

(f) from time to time to select, subject to the limitations set forth in this Plan, those eligible Award recipients to whom Awards shall be granted;

(g) to determine the number of shares of Common Stock to be made subject to each Award;

(h) to determine whether each Option is to be an Incentive Stock Option or a Nonqualified Stock Option;

(i) to prescribe the terms and conditions of each Award, including, without limitation, the exercise price and medium of payment and vesting provisions, and to specify the provisions of the Award Agreement relating to such grant;

(j) to determine the target number of Performance Shares to be granted pursuant to a Performance Share Award, the performance measures that will be used to establish the Performance Goals, the Performance Period(s) and the number of Performance Shares earned by a Participant;

(k) to amend any outstanding Awards, including for the purpose of modifying the time or manner of vesting, or the term of any outstanding Award; *provided, however*, that if any such amendment impairs a Participant’s rights or increases a Participant’s obligations under his or her Award or creates or increases a Participant’s federal income tax liability with respect to an Award, such amendment shall also be subject to the Participant’s consent;

(l) to determine the duration and purpose of leaves of absences which may be granted to a Participant without constituting termination of their employment for purposes of the Plan, which periods shall be no shorter than the periods generally applicable to Employees under the Company’s employment policies;

(m) to make decisions with respect to outstanding Awards that may become necessary upon a Change in Control or an event that triggers anti-dilution adjustments;

(n) to interpret, administer, reconcile any inconsistency in, correct any defect in and/or supply any omission in the Plan and any instrument or agreement relating to, or Award granted under, the Plan; and

(o) to exercise discretion to make any and all other determinations which it determines to be necessary or advisable for the administration of the Plan.

The Committee also may modify the purchase price or the exercise price of any outstanding Award, *provided that* if the modification effects a repricing, shareholder approval shall be required before the repricing is effective.

3.2 Committee Decisions Final. All decisions made by the Committee pursuant to the provisions of the Plan shall be final and binding on the Company and the Participants, unless such decisions are determined by a court having jurisdiction to be arbitrary and capricious.

3.3 Delegation. The Committee or, if no Committee has been appointed, the Board may delegate administration of the Plan to a committee or committees of one or more members of the Board, and the term “**Committee**” shall apply to any person or persons to whom such authority has been delegated. The Committee shall have the power to delegate to a subcommittee any of the administrative powers the Committee is authorized to exercise (and references in this Plan to the Board or the Committee shall thereafter be to the committee or subcommittee), subject, however, to such resolutions, not inconsistent with the provisions of the Plan, as may be adopted from time to time by the Board. The Board may abolish the Committee at any time and reconstitute the Board the administration of the Plan. The members of the Committee shall be appointed by and serve at the pleasure of the Board. From time to time, the Board may increase or decrease the size of the Committee, add additional members to, remove members (with or without cause) from, appoint new members in substitution therefor, and fill vacancies, however caused, in the Committee. The Committee shall act pursuant to a vote of the majority of its members or, in the case of a Committee comprised of only two members, the unanimous consent of its members, whether present or not, or by the written consent of the majority of its members and minutes shall be kept of all of its meetings and copies thereof shall be provided to the Board. Subject to the limitations prescribed by the Plan and the Board, the Committee may establish and follow such rules and regulations for the conduct of its business as it may determine to be advisable.

3.4 Committee Composition. Except as otherwise determined by the Board, the Committee shall consist solely of two or more Non-Employee Directors. The Board shall have discretion to determine whether or not it intends to comply with the exemption requirements of Rule 16b-3. However, if the Board intends to satisfy such exemption requirements, with respect to any insider subject to Section 16 of the Exchange Act, the Committee shall be a compensation committee of the Board that at all times consists solely of two or more Non-Employee Directors. Within the scope of such authority, the Board or the Committee may delegate to a committee of one or more members of the Board who are not Non-Employee Directors the authority to grant Awards to eligible persons who are not then subject to Section 16 of the Exchange Act. Nothing herein shall create an inference that an Award is not validly granted under the Plan in the event Awards are granted under the Plan by a compensation committee of the Board that does not at all times consist solely of two or more Non-Employee Directors.

3.5 Indemnification. In addition to such other rights of indemnification as they may have as Directors or members of the Committee, and to the extent allowed by Applicable Laws, the Committee shall be indemnified by the Company against the reasonable expenses, including attorneys' fees, actually incurred in connection with any action, suit or proceeding or in connection with any appeal therein, to which the Committee may be party by reason of any action taken or failure to act under or in connection with the Plan or any Award granted under the Plan, and against all amounts paid by the Committee in settlement thereof (*provided, however*, that the settlement has been approved by the Company, which approval shall not be unreasonably withheld) or paid by the Committee in satisfaction of a judgment in any such action, suit or proceeding, except in relation to matters as to which it shall be adjudged in such action, suit or proceeding that such Committee did not act in good faith and in a manner which such person reasonably believed to be in the best interests of the Company, or in the case of a criminal proceeding, had no reason to believe that the conduct complained of was unlawful; *provided, however*, that within sixty (60) days after the institution of any such action, suit or proceeding, such Committee shall, in writing, offer the Company the opportunity at its own expense to handle and defend such action, suit or proceeding.

4. Shares Subject to the Plan.

4.1 Subject to adjustment in accordance with Section 11, no more than 3,300,000 shares of Common Stock plus the number of shares of Common Stock underlying any award granted under the Prior Plans that expires, terminates or is canceled or forfeited under the terms of the Prior Plans shall be available for the grant of Awards under the Plan (the "**Total Share Reserve**"). Any shares of Common Stock granted in connection with any Award under the Plan shall be counted against this limit as one (1) share for every one (1) share of Common Stock granted in connection with such Award. During the terms of the Awards, the Company shall keep available at all times the number of shares of Common Stock required to satisfy such Awards.

4.2 Shares of Common Stock available for distribution under the Plan may consist, in whole or in part, of authorized and unissued shares, treasury shares or shares reacquired by the Company in any manner.

4.3 Subject to adjustment in accordance with Section 11, no more than 3,300,000 shares of Common Stock may be issued in the aggregate pursuant to the exercise of Incentive Stock Options (the "**ISO Limit**").

4.4 The maximum number of shares of Common Stock subject to Awards granted during a single Fiscal Year to any Director, together with any cash fees paid to such Director during the Fiscal Year shall not exceed a total value of \$300,000 (calculating the value of any Awards based on the grant date fair value for financial reporting purposes).

4.5 Any shares of Common Stock subject to an Award that expires or is canceled, forfeited, or terminated without issuance of the full number of shares of Common Stock to which the Award related will again be available for issuance under the Plan. Any shares of Common Stock that again become available for future grants pursuant to this Section 4.5 shall be added back as one (1) share available for issuance under the Plan. Notwithstanding anything to the contrary contained herein: shares subject to an Award under the Plan shall not again be made available for issuance or delivery under the Plan if such shares are (a) shares tendered in payment of an Option, (b) shares delivered or withheld by the Company to satisfy any tax withholding obligation, or (c) shares covered by a stock-settled Stock Appreciation Right or other Awards that were not issued upon the settlement of the Award.

4.6 Awards may, in the sole discretion of the Committee, be granted under the Plan in assumption of, or in substitution for, outstanding awards previously granted by an entity acquired by the Company or with which the Company combines (“**Substitute Awards**”). Substitute Awards shall not be counted against the Total Share Reserve; provided, that, Substitute Awards issued in connection with the assumption of, or in substitution for, outstanding options intended to qualify as Incentive Stock Options shall be counted against the ISO limit. Subject to applicable stock exchange requirements, available shares under a shareholder-approved plan of an entity directly or indirectly acquired by the Company or with which the Company combines (as appropriately adjusted to reflect such acquisition or transaction) may be used for Awards under the Plan and shall not count toward the Total Share Reserve.

5. Eligibility.

5.1 Eligibility for Specific Awards. Incentive Stock Options may be granted only to Employees. Awards other than Incentive Stock Options may be granted to Employees, Consultants and Directors and those individuals whom the Committee determines are reasonably expected to become Employees, Consultants and Directors following the Grant Date to the extent permitted by Applicable Law.

5.2 Ten Percent Shareholders. A Ten Percent Shareholder shall not be granted an Incentive Stock Option unless the Option Exercise Price is at least one hundred ten percent (110%) of the Fair Market Value of the Common Stock on the Grant Date and the Option is not exercisable after the expiration of five years from the Grant Date.

6. Option Provisions. Each Option granted under the Plan shall be evidenced by an individual Award Agreement. Each Option so granted shall be subject to the conditions set forth in this Section 6, and to such other conditions not inconsistent with the Plan as may be reflected in the applicable Award Agreement. All Options shall be separately designated Incentive Stock Options or Nonqualified Stock Options at the time of grant, and, if certificates are issued, a separate certificate or certificates will be issued for shares of Common Stock purchased on exercise of each type of Option. Notwithstanding the foregoing, the Company shall have no liability to any Participant or any other person if an Option designated as an Incentive Stock Option fails to qualify as such at any time or if an Option is determined to constitute “nonqualified deferred compensation” within the meaning of Section 409A of the Code and the terms of such Option do not satisfy the requirements of Section 409A of the Code. The provisions of separate Options need not be identical, but each Option shall include (through incorporation of provisions hereof by reference in the Option or otherwise) the substance of each of the following provisions:

6.1 Term. Subject to the provisions of Section 5.2 regarding Ten Percent Shareholders, no Incentive Stock Option shall be exercisable after the expiration of ten (10) years from the Grant Date. The term of a Nonqualified Stock Option granted under the Plan shall be determined by the Committee; *provided, however*, no Nonqualified Stock Option shall be exercisable after the expiration of ten (10) years from the Grant Date.

6.2 Exercise Price of an Incentive Stock Option. Subject to the provisions of Section 5.2 regarding Ten Percent Shareholders, the Option Exercise Price of each Incentive Stock Option shall be not less than one hundred percent (100%) of the Fair Market Value of the Common Stock subject to the Option on the Grant Date. Notwithstanding the foregoing, an Incentive Stock Option may be granted with an Option Exercise Price lower than that set forth in the preceding sentence if such Option is granted pursuant to an assumption or substitution for another option in a manner satisfying the provisions of Section 424(a) of the Code.

6.3 Exercise Price of a Nonqualified Stock Option. The Option Exercise Price of each Nonqualified Stock Option shall be not less than one hundred percent (100%) of the Fair Market Value of the Common Stock subject to the Option on the Grant Date. Notwithstanding the foregoing, a Nonqualified Stock Option may be granted with an Option Exercise Price lower than that set forth in the preceding sentence if such Option is granted pursuant to an assumption or substitution for another option in a manner satisfying the provisions of Section 409A of the Code.

6.4 Consideration. The Option Exercise Price of Common Stock acquired pursuant to an Option shall be paid, to the extent permitted by Applicable Laws and not prohibited by any agreements evidencing indebtedness entered into by the Company from time to time, either: (a) in cash or by certified or bank check at the time the Option is exercised; or (b) the Option Exercise Price may be paid: (i) by delivery to the Company of other Common Stock, duly endorsed for transfer to the Company, with a Fair Market Value on the date of delivery equal to the Option Exercise Price (or portion thereof) due for the number of shares being acquired, or by means of attestation whereby the Participant identifies for delivery specific shares of Common Stock that have an aggregate Fair Market Value on the date of attestation equal to the Option Exercise Price (or portion thereof) and receives a number of shares of Common Stock equal to the difference between the number of shares thereby purchased and the number of identified attestation shares of Common Stock (a “**Stock for Stock Exchange**”); (ii) a “cashless” exercise program established with a broker; (iii) by reduction in the number of shares of Common Stock otherwise deliverable upon exercise of such Option with a Fair Market Value equal to the aggregate Option Exercise Price at the time of exercise; (iv) by any combination of the foregoing methods; or (v) in any other form of legal consideration that may be acceptable to the Committee. Unless otherwise specifically provided in the Option, the exercise price of Common Stock acquired pursuant to an Option that is paid by delivery (or attestation) to the Company of other Common Stock acquired, directly or indirectly from the Company, shall be paid only by shares of the Common Stock of the Company that have been held for more than six (6) months (or such longer or shorter period of time required to avoid a charge to earnings for financial accounting purposes). Notwithstanding the foregoing, during any period for which the Common Stock is publicly traded (i.e., the Common Stock is listed on any established stock exchange or a national market system) an exercise by a Director or Officer that involves or may involve a direct or indirect extension of credit or arrangement of an extension of credit by the Company, directly or indirectly, in violation of Section 402(a) of the Sarbanes-Oxley Act of 2002 shall be prohibited with respect to any Award under this Plan.

6.5 Transferability of an Incentive Stock Option. An Incentive Stock Option shall not be transferable except by will or by the laws of descent and distribution and shall be exercisable during the lifetime of the Optionholder only by the Optionholder. Notwithstanding the foregoing, the Optionholder may, by delivering written notice to the Company, in a form satisfactory to the Company, designate a third party who, in the event of the death of the Optionholder, shall thereafter be entitled to exercise the Option.

6.6 Transferability of a Nonqualified Stock Option. A Nonqualified Stock Option may, in the sole discretion of the Committee, be transferable to a Permitted Transferee, upon written approval by the Committee to the extent provided in the Award Agreement. If the Nonqualified Stock Option does not provide for transferability, then the Nonqualified Stock Option shall not be transferable except by will or by the laws of descent and distribution and shall be exercisable during the lifetime of the Optionholder only by the Optionholder. Notwithstanding the foregoing, the Optionholder may, by delivering written notice to the Company, in a form satisfactory to the Company, designate a third party who, in the event of the death of the Optionholder, shall thereafter be entitled to exercise the Option.

6.7 Vesting of Options. Each Option may, but need not, vest and therefore become exercisable in periodic installments that may, but need not, be equal. The Option may be subject to such other terms and conditions on the time or times when it may be exercised (which may be based on performance or other criteria) as the Committee may deem appropriate. The vesting provisions of individual Options may vary. No Option may be exercised for a fraction of a share of Common Stock. The Committee may, but shall not be required to, provide for an acceleration of vesting and exercisability in the terms of any Award Agreement upon the occurrence of a specified event.

6.8 Termination of Continuous Service. Unless otherwise provided in an Award Agreement or in an employment agreement the terms of which have been approved by the Committee, in the event an Optionholder's Continuous Service terminates (other than upon the Optionholder's death or Disability), the Optionholder may exercise his or her Option (to the extent that the Optionholder was entitled to exercise such Option as of the date of termination) but only within such period of time ending on the earlier of: (a) the date three (3) months following the termination of the Optionholder's Continuous Service; or (b) the expiration of the term of the Option as set forth in the Award Agreement; *provided that*, if the termination of Continuous Service is by the Company for Cause, all outstanding Options (whether or not vested) shall immediately terminate and cease to be exercisable. If, after Termination of Service, the Optionholder does not exercise his or her Option within the time specified in the Award Agreement, the Option shall terminate.

6.9 Extension of Termination Date. An Optionholder's Award Agreement may also provide that if the exercise of the Option following the termination of the Optionholder's Continuous Service for any reason would be prohibited at any time because the issuance of shares of Common Stock would violate the registration requirements under the Securities Act or any other state or federal securities law or the rules of any securities exchange or interdealer quotation system, then the Option shall terminate on the earlier of: (a) the expiration of the term of the Option in accordance with Section 6.1; or (b) the expiration of a period after termination of the Participant's Continuous Service that is three (3) months after the end of the period during which the exercise of the Option would be in violation of such registration or other securities law requirements.

6.10 Disability of Optionholder. Unless otherwise provided in an Award Agreement, in the event that an Optionholder's Continuous Service terminates as a result of the Optionholder's Disability, the Optionholder may exercise his or her Option (to the extent that the Optionholder was entitled to exercise such Option as of the date of termination), but only within such period of time ending on the earlier of: (a) the date twelve (12) months following such termination; or (b) the expiration of the term of the Option as set forth in the Award Agreement. If, after termination, the Optionholder does not exercise his or her Option within the time specified herein or in the Award Agreement, the Option shall terminate.

6.11 Death of Optionholder. Unless otherwise provided in an Award Agreement, in the event an Optionholder's Continuous Service terminates as a result of the Optionholder's death, then the Option may be exercised (to the extent the Optionholder was entitled to exercise such Option as of the date of death) by the Optionholder's estate, by a person who acquired the right to exercise the Option by bequest or inheritance or by a person designated to exercise the Option upon the Optionholder's death, but only within the period ending on the earlier of: (a) the date twelve (12) months following the date of death; or (b) the expiration of the term of such Option as set forth in the Award Agreement. If, after the Optionholder's death, the Option is not exercised within the time specified herein or in the Award Agreement, the Option shall terminate.

6.12 Incentive Stock Option \$100,000 Limitation. To the extent that the aggregate Fair Market Value (determined at the time of grant) of Common Stock with respect to which Incentive Stock Options are exercisable for the first time by any Optionholder during any calendar year (under all plans of the Company and its Affiliates) exceeds one hundred thousand dollars (\$100,000), the Options or portions thereof which exceed such limit (according to the order in which they were granted) shall be treated as Nonqualified Stock Options.

7. Provisions of Awards Other Than Options.

7.1 Stock Appreciation Rights.

(a) General

Each Stock Appreciation Right granted under the Plan shall be evidenced by an Award Agreement. Each Stock Appreciation Right so granted shall be subject to the conditions set forth in this Section 7.1, and to such other conditions not inconsistent with the Plan as may be reflected in the applicable Award Agreement. Stock Appreciation Rights may be granted alone ("**Free Standing Rights**") or in tandem with an Option granted under the Plan ("**Related Rights**").

(b) Grant Requirements

Any Related Right that relates to a Nonqualified Stock Option may be granted at the same time the Option is granted or at any time thereafter but before the exercise or expiration of the Option. Any Related Right that relates to an Incentive Stock Option must be granted at the same time the Incentive Stock Option is granted.

(c) Term of Stock Appreciation Rights

The term of a Stock Appreciation Right granted under the Plan shall be determined by the Committee; *provided, however*, no Stock Appreciation Right shall be exercisable later than the tenth anniversary of the Grant Date.

(d) Vesting of Stock Appreciation Rights

Each Stock Appreciation Right may, but need not, vest and therefore become exercisable in periodic installments that may, but need not, be equal. The Stock Appreciation Right may be subject to such other terms and conditions on the time or times when it may be exercised as the Committee may deem appropriate. The vesting provisions of individual Stock Appreciation Rights may vary. No Stock Appreciation Right may be exercised for a fraction of a share of Common Stock. The Committee may, but shall not be required to, provide for an acceleration of vesting and exercisability in the terms of any Stock Appreciation Right upon the occurrence of a specified event.

(e) Exercise and Payment

Upon exercise of a Stock Appreciation Right, the holder shall be entitled to receive from the Company an amount equal to the number of shares of Common Stock subject to the Stock Appreciation Right that is being exercised multiplied by the excess of: (i) the Fair Market Value of a share of Common Stock on the date the Award is exercised, over (ii) the exercise price specified in the Stock Appreciation Right or related Option. Payment with respect to the exercise of a Stock Appreciation Right shall be made on the date of exercise. Payment shall be made in the form of shares of Common Stock (with or without restrictions as to substantial risk of forfeiture and transferability, as determined by the Committee in its sole discretion), cash or a combination thereof, as determined by the Committee.

(f) Exercise Price

The exercise price of a Free Standing Right shall be determined by the Committee, but shall not be less than one hundred percent (100%) of the Fair Market Value of one share of Common Stock on the Grant Date of such Stock Appreciation Right. A Related Right granted simultaneously with or subsequent to the grant of an Option and in conjunction therewith or in the alternative thereto shall have the same exercise price as the related Option, shall be transferable only upon the same terms and conditions as the related Option, and shall be exercisable only to the same extent as the related Option; *provided, however*, that a Stock Appreciation Right, by its terms, shall be exercisable only when the Fair Market Value per share of Common Stock subject to the Stock Appreciation Right and related Option exceeds the exercise price per share thereof and no Stock Appreciation Rights may be granted in tandem with an Option unless the Committee determines that the requirements of Section 7.1(b) are satisfied.

(g) Reduction in the Underlying Option Shares

Upon any exercise of a Related Right, the number of shares of Common Stock for which any related Option shall be exercisable shall be reduced by the number of shares for which the Stock Appreciation Right has been exercised. The number of shares of Common Stock for which a Related Right shall be exercisable shall be reduced upon any exercise of any related Option by the number of shares of Common Stock for which such Option has been exercised.

7.2 Restricted Awards.

(a) General

A Restricted Award is an Award of actual shares of Common Stock (“**Restricted Stock**”) or hypothetical Common Stock units (“**Restricted Stock Units**”) having a value equal to the Fair Market Value of an identical number of shares of Common Stock, which may, but need not, provide that such Restricted Award may not be sold, assigned, transferred or otherwise disposed of, pledged or hypothecated as collateral for a loan or as security for the performance of any obligation or for any other purpose for such period (the “**Restricted Period**”) as the Committee shall determine. Each Restricted Award granted under the Plan shall be evidenced by an Award Agreement. Each Restricted Award so granted shall be subject to the conditions set forth in this Section 7.2, and to such other conditions not inconsistent with the Plan as may be reflected in the applicable Award Agreement.

(b) Restricted Stock and Restricted Stock Units

(i) Each Participant granted Restricted Stock shall execute and deliver to the Company an Award Agreement with respect to the Restricted Stock setting forth the restrictions and other terms and conditions applicable to such Restricted Stock. If the Committee determines that the Restricted Stock shall be held by the Company or in escrow rather than delivered to the Participant pending the release of the applicable restrictions, the Committee may require the Participant to additionally execute and deliver to the Company: (A) an escrow agreement satisfactory to the Committee, if applicable; and (B) the appropriate blank stock power with respect to the Restricted Stock covered by such agreement. If a Participant fails to execute an agreement evidencing an Award of Restricted Stock and, if applicable, an escrow agreement and stock power, the Award shall be null and void. Subject to the restrictions set forth in the Award, the Participant generally shall have the rights and privileges of a shareholder as to such Restricted Stock, including the right to vote such Restricted Stock and the right to receive dividends; *provided that*, any cash dividends and stock dividends with respect to the Restricted Stock shall be withheld by the Company for the Participant’s account, and interest may be credited on the amount of the cash dividends withheld at a rate and subject to such terms as determined by the Committee. The cash dividends or stock dividends so withheld by the Committee and attributable to any particular share of Restricted Stock (and earnings thereon, if applicable) shall be distributed to the Participant in cash or, at the discretion of the Committee, in shares of Common Stock having a Fair Market Value equal to the amount of such dividends, if applicable, upon the release of restrictions on such share and, if such share is forfeited, the Participant shall have no right to such dividends.

(ii) The terms and conditions of a grant of Restricted Stock Units shall be reflected in an Award Agreement. No shares of Common Stock shall be issued at the time a Restricted Stock Unit is granted, and the Company will not be required to set aside funds for the payment of any such Award. A Participant shall have no voting rights with respect to any Restricted Stock Units granted hereunder. The Committee may also grant Restricted Stock Units with a deferral feature, whereby settlement is deferred beyond the vesting date until the occurrence of a future payment date or event set forth in an Award Agreement (“**Deferred Stock Units**”). At the discretion of the Committee, each Restricted Stock Unit or Deferred Stock Unit (representing one share of Common Stock) may be credited with an amount equal to the cash and stock dividends paid by the Company in respect of one share of Common Stock (“**Dividend Equivalents**”). Dividend Equivalents shall be withheld by the Company and credited to the Participant’s account, and interest may be credited on the amount of cash Dividend Equivalents credited to the Participant’s account at a rate and subject to such terms as determined by the Committee. Dividend Equivalents credited to a Participant’s account and attributable to any particular Restricted Stock Unit or Deferred Stock Unit (and earnings thereon, if applicable) shall be distributed in cash or, at the discretion of the Committee, in shares of Common Stock having a Fair Market Value equal to the amount of such Dividend Equivalents and earnings, if applicable, to the Participant upon settlement of such Restricted Stock Unit or Deferred Stock Unit and, if such Restricted Stock Unit or Deferred Stock Unit is forfeited, the Participant shall have no right to such Dividend Equivalents.

(c) Restrictions

(i) Restricted Stock awarded to a Participant shall be subject to the following restrictions until the expiration of the Restricted Period, and to such other terms and conditions as may be set forth in the applicable Award Agreement: (A) if an escrow arrangement is used, the Participant shall not be entitled to delivery of the stock certificate; (B) the shares shall be subject to the restrictions on transferability set forth in the Award Agreement; (C) the shares shall be subject to forfeiture to the extent provided in the applicable Award Agreement; and (D) to the extent such shares are forfeited, the stock certificates shall be returned to the Company, and all rights of the Participant to such shares and as a shareholder with respect to such shares shall terminate without further obligation on the part of the Company.

(ii) Restricted Stock Units and Deferred Stock Units awarded to any Participant shall be subject to: (A) forfeiture until the expiration of the Restricted Period, and satisfaction of any applicable Performance Goals during such period, to the extent provided in the applicable Award Agreement, and to the extent such Restricted Stock Units or Deferred Stock Units are forfeited, all rights of the Participant to such Restricted Stock Units or Deferred Stock Units shall terminate without further obligation on the part of the Company; and (B) such other terms and conditions as may be set forth in the applicable Award Agreement.

(iii) The Committee shall have the authority to remove any or all of the restrictions on the Restricted Stock, Restricted Stock Units and Deferred Stock Units whenever it may determine that, by reason of changes in Applicable Laws or other changes in circumstances arising after the date the Restricted Stock or Restricted Stock Units or Deferred Stock Units are granted, such action is appropriate.

(d) Restricted Period

With respect to Restricted Awards, the Restricted Period shall commence on the Grant Date and end at the time or times set forth on a schedule established by the Committee in the applicable Award Agreement.

No Restricted Award may be granted or settled for a fraction of a share of Common Stock. The Committee may, but shall not be required to, provide for an acceleration of vesting in the terms of any Award Agreement upon the occurrence of a specified event.

(e) Delivery of Restricted Stock and Settlement of Restricted Stock Units

Upon the expiration of the Restricted Period with respect to any shares of Restricted Stock, the restrictions set forth in Section 7.2(c) and the applicable Award Agreement shall be of no further force or effect with respect to such shares, except as set forth in the applicable Award Agreement. If an escrow arrangement is used, upon such expiration, the Company shall deliver to the Participant, or his or her beneficiary, without charge, the stock certificate evidencing the shares of Restricted Stock which have not then been forfeited and with respect to which the Restricted Period has expired (to the nearest full share) and any cash dividends or stock dividends credited to the Participant's account with respect to such Restricted Stock and the interest thereon, if any. Upon the expiration of the Restricted Period with respect to any outstanding Restricted Stock Units, or at the expiration of the deferral period with respect to any outstanding Deferred Stock Units, the Company shall deliver to the Participant, or his or her beneficiary, without charge, one share of Common Stock for each such outstanding vested Restricted Stock Unit or Deferred Stock Unit ("**Vested Unit**") and cash equal to any Dividend Equivalents credited with respect to each such Vested Unit in accordance with Section 7.2(b)(ii) hereof and the interest thereon or, at the discretion of the Committee, in shares of Common Stock having a Fair Market Value equal to such Dividend Equivalents and the interest thereon, if any; *provided, however*, that, if explicitly provided in the applicable Award Agreement, the Committee may, in its sole discretion, elect to pay cash or part cash and part Common Stock in lieu of delivering only shares of Common Stock for Vested Units. If a cash payment is made in lieu of delivering shares of Common Stock, the amount of such payment shall be equal to the Fair Market Value of the Common Stock as of the date on which the Restricted Period lapsed in the case of Restricted Stock Units, or the delivery date in the case of Deferred Stock Units, with respect to each Vested Unit.

(f) Stock Restrictions

Each certificate representing Restricted Stock awarded under the Plan shall bear a legend in such form as the Company deems appropriate.

7.3 Performance Share Awards.

(a) Grant of Performance Share Awards

Each Performance Share Award granted under the Plan shall be evidenced by an Award Agreement. Each Performance Share Award so granted shall be subject to the conditions set forth in this Section 7.3, and to such other conditions not inconsistent with the Plan as may be reflected in the applicable Award Agreement. The Committee shall have the discretion to determine: (i) the number of shares of Common Stock or stock-denominated units subject to a Performance Share Award granted to any Participant; (ii) the Performance Period applicable to any Award; (iii) the conditions that must be satisfied for a Participant to earn an Award; and (iv) the other terms, conditions and restrictions of the Award.

(b) Earning Performance Share Awards

The number of Performance Shares earned by a Participant will depend on the extent to which the performance goals established by the Committee are attained within the applicable Performance Period, as determined by the Committee.

7.4 Other Equity-Based Awards and Cash Awards. The Committee may grant Other Equity-Based Awards, either alone or in tandem with other Awards, in such amounts and subject to such conditions as the Committee shall determine in its sole discretion. Each Equity-Based Award shall be evidenced by an Award Agreement and shall be subject to such conditions, not inconsistent with the Plan, as may be reflected in the applicable Award Agreement. The Committee may grant Cash Awards in such amounts and subject to such Performance Goals, other vesting conditions, and such other terms as the Committee determines in its discretion. Cash Awards shall be evidenced in such form as the Committee may determine.

8. Securities Law Compliance. Each Award Agreement shall provide that no shares of Common Stock shall be purchased or sold thereunder unless and until: (a) any then applicable requirements of state or federal laws and regulatory agencies have been fully complied with to the satisfaction of the Company and its counsel; and (b) if required to do so by the Company, the Participant has executed and delivered to the Company a letter of investment intent in such form and containing such provisions as the Committee may require. The Company shall use reasonable efforts to seek to obtain from each regulatory commission or agency having jurisdiction over the Plan such authority as may be required to grant Awards and to issue and sell shares of Common Stock upon exercise of the Awards; *provided, however*, that this undertaking shall not require the Company to register under the Securities Act the Plan, any Award or any Common Stock issued or issuable pursuant to any such Award. If, after reasonable efforts, the Company is unable to obtain from any such regulatory commission or agency the authority which counsel for the Company deems necessary for the lawful issuance and sale of Common Stock under the Plan, the Company shall be relieved from any liability for failure to issue and sell Common Stock upon exercise of such Awards unless and until such authority is obtained.

9. Use of Proceeds from Stock. Proceeds from the sale of Common Stock pursuant to Awards, or upon exercise thereof, shall constitute general funds of the Company.

10. Miscellaneous.

10.1 Acceleration of Exercisability and Vesting. The Committee shall have the power to accelerate the time at which an Award may first be exercised or the time during which an Award or any part thereof will vest in accordance with the Plan, notwithstanding the provisions in the Award stating the time at which it may first be exercised or the time during which it will vest.

10.2 Shareholder Rights. Except as provided in the Plan or an Award Agreement, no Participant shall be deemed to be the holder of, or to have any of the rights of a holder with respect to, any shares of Common Stock subject to such Award unless and until such Participant has satisfied all requirements for exercise of the Award pursuant to its terms and no adjustment shall be made for dividends (ordinary or extraordinary, whether in cash, securities or other property) or distributions of other rights for which the record date is prior to the date such Common Stock certificate is issued, except as provided in Section 11 hereof.

10.3 No Employment or Other Service Rights. Nothing in the Plan or any instrument executed or Award granted pursuant thereto shall confer upon any Participant any right to continue to serve the Company or an Affiliate in the capacity in effect at the time the Award was granted or shall affect the right of the Company or an Affiliate to terminate: (a) the employment of an Employee with or without notice and with or without Cause; or (b) the service of a Director pursuant to the By-laws of the Company or an Affiliate, and any applicable provisions of the corporate law of the state in which the Company or the Affiliate is incorporated, as the case may be.

10.4 Transfer; Approved Leave of Absence. For purposes of the Plan, no termination of employment by an Employee shall be deemed to result from either: (a) a transfer of employment to the Company from an Affiliate or from the Company to an Affiliate, or from one Affiliate to another; or (b) an approved leave of absence for military service or sickness, or for any other purpose approved by the Company, if the Employee's right to reemployment is guaranteed either by a statute or by contract or under the policy pursuant to which the leave of absence was granted or if the Committee otherwise so provides in writing, in either case, except to the extent inconsistent with Section 409A of the Code if the applicable Award is subject thereto.

10.5 Withholding Obligations. To the extent provided by the terms of an Award Agreement and subject to the discretion of the Committee, the Participant may satisfy any federal, state or local tax withholding obligation relating to the exercise or acquisition of Common Stock under an Award by any of the following means (in addition to the Company's right to withhold from any compensation paid to the Participant by the Company) or by a combination of such means: (a) tendering a cash payment; (b) authorizing the Company to withhold shares of Common Stock from the shares of Common Stock otherwise issuable to the Participant as a result of the exercise or acquisition of Common Stock under the Award, *provided, however*, that no shares of Common Stock are withheld with a value exceeding the minimum amount of tax required to be withheld by law; or (c) delivering to the Company previously owned and unencumbered shares of Common Stock of the Company.

11. Adjustments Upon Changes in Stock. In the event of changes in the outstanding Common Stock or in the capital structure of the Company by reason of any stock or extraordinary cash dividend, stock split, reverse stock split, an extraordinary corporate transaction such as any recapitalization, reorganization, merger, consolidation, combination, exchange, or other relevant change in capitalization occurring after the Grant Date of any Award, Awards granted under the Plan and any Award Agreements, the exercise price of Options and Stock Appreciation Rights, the Performance Goals to which Performance Share Awards and Cash Awards are subject, the maximum number of shares of Common Stock subject to all Awards stated in Section 4 will be equitably adjusted or substituted, as to the number, price or kind of a share of Common Stock or other consideration subject to such Awards to the extent necessary to preserve the economic intent of such Award. In the case of adjustments made pursuant to this Section 11, unless the Committee specifically determines that such adjustment is in the best interests of the Company or its Affiliates, the Committee shall, in the case of Incentive Stock Options, ensure that any adjustments under this Section 11 will not constitute a modification, extension or renewal of the Incentive Stock Options within the meaning of Section 424(h)(3) of the Code and in the case of Nonqualified Stock Options, ensure that any adjustments under this Section 11 will not constitute a modification of such Nonqualified Stock Options within the meaning of Section 409A of the Code. Any adjustments made under this Section 11 shall be made in a manner which does not adversely affect the exemption provided pursuant to Rule 16b-3 under the Exchange Act. The Company shall give each Participant notice of an adjustment hereunder and, upon notice, such adjustment shall be conclusive and binding for all purposes.

12. Effect of Change in Control.

12.1 Unless otherwise provided in an Award Agreement or a Participant's employment agreement or services agreement, notwithstanding any provision of the Plan to the contrary:

(a) In the event of a Participant's termination of Continuous Service without Cause or for Good Reason during the six (6) month period following a Change in Control, notwithstanding any provision of the Plan or any applicable Award Agreement to the contrary, all outstanding Options and Stock Appreciation Rights shall become immediately exercisable with respect to one hundred percent (100%) of the shares subject to such Options or Stock Appreciation Rights, and/or the Restricted Period shall expire immediately with respect to one hundred percent (100%) of the outstanding shares of Restricted Stock or Restricted Stock Units as of the date of the Participant's termination of Continuous Service.

(b) With respect to Performance Share Awards and Cash Awards, in the event of a Participant's termination of Continuous Service without Cause or for Good Reason, in either case, within six (6) months following a Change in Control, all Performance Goals or other vesting criteria will be deemed achieved at one hundred percent (100%) of target levels and all other terms and conditions will be deemed met as of the date of the Participant's termination of Continuous Service.

To the extent practicable, any actions taken by the Committee under the immediately preceding clauses (a) and (b) shall occur in a manner and at a time which allows affected Participants the ability to participate in the Change in Control with respect to the shares of Common Stock subject to their Awards.

12.2 In addition, in the event of a Change in Control, the Committee may in its discretion and upon at least ten (10) days' advance notice to the affected persons, cancel any outstanding Awards and pay to the holders thereof, in cash or stock, or any combination thereof, the value of such Awards based upon the price per share of Common Stock received or to be received by other shareholders of the Company in the event. In the case of any Option or Stock Appreciation Right with an exercise price that equals or exceeds the price paid for a share of Common Stock in connection with the Change in Control, the Committee may cancel the Option or Stock Appreciation Right without the payment of consideration therefor.

12.3 The obligations of the Company under the Plan shall be binding upon any successor corporation or organization resulting from the merger, consolidation or other reorganization of the Company, or upon any successor corporation or organization succeeding to all or substantially all of the assets and business of the Company and its Affiliates, taken as a whole.

13. Amendment of the Plan and Awards.

13.1 Amendment of Plan. The Board at any time, and from time to time, may amend or terminate the Plan. However, except as provided in Section 11 relating to adjustments upon changes in Common Stock and Section 13.3, no amendment shall be effective unless approved by the shareholders of the Company to the extent shareholder approval is necessary to satisfy any Applicable Laws. At the time of such amendment, the Board shall determine, upon advice from counsel, whether such amendment will be contingent on shareholder approval.

13.2 Shareholder Approval. The Board may, in the Board's sole discretion, submit any other amendment to the Plan for shareholder approval.

13.3 Contemplated Amendments. It is expressly contemplated that the Board may amend the Plan in any respect the Board deems necessary or advisable to provide eligible Employees, Consultants and Directors with the maximum benefits provided or to be provided under the provisions of the Code and the regulations promulgated thereunder relating to Incentive Stock Options or to the nonqualified deferred compensation provisions of Section 409A of the Code and/or to bring the Plan and/or Awards granted under it into compliance therewith.

13.4 No Impairment of Rights. Rights under any Award granted before amendment of the Plan shall not be impaired by any amendment of the Plan unless: (a) the Company requests the consent of the Participant; and (b) the Participant consents in writing.

13.5 Amendment of Awards. The Committee at any time, and from time to time, may amend the terms of any one or more Awards; *provided, however*, that the Committee may not affect any amendment which would otherwise constitute an impairment of the rights under any Award unless: (a) the Company requests the consent of the Participant; and (b) the Participant consents in writing.

14. General Provisions.

14.1 Forfeiture Events. The Committee may specify in an Award Agreement that the Participant's rights, payments and benefits with respect to an Award shall be subject to reduction, cancellation, forfeiture or recoupment upon the occurrence of certain events, in addition to applicable vesting conditions of an Award. Such events may include, without limitation, breach of non-competition, non-solicitation, confidentiality, or other restrictive covenants that are contained in the Award Agreement or otherwise applicable to the Participant, a termination of the Participant's Continuous Service for Cause, or other conduct by the Participant that is detrimental to the business or reputation of the Company and/or its Affiliates.

14.2 Clawback. Notwithstanding any other provisions in this Plan, the Company may cancel any Award, require reimbursement of any Award by a Participant, and effect any other right of recoupment of equity or other compensation provided under the Plan in accordance with any Company policies that may be adopted and/or modified from time to time ("**Clawback Policy**"). In addition, a Participant may be required to repay to the Company previously paid compensation, whether provided pursuant to the Plan or an Award Agreement, in accordance with the Clawback Policy. By accepting an Award, the Participant is agreeing to be bound by the Clawback Policy, as in effect or as may be adopted and/or modified from time to time by the Company in its discretion (including, without limitation, to comply with applicable law or stock exchange listing requirements).

14.3 Other Compensation Arrangements. Nothing contained in this Plan shall prevent the Board from adopting other or additional compensation or benefits arrangements, subject to shareholder approval if such approval is required; and such arrangements may be either generally applicable or applicable only in specific cases.

14.4 Sub-Plans. The Committee may, from time to time, establish sub-plans under the Plan for purposes of satisfying securities, tax or other laws of various jurisdictions in which the Company intends to grant Awards. Any sub-plans shall contain such limitations and other terms and conditions as the Committee determines are necessary or desirable. All sub-plans shall be deemed a part of the Plan, but each sub-plan shall apply only to the Participants in the jurisdiction for which the sub-plan was designed.

14.5 Unfunded Plan. The Plan shall be unfunded. Neither the Company, the Board nor the Committee shall be required to establish any special or separate fund or to segregate any assets to assure the performance of its obligations under the Plan.

14.6 Recapitalizations. Each Award Agreement shall contain provisions required to reflect the provisions of Section 11.

14.7 Delivery. Upon exercise of a right granted under this Plan, the Company shall issue Common Stock or pay any amounts due within a reasonable period of time thereafter. Subject to any statutory or regulatory obligations the Company may otherwise have, for purposes of this Plan, thirty (30) days shall generally be considered a reasonable period of time.

14.8 No Fractional Shares. No fractional shares of Common Stock shall be issued or delivered pursuant to the Plan. The Committee shall determine whether cash, additional Awards or other securities or property shall be issued or paid in lieu of fractional shares of Common Stock or whether any fractional shares should be rounded, forfeited or otherwise eliminated.

14.9 Other Provisions. The Award Agreements authorized under the Plan may contain such other provisions not inconsistent with this Plan, including, without limitation, restrictions upon the exercise of Awards, as the Committee may deem advisable.

14.10 Section 409A. The Plan is intended to comply with Section 409A of the Code to the extent subject thereto, and, accordingly, to the maximum extent permitted, the Plan shall be interpreted and administered to be in compliance therewith. Any payments described in the Plan that are due within the “short-term deferral period” as defined in Section 409A of the Code shall not be treated as deferred compensation unless Applicable Laws require otherwise. Notwithstanding anything to the contrary in the Plan, to the extent required to avoid accelerated taxation and tax penalties under Section 409A of the Code, amounts that would otherwise be payable and benefits that would otherwise be provided pursuant to the Plan during the six- (6-) month period immediately following the Participant’s termination of Continuous Service shall instead be paid on the first payroll date after the six- (6-) month anniversary of the Participant’s separation from service (or the Participant’s death, if earlier). Notwithstanding the foregoing, neither the Company nor the Committee nor the Board shall have any obligation to take any action to prevent the assessment of any additional tax or penalty on any Participant under Section 409A of the Code and neither the Company nor the Committee nor the Board will have any liability to any Participant for such tax or penalty.

14.11 Disqualifying Dispositions. Any Participant who shall make a “disposition” (as defined in Section 424 of the Code) of all or any portion of shares of Common Stock acquired upon exercise of an Incentive Stock Option within two (2) years from the Grant Date of such Incentive Stock Option or within one (1) year after the issuance of the shares of Common Stock acquired upon exercise of such Incentive Stock Option (a “**Disqualifying Disposition**”) shall be required to immediately advise the Company in writing as to the occurrence of the sale and the price realized upon the sale of such shares of Common Stock.

14.12 Section 16. It is the intent of the Company that the Plan satisfy, and be interpreted in a manner that satisfies, the applicable requirements of Rule 16b-3 as promulgated under Section 16 of the Exchange Act so that Participants will be entitled to the benefit of Rule 16b-3, or any other rule promulgated under Section 16 of the Exchange Act, and will not be subject to short-swing liability under Section 16 of the Exchange Act. Accordingly, if the operation of any provision of the Plan would conflict with the intent expressed in this Section 14.12, such provision to the extent possible shall be interpreted and/or deemed amended so as to avoid such conflict.

14.13 Beneficiary Designation. With the Committee’s approval, each Participant under the Plan may from time to time name any beneficiary or beneficiaries by whom any right under the Plan is to be exercised in case of such Participant’s death. Each designation will revoke all prior designations by the same Participant, shall be in a form reasonably prescribed by the Committee and shall be effective only when filed by the Participant in writing with the Company during the Participant’s lifetime.

14.14 Expenses. The costs of administering the Plan shall be paid by the Company.

14.15 Severability. If any of the provisions of the Plan or any Award Agreement is held to be invalid, illegal or unenforceable, whether in whole or in part, such provision shall be deemed modified to the extent, but only to the extent, of such invalidity, illegality or unenforceability and the remaining provisions shall not be affected thereby.

14.16 Plan Headings. The headings in the Plan are for purposes of convenience only and are not intended to define or limit the construction of the provisions hereof.

14.17 Non-Uniform Treatment. The Committee's determinations under the Plan need not be uniform and may be made by it selectively among persons who are eligible to receive, or actually receive, Awards. Without limiting the generality of the foregoing, the Committee shall be entitled to make non-uniform and selective determinations, amendments and adjustments, and to enter into non-uniform and selective Award Agreements.

15. Effective Date of Plan. The Plan shall become effective as of the Effective Date, but no Award shall be exercised (or, in the case of a stock Award, shall be granted unless granted as a Restricted Stock Unit for which vesting is made expressly contingent upon shareholder approval in accordance with Applicable Law) unless and until the Plan has been approved by the shareholders of the Company, which approval shall be within twelve (12) months before or after the date the Plan is adopted by the Board.

16. Termination or Suspension of the Plan. The Plan shall terminate automatically on September 20, 2028. No Award shall be granted pursuant to the Plan after such date, but Awards theretofore granted may extend beyond that date. The Board may suspend or terminate the Plan at any earlier date pursuant to Section 13.1 hereof. No Awards may be granted under the Plan while the Plan is suspended or after it is terminated.

17. Choice of Law. The law of the State of North Carolina shall govern all questions concerning the construction, validity and interpretation of this Plan, without regard to such state's conflict of law rules.

As adopted by the Board of Directors of Charles & Colvard, Ltd. on September 20, 2018.

As approved by the shareholders of Charles & Colvard, Ltd. on November 8, 2018.

**CHARLES & COLVARD, LTD.
2018 EQUITY INCENTIVE PLAN**

Restricted Stock Award Agreement

THIS RESTRICTED STOCK AWARD AGREEMENT (which, together with Schedule A and Schedule B attached hereto, is referred to herein as the “Agreement”), made effective as of _____ (as defined below, the “Grant Date”), between CHARLES & COLVARD, LTD., a North Carolina corporation (the “Company”), and _____ (the “Participant”);

RECITALS:

In furtherance of the purposes of the Charles & Colvard, Ltd. 2018 Equity Incentive Plan, as it may be hereafter amended and/or restated (the “Plan”) and in consideration of the services of the Participant and such other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Company and the Participant hereby agree as follows:

1. Incorporation of Plan. The rights and duties of the Company and the Participant under this Agreement shall, in all respects, be subject to and governed by the provisions of the Plan, the terms of which are incorporated herein by reference. In the event of any conflict between the provisions in this Agreement and those of the Plan, the provisions of the Plan shall govern. Unless otherwise defined herein, capitalized terms in this Agreement shall have the same definitions as set forth within the Plan.

2. Terms of Award. The following terms used in this Agreement shall have the meanings set forth in this Section 2:

The “Participant” is _____.

The “Grant Date” is _____.

The “Restriction Period” is the period beginning on the Grant Date and ending on the date or dates and satisfaction of such conditions (including both Service Measures and Performance Measures) as described in Schedule A and Schedule B, which are attached hereto and expressly made a part of this Agreement.

The number of shares of common stock of the Company (the “Common Stock”) subject to the Restricted Stock Award granted under this Agreement shall be _____ (_____) shares (the “Shares”).

3. Grant of Restricted Stock Award. Subject to the terms of this Agreement and the Plan, the Company hereby grants the Participant a Restricted Stock Award (the “Award”) for that number of Shares of Common Stock as is set forth in Section 2. The Participant expressly acknowledges that the terms of Schedule A and Schedule B shall be incorporated herein by reference and shall constitute part of this Agreement.

4. Vesting and Earning of Award. Subject to the terms of the Plan, the Award shall be deemed vested and earned, and the applicable restrictions imposed on such Shares shall lapse, upon such date or dates, and subject to such conditions (including both Service Measures and Performance Measures), as are described in this Agreement, including but not limited to the terms of Schedule A and Schedule B, attached hereto. The Committee has sole and absolute authority to determine whether and to what degree the Award has vested and is payable and to interpret the terms and conditions of this Agreement and the Plan.

5. Effect of Change in Control.

(a) In the event of a Change in Control (as defined in the Plan), the Award, if outstanding and unvested as of the date of such Change in Control, shall become fully vested, whether or not then otherwise vested, and the restrictions attached to such Shares shall lapse except as may otherwise be provided in Section 5(b) immediately below.

(b) Notwithstanding the foregoing, in the event that a Change in Control event occurs, the Committee may, in its sole and absolute discretion, determine that the Award shall not vest on an accelerated basis, if the Company or the surviving or acquiring Company, as the case may be, shall have taken such action, including, but not limited to, the assumption of Awards granted under the Plan or the grant of substitute awards (in either case, with substantially similar terms or equivalent economic benefits as Awards granted under the Plan), as the Committee determines to be equitable or appropriate to protect the rights and interests of Participants under the Plan. For the purposes herein, if the Committee is acting as the Committee authorized to make the determinations provided for in this Section 5(b), the Committee shall be appointed by the Board of Directors, at least two-thirds of the members of which shall have been Directors of the Company prior to the Change in Control event.

(c) The Committee shall have full and final authority, in its sole and absolute discretion, to determine whether a Change in Control of the Company has occurred, the date of the occurrence of such Change in Control and any incidental matters relating thereto.

6. Termination of Employment or Service; Forfeiture of Award. Except as may be otherwise provided in the Plan or this Agreement, in the event that the employment of the Participant is terminated and/or Participant's service to the Company ceases for any reason (whether by the Company or the Participant and whether voluntarily or involuntarily) and all or part of the Award has not yet vested pursuant to Sections 4 or 5 above and/or Schedule A and Schedule B attached hereto, then the Award, to the extent not vested as of the Participant's Termination Date, shall be forfeited immediately upon such termination, and the Participant shall have no further rights or interests with respect to the Award or the Shares underlying that portion of the Award that has not yet vested. The Participant expressly acknowledges and agrees that the termination of Participant's employment shall result in forfeiture of the Award and the Shares to the extent the Award has not vested as of Participant's Termination Date. Notwithstanding the above provisions of this Section 6, if the Participant terminates employment with the Company for any reason other than death but enters into a written agreement with the Company to provide, without interruption, Continuous Service to the Company or an Affiliate as an Independent Contractor or Consultant and/or continues or commences service as a member of the Company's Board of Directors without interruption, the Participant shall continue to be treated as an Employee of (or in service to) the Company for purposes of this Award and shall not be treated as having a Termination of Service until the later of the date Participant is no longer an Employee of the Company (or an Affiliate) or the date Participant is no longer in service as an Independent Contractor or Board member (as determined by the Committee, in the Committee's sole discretion).

7. Settlement of Award. The Award (or vested portion thereof) shall be payable to the Participant in whole Shares of Common Stock as soon as practical following the end of the Restriction Period and the Committee's determination of Participant's satisfactory achievement of stated Performance Measures, if any. In no event, however, shall the Award (or applicable portion thereof) be settled and delivered to Participant more than 2½ months following the end of the Restriction Period.

8. No Right of Employment; Forfeiture of Award. None of the Plan, this Agreement, the grant of the Award, or any other action or documentation related to the Plan or the Award shall confer upon the Participant any right to continue in the employment of, or as a service provider to, the Company or an Affiliate or interfere with the right of the Company or an Affiliate to terminate the Participant's employment or service at any time. Except as otherwise provided in the Plan or this Agreement, all rights of the Participant with respect to the Award shall terminate upon termination of the Participant's employment or service.

9. Nontransferability of Award and Shares. The Award shall not be transferable (including by sale, assignment, pledge or hypothecation) other than by will or the laws of intestate succession. The designation of a beneficiary in accordance with the Plan does not constitute a transfer. The Participant shall not sell, transfer, assign, pledge or otherwise encumber the Shares subject to the Award (except as provided in Section 13 herein) until the Restriction Period has expired and all conditions to vesting and transfer have been met.

10. Superseding Agreement. This Agreement supersedes any statements, representations or agreements of the Company with respect to the grant of the Award and any related awards or rights, and the Participant hereby waives any rights or claims related to any such statements, representations or agreements. This Agreement does not supersede or amend any confidentiality agreement, nonsolicitation agreement, noncompetition agreement, employment agreement or any other similar agreement between the Participant and the Company, including, but not limited to, any restrictive covenants contained in such agreements.

11. Governing Law. Except as otherwise provided in the Plan or herein, this Agreement shall be construed and enforced according to the laws of the State of North Carolina, without regard to the conflict of laws provisions of any state, and in accordance with applicable federal laws of the United States.

12. Amendment and Termination; Waiver. Subject to the terms of the Plan and this Section 12, this Agreement may be amended, altered, suspended or terminated only by the written agreement of the parties hereto. Notwithstanding the foregoing, the Committee shall have unilateral authority to amend the Plan and this Agreement (without the Participant's consent) to the extent necessary to comply with Applicable Laws or changes to Applicable Laws (including, but in no way limited, to Code Section 409A and federal securities laws) as well as to accelerate vesting of the Award or eliminate or reduce any service or performance measures set forth in Schedule A in the Participant's favor. The waiver by the Company of a breach of any provision of this Agreement by the Participant shall not operate or be construed as a waiver of any subsequent breach by the Participant.

13. Certificates for Shares; Rights as Shareholder. Unless the Committee determines otherwise: (i) the Participant shall have voting rights and (except as provided in clause (ii) below) other rights as a shareholder with respect to Shares subject to the portion of the Award that has not yet vested; and (ii) notwithstanding clause (i) herein, the Committee may determine that any dividends (whether cash or stock) subject to the Award shall be subject to the same vesting or other restrictions that apply to the Shares subject to the Award. Unless the Committee determines otherwise, a certificate or certificates for Shares subject to the Award (or, in the case of uncertificated Shares, other written evidence of ownership in accordance with Applicable Laws) shall be issued in the name of the Participant as soon as practicable after the Award has been granted. Notwithstanding the foregoing, the Committee may require that: (a) the Participant deliver the certificate(s) (or other written instruments) for the Shares to the Committee or its designee to be held in escrow until the Award vests (in which case the Shares will be released to the Participant) or is forfeited (in which case the Shares shall be returned to the Company); and/or (b) the Participant deliver to the Company a stock power (or similar instrument), endorsed in blank, relating to the Shares subject to the Award that are subject to forfeiture.

14. Withholding; Tax Matters.

(a) The Participant acknowledges that the Company shall require the Participant to pay the Company in cash the amount of any applicable 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 Participant, if any, and the Participant agrees, as a condition to the grant of the Award and delivery of the Shares or any other benefit, to satisfy such obligations as applicable. Notwithstanding the foregoing, the Committee may establish procedures to permit the Participant to satisfy such obligations in whole or in part, and any other local, state, federal, foreign or other income tax obligations relating to the Award, by electing (the "election") to have the Company withhold Shares of Common Stock from the Shares to which the Participant is entitled. The number of Shares to be withheld shall have a Fair Market Value as of the date that the amount of tax to be withheld is determined as nearly equal as possible to (but not exceeding) the amount of such obligations being satisfied. Each election must be made in writing to the Committee in accordance with election procedures established by the Committee.

(b) The Participant acknowledges that the Company has made no warranties or representations to the Participant with respect to the tax consequences (including, but not limited to, income tax consequences) related to the transactions contemplated by this Agreement, and the Participant is in no manner relying on the Company or its representatives for an assessment of such tax consequences. The Participant acknowledges that there may be adverse tax consequences upon the grant of the Award and/or the acquisition or disposition of the Shares subject to the Award and that the Participant has been advised that Participant should consult with Participant's own attorney, accountant, and/or tax advisor regarding the decision to enter into this Agreement and the consequences thereof. The Participant also acknowledges that the Company has no responsibility to take or refrain from taking any actions in order to achieve a certain tax result for the Participant, including no responsibility to advise or assist the Participant with respect to potential Code Section 83(b) election with respect to the Award.

15. Administration. The authority to construe and interpret this Agreement and the Plan, and to administer all aspects of the Plan, shall be vested in the Committee, and the Committee shall have all powers with respect to this Agreement as are provided in the Plan. Any interpretation of this Agreement by the Committee and any decision made by the Committee with respect to this Agreement shall be conclusive, final, and binding in all respects.

16. Notices. Except as may be otherwise provided by the Plan, any written notices provided for in this Agreement or the Plan shall be in writing and shall be deemed sufficiently given if either hand delivered or if sent by fax or overnight courier, or by postage paid first class mail. Notices sent by mail shall be deemed received three business days after mailed but in no event later than the date of actual receipt. Notices shall be directed, if to the Participant, at the Participant's address indicated by the Company's records (or at such other address as may be designated by the Participant in a manner acceptable to the Committee), or if to the Company, at the Company's principal office, attention Chief Financial Officer, Charles & Colvard, Ltd.

17. Severability. If any provision of the Agreement shall be held illegal or invalid for any reason, such illegality or invalidity shall not affect the remaining parts of the Agreement, and the Agreement shall be construed and enforced as if the illegal or invalid provision had not been included.

18. Restrictions on Award and Shares. The Company may impose such restrictions on the Award, the Shares and/or any other benefits underlying the Award as it may deem advisable, including, without limitation, restrictions under the federal securities laws, the requirements of any stock exchange or similar organization and any blue sky, state or foreign securities laws applicable to such securities. Notwithstanding any other provision in the Plan or the Agreement to the contrary, the Company shall not be obligated to issue, deliver or transfer Shares of Common Stock, make any other distribution of benefits, or take any other action, unless such delivery, distribution or action is in compliance with all Applicable Laws (including, but not limited to, the requirements of the Securities Act). The Company will be under no obligation to register Shares of Common Stock or other securities with the Securities and Exchange Commission or to effect compliance with the exemption, registration, qualification or listing requirements of any state or foreign securities laws, stock exchange or similar organization, and the Company will have no liability for any inability or failure to do so. The Company may cause a restrictive legend or legends (including but, in no way limited to, any legends that may be necessary or appropriate pursuant to Section 13 herein) to be placed on any certificate for Shares issued pursuant to the Award in such form as may be prescribed from time to time by Applicable Laws or as may be advised by legal counsel. Further, the Committee may delay the right to receive or dispose of Shares of Common Stock (or other benefits) upon settlement of the Award at any time when the Committee determines that allowing issuance of Common Stock (or distribution of other benefits) would violate any federal or state securities laws, and the Committee may provide in its discretion that any time periods to receive Shares of Common Stock (or other benefits) subject to the Award are tolled during a period of suspension.

19. Counterparts; Further Instruments. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. The parties hereto agree to execute such further instruments and to take such further action as may be reasonably necessary to carry out the purposes and intent of this Agreement.

20. Effect of Changes in Duties or Status. Notwithstanding the other provisions of the Plan and the Agreement, the Committee has discretion to determine, at the time of grant of the Award or at any time thereafter, the effect, if any, on the Award (including but not limited to the vesting of the Award) if the Participant's duties and/or responsibilities change or the Participant's status as an Employee changes, including but not limited to, a change from full-time to part-time, or vice versa, or if other similar changes in the nature or scope of the Participant's employment with or provisions of services to the Company occur. In addition, unless otherwise determined by the Committee, in the Committee's sole discretion, for purposes of the Plan, a Participant shall be considered to have terminated employment and to have ceased to be an Employee if Participant's employer was an Affiliate at the time of grant and such employer or other party ceases to be an Affiliate, even if Participant continues to be employed by or provide services to such employer or party.

21. Rules of Construction. Headings are given to the Sections of this Agreement solely as a convenience to facilitate reference. The reference to any statute, regulation or other provision of law shall be construed to refer to any amendment to or successor of such provision of law unless the Committee determines otherwise.

22. Successors and Assigns. The Agreement shall be binding upon the Company and its successors and assigns, and the Participant and Participant's executors, administrators and permitted transferees and beneficiaries.

23. Right of Offset. Notwithstanding any other provision of the Plan or this Agreement (and taking into account any Code Section 409A considerations, if applicable), the Company may at any time reduce the amount of any distribution or benefit otherwise payable to or on behalf of the Participant by the amount of any obligation of the Participant to the Company or an Affiliate that is or becomes due and payable (including, but in no way limited to, any obligation that may arise under Section 304 of the Sarbanes-Oxley Act of 2002).

24. Forfeiture of Shares and/or Gain from Shares.

(a) Notwithstanding any other provision of this Agreement, if, at any time during the Participant's employment with or service to the Company or an Affiliate or during the 12-month period following termination of employment or service for any reason (regardless of whether such termination was by the Company or the Participant, and whether voluntary or involuntary), the Participant engages in a Prohibited Activity (as defined herein), then: (i) the Award shall immediately be terminated and forfeited in its entirety, (ii) any Shares, regardless of whether such Shares are vested or unvested, shall immediately be forfeited and returned to the Company (without the payment by the Company of any consideration for such Shares), and the Participant shall cease to have any rights related thereto and shall cease to be recognized as the legal owner of such Shares, and (iii) any Gain (as defined below) realized by the Participant with respect to any Shares shall immediately be paid by the Participant to the Company.

(b) For purposes of this Agreement, a "Prohibited Activity" shall mean: (i) the Participant's solicitation or assisting any other person in so soliciting, directly or indirectly, of any customers, suppliers, vendors or other service providers to or of the Company or any Affiliate within the United States that the Participant learned confidential information about or had contact with through Participant's employment or other service with the Company or an Affiliate within the United States for the purpose of inducing that customer, supplier, vendor or other service provider to terminate or alter Participant's or its relationship with the Company or an Affiliate; (ii) the Participant's inducement, directly or indirectly, of any employees or service providers to terminate their employment with or service to the Company or an Affiliate for the purpose of performing services for, assisting, advising or otherwise supporting any business which is competitive with the business of the Company or an Affiliate; (iii) the Participant's violation of any noncompetition, nonsolicitation or confidentiality restrictions or other restrictive covenants applicable to the Participant; (iv) the Participant's violation of any of the Company's policies, including, without limitation, the Company's insider trading policies; (v) the Participant's violation of any material (as determined by the Committee) federal, state or other law, rule or regulation; (vi) the Participant's disclosure or other misuse of any confidential information or material concerning the Company or an Affiliate (except as otherwise required by law or as agreed to by the parties herein); (vii) the Participant's dishonesty in a manner that negatively impacts the Company in any way; (viii) the Participant's refusal to perform Participant's duties for the Company or an Affiliate; (ix) the Participant's engaging in fraudulent conduct; or (x) the Participant's engaging in any conduct that is or could be materially damaging to the Company or its Affiliates without a reasonable good faith belief that such conduct was in the best interest of the Company or any of its Affiliates. The Committee shall have sole and absolute discretion to determine if a Prohibited Activity has occurred.

(c) For purposes of this Agreement, "Gain" shall mean, unless the Committee determines otherwise, an amount equal to (i) the greater of: (A) the Fair Market Value per Share of the Shares (or portion thereof) at the time of grant; (B) the Fair Market Value Per Share of the Shares (or portion thereof) at the time of vesting; or (C) the disposition price per Share of any Shares sold or disposed at the time of disposition multiplied by (ii) the number of Shares sold or disposed of.

(d) Notwithstanding the provisions of Section 24(a) herein, the waiver by the Company in any one or more instances of any rights afforded to the Company pursuant to the terms of Section 24(a) herein shall not be deemed to constitute a further or continuing waiver of any rights the Company may have pursuant to the terms of this Agreement or the Plan (including, but not limited to, the rights afforded the Company in Section 23 herein).

(e) The Company and the Participant hereby expressly agree that, notwithstanding the other provisions of this Section 24, if the Participant has entered into an employment agreement, consulting agreement or other agreement containing noncompetition, nonsolicitation, confidentiality or similar covenants, then the provisions contained in such agreement(s) with respect to the scope (e.g., duration, territory, or prohibited activity) of such restrictive covenants shall control (and thus prevail over Section 24(b)(i), Section 24(b)(ii) and Section 24(b)(iii) herein), unless the Committee should determine otherwise. In any event, the Company shall retain the forfeiture and recoupment rights provided in Section 24(a) in the event of a violation of such restrictive covenants unless, and then only to the extent prohibited by, or restricted under, Applicable Laws.

(f) By accepting this Agreement, and without limiting the effect of Section 23 herein, the Participant consents to a deduction (to the extent permitted by Applicable Law) from any amounts the Company or an Affiliate may owe the Participant from time to time (including amounts owed to the Participant as wages or other compensation, fringe benefits, or vacation pay, as well as any other amounts owed to the Participant by the Company or an Affiliate), to the extent of the amounts the Participant owes the Company pursuant to this Agreement, including but not limited to this Section 24. Whether or not the Company elects to make any set-off in whole or in part, if the Company does not recover by means of set-off the full amount owed by the Participant pursuant to this Agreement, the Participant agrees to immediately pay the unpaid balance to the Company. Further, by executing and returning this Agreement to the Company, the Participant acknowledges and agrees that: (i) Participant has read the Plan and this Agreement in its entirety; (ii) Participant has had the opportunity to consult with legal counsel prior to execution of this Agreement; (iii) this Agreement is valid and binding upon, and enforceable against, the Participant in accordance with its terms, including, but not limited to, the restrictions contained in this Section 24; and (iv) the consideration for this Agreement is valuable and sufficient consideration.

[Signatures of the Company and the Participant follow on Separate Page.]

IN WITNESS WHEREOF, this Agreement has been executed on behalf of the Company and by the Participant on the day and year first above written.

CHARLES & COLVARD, LTD.

By: _____

Title: _____

Attest:

By: _____

Title: _____

[Corporate Seal]

PARTICIPANT

_____ (SEAL)

Printed Name: _____

**CHARLES & COLVARD, LTD.
2018 EQUITY INCENTIVE PLAN**

Restricted Stock Award Agreement

SCHEDULE A

SERVICE MEASURES

Grant Date: _____, 20____.

Number of Shares Subject to Award: _____ Shares.

Restriction Period: The Shares subject to the Award shall vest and be earned, as provided below, subject to the terms and conditions as may be imposed by the Plan and the Agreement¹:

Date of Vesting

Shares to be Vested

[Insert Schedule]

¹ Vesting of the Award is subject to Participant's continuous employment with, or service to, the Company from the Grant Date through the Date of Vesting and the other terms and conditions imposed under the Plan and/or this Agreement, including achievement of the performance goals set forth in the Performance Measures described in Schedule B

CHARLES & COLVARD, LTD.
2018 EQUITY INCENTIVE PLAN

Restricted Stock Award Agreement

SCHEDULE B

PERFORMANCE GOALS

1. **Purpose.** The purpose of this Schedule B is to set forth the Performance Measures that will be applied to determine the amount of the Award to be made under the terms of the attached Restricted Stock Award Agreement (the "Agreement"). This Schedule B is incorporated into and forms a part of the Agreement.
2. **Revision of Performance Goals.** The Performance Goals set forth in this Schedule B may be modified by the Committee during, and after the end of, the Restriction Period to reflect significant events that occur during the Restriction Period.
3. **Performance Goals.** The Performance Goals shall be as follows²:
 - a. **Financial Goals.**
 - b. **Personal Goals.**

[Insert Schedule]

4. **Amount of Award.** The amount distributable to the Participant under the Agreement shall be determined in the discretion of the Committee based upon the Committee's assessment of the degree to which the Participant successfully achieved the Performance Goals set forth above.

² Vesting of the Award is subject to Participant's continuous employment with, or service to, the Company through the Date of Vesting set forth in the Service Measures described in Schedule A and the other terms and conditions imposed under the Plan and/or this Agreement.

CHARLES & COLVARD, LTD.
2018 EQUITY INCENTIVE PLAN

Employee Incentive Stock Option Agreement

THIS AGREEMENT (together with Schedule A, attached hereto, the "Agreement"), effective as of _____, 20____ (the "Grant Date"), between CHARLES & COLVARD, LTD., a North Carolina corporation (the "Company"), and _____, an Employee of the Company or an Affiliate (the "Participant");

RECITALS:

In furtherance of the purposes of the Charles & Colvard, Ltd. 2018 Equity Incentive Plan, as it may be hereafter amended and/or restated (the "Plan"), and in consideration of the services of the Participant and such other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Company and the Participant hereby agree as follows:

1. Incorporation of Plan. The rights and duties of the Company and the Participant under this Agreement shall in all respects be subject to and governed by the provisions of the Plan, the terms of which are incorporated herein by reference. In the event of any conflict between the provisions in the Agreement and those of the Plan, the provisions of the Plan shall govern. Unless otherwise defined herein, capitalized terms in this Agreement shall have the same definitions as set forth in the Plan.

 2. Grant of Option; Term of Option. The Company hereby grants to the Participant pursuant to the Plan, as a matter of separate inducement and agreement in connection with Participant's employment with the Company, and not in lieu of any salary or other compensation for Participant's services, the right and Option (the "Option") to purchase all or any part of such aggregate number of shares (the "Shares") of common stock of the Company (the "Common Stock") at a purchase price (the "Option Exercise Price") as specified on Schedule A, and subject to such other terms and conditions as may be stated herein or in the Plan or on Schedule A. The Participant expressly acknowledges that the terms of Schedule A shall be incorporated herein by reference and shall constitute part of this Agreement. The Company and the Participant further acknowledge and agree that the signatures of the Company and the Participant on the Grant Notice contained in Schedule A (the "Grant Notice") shall constitute their acceptance of all of the terms of this Agreement and their agreement to be bound by the terms of this Agreement. The Option shall be designated as an Incentive Stock Option. To the extent that the Option is designated as an Incentive Stock Option and such Option or portion thereof does not qualify as an Incentive Stock Option, the Option or portion thereof shall be treated as a Nonqualified Stock Option. Except as otherwise provided in the Plan or this Agreement, this Option will expire if not exercised in full by the Expiration Date specified on Schedule A.
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3. Exercise of Option. Subject to the terms of the Plan and this Agreement, the Option shall vest and become exercisable on the date or dates, and subject to such conditions, as are set forth on Schedule A. To the extent that the Option is exercisable but is not exercised, the Option shall accumulate and be exercisable by the Participant in whole or in part at any time prior to expiration of the Option, subject to the terms of the Plan and this Agreement. The minimum number of Shares that may be purchased under the Option at one time shall be ten (10). The total number of Shares that may be acquired upon exercise of the Option shall be rounded down to the nearest whole Share. The Participant expressly acknowledges that the Option shall vest and be exercisable only upon such terms and conditions as are provided in this Agreement (including the terms set forth in Schedule A) and the Plan. Upon the exercise of the Option in whole or in part and payment of the Option Exercise Price in accordance with the provisions of the Plan and this Agreement, the Company shall, as soon thereafter as practicable, deliver to the Participant a certificate or certificates (or, in the case of uncertificated Shares, other written notice of ownership in accordance with Applicable Laws) for the Shares purchased. Payment of the Option Exercise Price may be made in the form of cash or cash equivalent; provided that, except where prohibited by the Committee, Applicable Laws and/or any agreements evidencing indebtedness entered into by the Company from time to time, payment may also be made: (i) by delivery (by either actual delivery or attestation) of Shares of Common Stock owned by the Participant; (ii) by Shares of Common Stock withheld upon exercise but only if and to the extent that payment by such method does not result in variable accounting or other accounting consequences or adverse tax consequences with respect to the Incentive Stock Option deemed unacceptable to the Company; (iii) by delivery of written notice of exercise to the Company and delivery to a broker of written notice of exercise and irrevocable instructions to promptly deliver to the Company the amount of sale or loan proceeds to pay the Option Exercise Price; or (iv) by any combination of the foregoing methods. Shares tendered or withheld in payment on the exercise of the Option shall be valued at their Fair Market Value on the date of exercise, as determined in accordance with the provisions of the Plan.

4. No Right of Employment or Service. Neither the Plan, this Agreement, the grant of the Option, nor any other action related to the Plan shall confer upon the Participant any right to continue in employment or other service with the Company or an Affiliate or interfere with the right of the Company or an Affiliate to terminate the Participant's employment or service at any time. Except as otherwise provided in the Plan or this Agreement, all rights of the Participant with respect to the Option shall terminate upon termination of the Participant's employment or Continuous Service.

5. Termination of Employment / Continuous Service. The Option shall not be exercised unless the Participant is, at the time of exercise, an Employee or in Continuous Service as described in the Plan and has been an Employee or in Continuous Service since the date the Option was granted, subject to the following:

(a) The employment relationship of the Participant shall be treated as continuing intact for any period that the Participant is on military or sick leave or other bona fide leave of absence, provided that the period of such leave does not exceed three months, or, if longer, as long as the Participant's right to reemployment or service is guaranteed either by statute or by contract. The employment relationship of the Participant shall also be treated as continuing intact while the Participant is not in active service because of Disability to the extent permitted by Applicable Laws. The Committee shall determine whether the Participant is disabled under the Plan and, if applicable, the Participant's Termination Date.

(b) If the employment of the Participant is terminated because of Disability or death, the Option may be exercised only to the extent vested and exercisable on the Participant's Termination Date. The Option must be exercised, if at all, prior to the first to occur of the following, whichever shall be applicable: (X) the close of the one-year period following the Termination Date; or (Y) the close of the Option Period. In the event of the Participant's death, the Option shall be exercisable by such person or persons as shall have acquired the right to exercise the Option by will or by the laws of intestate succession.

(c) If the Participant's Continuous Service is terminated for Cause, the Option shall lapse and no longer be exercisable as of the Participant's Termination Date, as determined by the Committee. For purposes of the Agreement, "Cause" shall mean the Participant's termination of employment or service resulting from the Participant's: (i) termination for "cause" as defined under the Participant's employment, consulting or other agreement, if any, with the Company or an Affiliate; or (ii) if the Participant has not entered into any such employment, consulting or other agreement (or if any such agreement does not define a "cause" termination), then the Participant's termination shall be for "Cause" if termination results due to the Participant's: (A) personal dishonesty; (B) gross incompetence; (C) willful misconduct; (D) breach of a fiduciary duty involving personal profit; (E) intentional failure to perform stated duties; (F) willful violation of any law, rule, regulation (other than minor traffic violations or similar offenses), written Company policy or final cease-and-desist order; (G) conviction of a felony or a misdemeanor involving moral turpitude; (H) unethical business practices in connection with the Company's business; (I) misappropriation of the Company's assets; or (J) engaging in any conduct that could be materially damaging to the Company without a reasonable good faith belief that such conduct was in the best interest of the Company. The determination of "Cause" shall be made by the Committee and its determination shall be final and conclusive. Without in any way limiting the effect of the foregoing, for purposes of the Plan and this Agreement, the Participant's employment or service shall be deemed to have terminated for Cause if, after the Participant's employment or service has terminated, facts and circumstances are discovered that would have justified, in the opinion of the Committee, a termination for Cause.

(d) If the Participant's Continuous Service is terminated for any reason other than Disability, death or for Cause (which are addressed in (b) and (c) above), to the extent the Option is not then vested and exercisable, the Option will lapse. To the extent the Option is vested and exercisable, the Option must be exercised, if at all, prior to the first to occur of the following, whichever shall be applicable: (X) the close of the period of three (3) months next succeeding the Termination Date; or (Y) the close of the Option Period. If the Participant dies following such termination of employment and prior to the earlier of the dates specified in (X) or (Y) of this subparagraph (d), the Participant shall be treated as having died while employed under subparagraph (b) above (treating for this purpose the Participant's date of termination of employment as the Termination Date). In the event of the Participant's death, the Option shall be exercisable by such person or persons as shall have acquired the right to exercise the Option by will or by the laws of intestate succession.

(e) Notwithstanding the above provisions of Section 5, unless the Committee determines otherwise, if the Participant terminates employment with the Company (for any reason other than death or for Cause) but, without interruption, enters into a written agreement to provide Continuous Service to the Company or an Affiliate as an Independent Contractor or Consultant, Participant shall continue to be treated as an Employee of or in service with the Company and Participant's Termination Date shall not be treated as occurring until the later of the date Participant is no longer an Employee or an Affiliate or the date Participant is no longer in service as an Independent Contractor or Consultant (as determined by the Committee in its discretion); provided, however, that this Option shall cease to qualify as an Incentive Stock Option and shall be treated as a Nonqualified Stock Option for all purposes if the Option is not exercised within three (3) months of the date Participant first ceases to be an Employee of the Company or an Affiliate.

6. Effect of Change in Control.

(a) In the event of a Change in Control (as defined in the Plan), the Option, if outstanding as of the date of such Change in Control, shall become fully exercisable, whether or not then otherwise exercisable. In such event, the Committee may: (i) determine that the Option must be exercised, if at all, within a fixed time period (as determined by the Committee) following or prior to such Change in Control; and/or (ii) determine that the Option shall terminate after such time period; and/or (iii) make other similar determinations regarding the Participant's rights with respect to the Option.

(b) Notwithstanding the foregoing, in the event that a Change in Control event occurs, the Committee may, in its sole and absolute discretion, determine that the Option shall not vest or become exercisable on an accelerated basis, if the Company or the surviving or acquiring Company, as the case may be, shall have taken such action, including but not limited to the assumption of Awards granted under the Plan or the grant of substitute awards (in either case, with substantially similar terms or equivalent economic benefits as Awards granted under the Plan), as the Committee determines to be equitable or appropriate to protect the rights and interests of Participants under the Plan. For the purposes herein, if the Committee is acting as the Committee authorized to make the determinations provided for in this Section 6(b), the Committee shall be appointed by the Board of Directors, two-thirds of the members of which shall have been Directors of the Company prior to the Change in Control event.

(c) The Committee shall have full and final authority, in its discretion, to determine whether a Change in Control of the Company has occurred, the date of the occurrence of such Change in Control and any incidental matters relating thereto.

7. Notice of Disposition. To the extent that this Option is designated as an Incentive Stock Option, if Shares of Common Stock acquired upon exercise of the Option are disposed of within two (2) years following the date of grant or one (1) year following the transfer of such Shares to the Participant upon exercise, the Participant shall, promptly following such disposition, notify the Company in writing of the date and terms of such disposition and provide such other information regarding the disposition as the Committee may reasonably require.

8. Limitation on Incentive Options. In no event shall there first become exercisable by the Participant in any one calendar year Incentive Stock Options granted by the Company or any Parent or Subsidiary with respect to Shares having an aggregate Fair Market Value (determined at the time an Incentive Stock Option is granted) greater than \$100,000. To the extent that any Incentive Stock Option is first exercisable by the Participant in excess of such limitation, the excess shall be considered a Nonqualified Stock Option.

9. Nontransferability of Option. To the extent the Option is designated as an Incentive Stock Option, the Option shall not be transferable (including by sale, assignment, pledge or hypothecation) other than by will or the laws of intestate succession or, in the Committee's discretion, as may otherwise be permitted in accordance with Treas. Reg. Section 1.421-1(b)(2) or any successor provision thereto. To the extent that the Option is treated as a Nonqualified Stock Option, the Option shall not be transferable (including by sale, assignment, pledge or hypothecation) other than by will or the laws of intestate succession, except as may be permitted by the Committee in a manner consistent with the registration provisions of the Securities Act. The Option shall be exercisable during the Participant's lifetime only by Participant or by Participant's guardian or legal representative or a permitted transferee as provided in this Section 9. The designation of a beneficiary in accordance with the Plan does not constitute a transfer.

10. Superseding Agreement. This Agreement supersedes any statements, representations or agreements of the Company with respect to the grant of the Option or any related awards or rights and the Participant hereby waives any rights or claims related to any such statements, representations or agreements. This Agreement does not supersede or amend any confidentiality agreement, non-solicitation agreement, non-competition agreement, employment agreement or any other similar agreement between the Participant and the Company, including, but not limited to, any restrictive covenants contained in such agreements.

11. Governing Law. Except as otherwise provided in the Plan or herein, this Agreement shall be construed and enforced according to the laws of the State of North Carolina, without regard to the conflict of laws provisions of any state, and in accordance with applicable federal laws of the United States.

12. Amendment and Termination; Waiver. Subject to the terms of the Plan and this Section 12, this Agreement may be amended, altered, suspended and/or terminated only by the written agreement of the parties hereto. Notwithstanding the foregoing, the Committee shall have unilateral authority to amend the Plan and this Agreement (without Participant consent) to the extent necessary to comply with Applicable Laws or changes to Applicable Laws (including but not limited to Code Section 409A, Code Section 422 and federal securities laws). The waiver by the Company of a breach of any provision of the Agreement by the Participant shall not operate or be construed as a waiver of any subsequent breach by the Participant.

13. No Rights as Shareholder. The Participant and Participant's legal representatives, legatees or distributees shall not be deemed to be the holder of any Shares subject to the Option and shall not have any rights of a shareholder unless and until certificates for such Shares have been issued and delivered to Participant or them (or, in the case of uncertificated Shares, other written notice of ownership in accordance with Applicable Laws shall have been provided).

14. Withholding; Tax Matters.

(a) The Participant acknowledges that the Company shall require the Participant to pay the Company in cash the amount of any applicable 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 Participant, if any, and the Participant agrees, as a condition to the grant of the Option and delivery of the Shares or any other benefit, to satisfy such obligations as applicable. Notwithstanding the foregoing, the Committee may establish procedures to permit the Participant to satisfy such obligations in whole or in part, and any other local, state, federal, foreign or other income tax obligations relating to the Option, by electing (the "election") to have the Company withhold Shares of Common Stock from the Shares to which the Participant is entitled to the extent determined permissible pursuant to Applicable Laws. The number of Shares to be withheld shall have a Fair Market Value as of the date that the amount of tax to be withheld is determined as nearly equal as possible to (but not exceeding) the amount of such obligations being satisfied. Each election must be made in writing to the Committee in accordance with election procedures established by the Committee.

(b) The Participant acknowledges that the Company has made no warranties or representations to the Participant with respect to the tax consequences (including but not limited to income tax consequences) related to the transactions contemplated by this Agreement, and the Participant is in no manner relying on the Company or its representatives for an assessment of such tax consequences. The Participant acknowledges that there may be adverse tax consequences upon the grant of the Option and/or the acquisition or disposition of the Shares subject to the Option and that the Participant has been advised that Participant should consult with Participant's own attorney, accountant, and/or tax advisor regarding the decision to enter into this Agreement and the consequences thereof. The Participant also acknowledges that the Company has no responsibility to take or refrain from taking any actions in order to achieve a certain tax result for the Participant.

15. Administration. The authority to construe and interpret this Agreement and the Plan, and to administer all aspects of the Plan, shall be vested in the Committee, and the Committee shall have all powers with respect to this Agreement as are provided in the Plan. Any interpretation of the Agreement by the Committee and any decision made by it with respect to the Agreement is final and binding.

16. Notices. Except as may be otherwise provided by the Plan, any written notices provided for in this Agreement or the Plan shall be in writing and shall be deemed sufficiently given if either hand delivered or if sent by fax or overnight courier, or by postage paid first class mail. Notices sent by mail shall be deemed received three business days after mailed but in no event later than the date of actual receipt. Notices shall be directed, if to the Participant, at the Participant's address indicated on Schedule A (or such other address as may be designated by the Participant in a manner acceptable to the Committee), or, if to the Company, at the Company's principal office, attention Chief Financial Officer.

17. Severability. If any provision of the Agreement shall be held illegal or invalid for any reason, such illegality or invalidity shall not affect the remaining parts of the Agreement, and the Agreement shall be construed and enforced as if the illegal or invalid provision had not been included.

18. Restrictions on Option and Shares. The Company may impose such restrictions on the Option, the Shares and/or any other benefits underlying the Option as it may deem advisable, including without limitation restrictions under the federal securities laws, the requirements of any stock exchange or similar organization and any blue sky, state or foreign securities laws applicable to such securities. Notwithstanding any other provision in the Plan or the Agreement to the contrary, the Company shall not be obligated to issue, deliver or transfer Shares of Common Stock, make any other distribution of benefits, or take any other action, unless such delivery, distribution or action is in compliance with all Applicable Laws (including but not limited to the requirements of the Securities Act). The Company will be under no obligation to register Shares of Common Stock or other securities with the Securities and Exchange Commission or to effect compliance with the exemption, registration, qualification or listing requirements of any state or foreign securities laws, stock exchange or similar organization, and the Company will have no liability for any inability or failure to do so. The Company may cause a restrictive legend or legends to be placed on any certificate for Shares issued pursuant to the exercise of the Option in such form as may be prescribed from time to time by Applicable Laws or as may be advised by legal counsel. Further, the Committee may suspend the right to exercise the Option or dispose of Shares of Common Stock at any time when the Committee determines that allowing issuance of Common Stock (or distribution of other benefits) would violate any federal or state securities laws, and the Committee may provide in its discretion that any time periods to exercise the Option are tolled during a period of suspension.

19. Counterparts; Further Instruments. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. The parties hereto agree to execute such further instruments and to take such further action as may be reasonably necessary to carry out the purposes and intent of this Agreement.

20. Effect of Changes in Duties or Status. Notwithstanding the other provisions of the Plan or this Agreement, the Committee has discretion to determine, at the time of grant of the Option or at any time thereafter, the effect, if any, on the Option (including but not limited to the vesting and/or exercisability of the Option) if the Participant's duties and/or responsibilities change or the Participant's status as an Employee changes, including but not limited to a change from full-time to part-time, or vice versa, or if other similar changes in the nature or scope of the Participant's employment or service occur. In addition, unless otherwise determined by the Committee in its discretion, for purposes of the Plan, a Participant shall be considered to have terminated employment or service and to have ceased to be an Employee or Independent Contractor, as the case may be, if Participant's employer (or the party for whom the Participant is providing services, in the case of an Independent Contractor) was an Affiliate at the time of grant and such employer or other party ceases to be an Affiliate, even if Participant continues to be employed by or provide services to such employer or party.

21. Rules of Construction. Headings are given to the Sections of this Agreement solely as a convenience to facilitate reference. The reference to any statute, regulation or other provision of law shall be construed to refer to any amendment to or successor of such provision of law unless the Committee determines otherwise.

22. Successors and Assigns. The Agreement shall be binding upon the Company and its successors and assigns, and the Participant and Participant's executors, administrators, and permitted transferees and beneficiaries.

23. Right of Offset. Notwithstanding any other provision of the Plan or this Agreement (and taking into account applicable Code Section 409A considerations), the Company may at any time reduce the amount of any distribution or benefit otherwise payable to or on behalf of the Participant by the amount of any obligation of the Participant to the Company or an Affiliate that is or becomes due and payable (including, but in no way limited to, any obligation that may arise under Section 304 of the Sarbanes-Oxley Act of 2002).

24. Forfeiture of Shares and/or Gain from Shares.

(a) Notwithstanding any other provision of this Agreement, if, at any time during the Participant's service to or employment with the Company or an Affiliate or during the 12-month period following termination of service or employment for any reason (regardless of whether such termination was by the Company or the Participant, and whether voluntary or involuntary), the Participant engages in a Prohibited Activity (as defined herein), then: (A) the Option shall immediately be terminated and forfeited in its entirety; (B) any Shares shall immediately be forfeited and returned to the Company (without payment by the Company of any consideration for such Shares), and Participant shall cease to have any rights related thereto and shall cease to be recognized as legal owner of such Shares; and (C) any Gain (as defined herein) realized by Participant with respect to any Shares shall immediately be paid by Participant to the Company.

(b) For purposes of this Agreement, a "Prohibited Activity" shall mean: (i) the Participant's solicitation or assisting any other person in so soliciting, directly or indirectly, of any customers, suppliers, vendors or other service providers to or of the Company or any Affiliate within the United States that the Participant learned confidential information about or had contact with through Participant's employment or service with the Company or an Affiliate for the purpose of inducing that customer, supplier, vendor or other service provider to terminate or alter Participant's or its relationship with the Company or an Affiliate; (ii) the Participant's inducement, directly or indirectly, of any employees or service providers to terminate their employment with or service to the Company or an Affiliate for the purpose of performing services for, assisting, advising or otherwise supporting any business which is competitive with the business of the Company or an Affiliate; (iii) the Participant's violation of any noncompetition, nonsolicitation or confidentiality restrictions or other restrictive covenants applicable to the Participant; (iv) the Participant's violation of any of the Company's policies, including, without limitation, the Company's insider trading policies; (v) the Participant's violation of any material (as determined by the Committee) federal, state, or other law, rule or regulation; (vi) the Participant's disclosure or other misuse of any confidential information or material concerning the Company or an Affiliate (except as otherwise required by law or as agreed to by the parties herein); (vii) the Participant's dishonesty in a manner that negatively impacts the Company in any way; (viii) the Participant's refusal to perform Participant's duties for the Company or an Affiliate; (ix) the Participant's engaging in fraudulent conduct; or (x) the Participant's engaging in any conduct that is or could be materially damaging to the Company or its Affiliates without a reasonable good faith belief that such conduct was in the best interest of the Company or any of its Affiliates. The Committee shall have sole and absolute discretion to determine if a Prohibited Activity has occurred.

(c) For purposes of this Agreement, “Gain” shall mean, unless the Committee determines otherwise, an amount equal to (i) the greater of: (A) the Fair Market Value per Share of the Shares (or portion thereof) at the time of exercise; or (B) the disposition price per Share of any Shares sold or disposed at the time of disposition; multiplied by (ii) the number of Shares sold or disposed of, minus (iii) the Option Exercise Price paid for the Shares (or portion thereof).

(d) Notwithstanding the provisions of Section 24(a) herein, the waiver by the Company in any one or more instances of any rights afforded to the Company pursuant to the terms of Section 24(a) herein shall not be deemed to constitute a further or continuing waiver of any rights the Company may have pursuant to the terms of this Agreement or the Plan (including, but not limited to, the rights afforded the Company in Section 23 herein).

(e) The Company and the Participant hereby expressly agree that, notwithstanding the other provisions of this Section 24, if Participant has entered into an employment, consulting, or other agreement containing noncompetition, nonsolicitation, confidentiality or similar covenants, then the provisions contained in such agreement(s) with respect to the scope (e.g., duration, territory, or prohibited activity) of such restrictive covenants shall control (and thus prevail over Section 24(b)(i), Section 24(b)(ii) and Section 24(b)(iii) herein), unless the Committee should determine otherwise. In any event, the Company shall retain the forfeiture and recoupment rights provided in Section 24(a) in the event of a violation of such restrictive covenants unless, and then only to the extent prohibited by, or restricted under, Applicable Laws.

(f) By accepting this Agreement, and without limiting the effect of Section 23 herein, the Participant consents to a deduction (to the extent permitted by Applicable Laws) from any amounts the Company or an Affiliate may owe the Participant from time to time (including amounts owed to the Participant as wages or other compensation, fringe benefits, or vacation pay, as well as any other amounts owed to the Participant by the Company or an Affiliate), to the extent of the amounts the Participant owes the Company pursuant to this Agreement, including but not limited to this Section 24. Whether or not the Company elects to make any set-off in whole or in part, if the Company does not recover by means of set-off the full amount owed by the Participant pursuant to this Agreement, the Participant agrees to immediately pay the unpaid balance to the Company. Further, by executing and returning this Agreement to the Company, the Participant acknowledges and agrees that (i) Participant has read the Plan and this Agreement in its entirety; (ii) Participant has had the opportunity to consult with legal counsel prior to execution of this Agreement; (iii) this Agreement is valid and binding upon, and enforceable against, the Participant in accordance with its terms, including, but not limited to, the restrictions contained in this Section 24; and (iv) the consideration for this Agreement is valuable and sufficient consideration.

[Signatures of the Company and the Participant follow on Schedule A / Grant Notice.]

CHARLES & COLVARD, LTD.
2018 EQUITY INCENTIVE PLAN
Employee Incentive Stock Option Agreement
Schedule A/Grant Notice

1. Pursuant to the terms and conditions of the Company's 2018 Equity Incentive Plan (the "Plan"), you (the "Participant") have been granted an option (the "Option") to purchase _____ shares (the "Shares") of our Common Stock as outlined below.

Name of Participant:	_____
Address:	_____

Grant Date:	_____, 20____
Number of Shares Subject to Option:	_____
Option Exercise Price:	\$ _____
Type of Option:	<u>Incentive Stock Option</u>
Expiration Date (Last day of Option Period):	_____, 20____
Vesting Schedule/Conditions:	_____

2. By my signature below, I, the Participant, hereby acknowledge receipt of this Grant Notice and the Option Agreement (the "Agreement") dated _____, 20____, between the Participant and Charles & Colvard, Ltd. (the "Company") which is attached to this Grant Notice. I understand that the Grant Notice and other provisions of Schedule A herein are incorporated by reference into the Agreement and constitute a part of the Agreement. By my signature below, I further agree to be bound by the terms of the Plan and the Agreement, including but not limited to the terms of this Grant Notice and the other provisions of Schedule A contained herein. The Company reserves the right to treat the Option and the Agreement as cancelled, void and of no effect if the Participant fails to return a signed copy of the Grant Notice within thirty (30) days of Grant Date stated above.

Signature: _____ Date: _____
Participant

Agreed to by:
CHARLES & COLVARD, LTD.
By: _____

Attest:

Note: If there are any discrepancies in the name or address shown above, please make the appropriate corrections on this form. Please retain a copy of the Agreement, including a signed copy of this Grant Notice, for your files.

**CHARLES & COLVARD, LTD.
2018 EQUITY INCENTIVE PLAN**

Employee Nonqualified Stock Option Agreement

THIS AGREEMENT (together with Schedule A, attached hereto, the "Agreement"), effective as of _____, 20____ (the "Grant Date"), between CHARLES & COLVARD, LTD., a North Carolina corporation (the "Company"), and _____, an Employee of the Company or an Affiliate (the "Participant");

RECITALS:

In furtherance of the purposes of the Charles & Colvard, Ltd. 2018 Equity Incentive Plan, as it may be hereafter amended and/or restated (the "Plan"), and in consideration of the services of the Participant and such other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Company and the Participant hereby agree as follows:

1. Incorporation of Plan. The rights and duties of the Company and the Participant under this Agreement shall in all respects be subject to and governed by the provisions of the Plan, the terms of which are incorporated herein by reference. In the event of any conflict between the provisions in the Agreement and those of the Plan, the provisions of the Plan shall govern. Unless otherwise defined herein, capitalized terms in this Agreement shall have the same definitions as set forth in the Plan.

 2. Grant of Option; Term of Option. The Company hereby grants to the Participant pursuant to the Plan, as a matter of separate inducement and agreement in connection with Participant's employment or service to the Company, and not in lieu of any salary or other compensation for Participant's services, the right and Option (the "Option") to purchase all or any part of such aggregate number of shares (the "Shares") of common stock of the Company (the "Common Stock") at a purchase price (the "Option Exercise Price") as specified on Schedule A, and subject to such other terms and conditions as may be stated herein or in the Plan or on Schedule A. The Participant expressly acknowledges that the terms of Schedule A shall be incorporated herein by reference and shall constitute part of this Agreement. The Company and the Participant further acknowledge and agree that the signatures of the Company and the Participant on the Grant Notice contained in Schedule A (the "Grant Notice") shall constitute their acceptance of all of the terms of this Agreement and their agreement to be bound by the terms of this Agreement. The Option shall be designated as a Nonqualified Stock Option. Except as otherwise provided in the Plan or this Agreement, this Option will expire if not exercised in full by the Expiration Date specified on Schedule A.
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3. Exercise of Option. Subject to the terms of the Plan and this Agreement, the Option shall vest and become exercisable on the date or dates, and subject to such conditions, as are set forth on Schedule A. To the extent that the Option is exercisable but is not exercised, the Option shall accumulate and be exercisable by the Participant in whole or in part at any time prior to expiration of the Option, subject to the terms of the Plan and this Agreement. The minimum number of Shares that may be purchased under the Option at one time shall be ten (10). The total number of Shares that may be acquired upon exercise of the Option shall be rounded down to the nearest whole Share. The Participant expressly acknowledges that the Option shall vest and be exercisable only upon such terms and conditions as are provided in this Agreement (including the terms set forth in Schedule A) and the Plan. Upon the exercise of the Option in whole or in part and payment of the Option Exercise Price in accordance with the provisions of the Plan and this Agreement, the Company shall, as soon thereafter as practicable, deliver to the Participant a certificate or certificates (or, in the case of uncertificated Shares, other written notice of ownership in accordance with Applicable Laws) for the Shares purchased. Payment of the Option Exercise Price may be made in the form of cash or cash equivalent; provided that, except where prohibited by the Committee, Applicable Laws and/or any agreements evidencing indebtedness entered into by the Company from time to time, payment may also be made: (i) by delivery (by either actual delivery or attestation) of Shares of Common Stock owned by the Participant; (ii) by Shares of Common Stock withheld upon exercise but only if and to the extent that payment by such method does not result in variable accounting or other accounting consequences deemed unacceptable to the Company; (iii) by delivery of written notice of exercise to the Company and delivery to a broker of written notice of exercise and irrevocable instructions to promptly deliver to the Company the amount of sale or loan proceeds to pay the Option Exercise Price; (iv) by such other payment methods as may be approved by the Committee and which are acceptable under Applicable Laws; or (v) by any combination of the foregoing methods. Shares tendered or withheld in payment on the exercise of the Option shall be valued at their Fair Market Value on the date of exercise, as determined in accordance with the provisions of the Plan.

4. No Right of Employment or Service. Neither the Plan, this Agreement, the grant of the Option, nor any other action related to the Plan shall confer upon the Participant any right to continue in the employment or service of the Company or an Affiliate or interfere with the right of the Company or an Affiliate to terminate the Participant's employment or service at any time. Except as otherwise provided in the Plan or this Agreement, all rights of the Participant with respect to the Option shall terminate upon termination of the Participant's Continuous Service.

5. Termination of Continuous Service. The Option shall not be exercised unless the Participant is, at the time of exercise, an Employee or in Continuous Service as described in the Plan and has been in Continuous Service since the date the Option was granted, subject to the following:

(a) The employment or service relationship of the Participant shall be treated as continuing intact for any period that the Participant is on military or sick leave or other bona fide leave of absence, provided that the period of such leave does not exceed three months, or, if longer, as long as the Participant's right to reemployment or service is guaranteed either by statute or by contract. The employment or service relationship of the Participant shall also be treated as continuing intact while the Participant is not in active service because of Disability to the extent permitted by Applicable Laws. The Committee shall determine whether the Participant is disabled under the Plan and, if applicable, the Participant's Termination Date.

(b) If the employment or service of the Participant is terminated because of Disability or death, the Option may be exercised only to the extent vested and exercisable on the Participant's Termination Date. The Option must be exercised, if at all, prior to the first to occur of the following, whichever shall be applicable: (X) the close of the one-year period following the Termination Date; or (Y) the close of the Option Period. In the event of the Participant's death, the Option shall be exercisable by such person or persons as shall have acquired the right to exercise the Option by will or by the laws of intestate succession.

(c) If the employment or service of the Participant is terminated for Cause, the Option shall lapse and no longer be exercisable as of Participant's Termination Date, as determined by the Committee. For purposes of the Agreement, "Cause" shall mean the Participant's termination of Continuous Service resulting from the Participant's: (i) termination for "cause" as defined under the Participant's employment, consulting or other agreement, if any, with the Company or an Affiliate; or (ii) if the Participant has not entered into any such employment, consulting or other agreement (or if any such agreement does not define a "cause" termination), then the Participant's termination shall be for "Cause" if termination results due to the Participant's: (A) personal dishonesty; (B) gross incompetence; (C) willful misconduct; (D) breach of a fiduciary duty involving personal profit; (E) intentional failure to perform stated duties; (F) willful violation of any law, rule, regulation (other than minor traffic violations or similar offenses), written Company policy or final cease-and-desist order; (G) conviction of a felony or a misdemeanor involving moral turpitude; (H) unethical business practices in connection with the Company's business; (I) misappropriation of the Company's assets; or (J) engaging in any conduct that could be materially damaging to the Company without a reasonable good faith belief that such conduct was in the best interest of the Company. The determination of "Cause" shall be made by the Committee and its determination shall be final and conclusive. Without in any way limiting the effect of the foregoing, for purposes of the Plan and this Agreement, the Participant's employment or service shall be deemed to have terminated for Cause if, after the Participant's employment or service has terminated, facts and circumstances are discovered that would have justified, in the opinion of the Committee, a termination for Cause.

(d) If the employment or service of the Participant is terminated for any reason other than Disability, death or for Cause (which are addressed in (b) and (c) above), to the extent the Option is not then vested and exercisable, the Option will lapse. To the extent the Option is vested and exercisable, the Option must be exercised, if at all, prior to the first to occur of the following, whichever shall be applicable: (X) the close of the period of three (3) months next succeeding the Termination Date; or (Y) the close of the Option Period. If the Participant dies following such termination of employment or service and prior to the earlier of the dates specified in (X) or (Y) of this subparagraph (d), the Participant shall be treated as having died while employed under subparagraph (b) above (treating for this purpose the Participant's date of termination of employment or service as the Termination Date). In the event of the Participant's death, the Option shall be exercisable by such person or persons as shall have acquired the right to exercise the Option by will or by the laws of intestate succession.

(e) Notwithstanding the above provisions of Section 5, unless the Committee determines otherwise, if the Participant terminates employment with the Company (for any reason other than death or for Cause) but, without interruption, enters into a written agreement to provide Continuous Service to the Company or an Affiliate as an Independent Contractor or Consultant, Participant shall continue to be treated as an Employee of or in service to the Company and Participant's Termination Date shall not be treated as occurring until the later of the date Participant is no longer an Employee of the Company or an Affiliate or the date Participant is no longer in service as a Consultant or an Independent Contractor (as determined by the Committee in its discretion).

6. Effect of Change in Control.

(a) In the event of a Change in Control (as defined in the Plan), the Option, if outstanding as of the date of such Change in Control, shall become fully exercisable, whether or not then otherwise exercisable. In such event, the Committee may: (i) determine that the Option must be exercised, if at all, within a fixed time period (as determined by the Committee) following or prior to such Change in Control; and/or (ii) determine that the Option shall terminate after such time period; and/or (iii) make other similar determinations regarding the Participant's rights with respect to the Option.

(b) Notwithstanding the foregoing, in the event that a Change in Control event occurs, the Committee may, in its sole and absolute discretion, determine that the Option shall not vest or become exercisable on an accelerated basis, if the Company or the surviving or acquiring Company, as the case may be, shall have taken such action, including but not limited to the assumption of Awards granted under the Plan or the grant of substitute awards (in either case, with substantially similar terms or equivalent economic benefits as Awards granted under the Plan), as the Committee determines to be equitable or appropriate to protect the rights and interests of Participants under the Plan. For the purposes herein, if the Committee is acting as the Committee authorized to make the determinations provided for in this Section 6(b), the Committee shall be appointed by the Board of Directors, two-thirds of the members of which shall have been Directors of the Company prior to the Change in Control event.

(c) The Committee shall have full and final authority, in its discretion, to determine whether a Change in Control of the Company has occurred, the date of the occurrence of such Change in Control and any incidental matters relating thereto.

7. Nontransferability of Option. The Option shall not be transferable (including by sale, assignment, pledge or hypothecation) other than by will or the laws of intestate succession, except as may be permitted by the Committee in a manner consistent with the registration provisions of the Securities Act. The Option shall be exercisable during the Participant's lifetime only by Participant or by Participant's guardian or legal representative or a permitted transferee as provided in this Section 7. The designation of a beneficiary in accordance with the Plan does not constitute a transfer.

8. Superseding Agreement. This Agreement supersedes any statements, representations or agreements of the Company with respect to the grant of the Option and any related awards or rights, and the Participant hereby waives any rights or claims related to any such statements, representations or agreements. This Agreement does not supersede or amend any confidentiality agreement, non-solicitation agreement, non-competition agreement, employment agreement or any other similar agreement between the Participant and the Company, including, but not limited to, any restrictive covenants contained in such agreements.

9. Governing Law. Except as otherwise provided in the Plan or herein, this Agreement shall be construed and enforced according to the laws of the State of North Carolina, without regard to the conflict of laws provisions of any state, and in accordance with applicable federal laws of the United States.

10. Amendment and Termination; Waiver. Subject to the terms of the Plan and this Section 10, this Agreement may be amended, altered, suspended and/or terminated only by the written agreement of the parties hereto. Notwithstanding the foregoing, the Committee shall have unilateral authority to amend the Plan and this Agreement (without Participant consent) to the extent necessary to comply with Applicable Laws or changes to Applicable Laws (including but not limited to Code Section 409A and federal securities laws). The waiver by the Company of a breach of any provision of the Agreement by the Participant shall not operate or be construed as a waiver of any subsequent breach by the Participant.

11. No Rights as Shareholder. The Participant and Participant's legal representatives, legatees or distributees shall not be deemed to be the holder of any Shares subject to the Option and shall not have any rights of a shareholder unless and until certificates for such Shares have been issued and delivered to Participant or them (or, in the case of uncertificated Shares, other written notice of ownership in accordance with Applicable Laws shall have been provided).

12. Withholding; Tax Matters.

(a) The Participant acknowledges that the Company shall require the Participant to pay the Company in cash the amount of any applicable 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 Participant, if any, and the Participant agrees, as a condition to the grant of the Option and delivery of the Shares or any other benefit, to satisfy such obligations as applicable. Notwithstanding the foregoing, the Committee may establish procedures to permit the Participant to satisfy such obligations in whole or in part, and any other local, state, federal, foreign or other income tax obligations relating to the Option, by electing (the "election") to have the Company withhold Shares of Common Stock from the Shares to which the Participant is entitled to the extent determined permissible pursuant to Applicable Laws. The number of Shares to be withheld shall have a Fair Market Value as of the date that the amount of tax to be withheld is determined as nearly equal as possible to (but not exceeding) the amount of such obligations being satisfied. Each election must be made in writing to the Committee in accordance with election procedures established by the Committee.

(b) The Participant acknowledges that the Company has made no warranties or representations to the Participant with respect to the tax consequences (including but not limited to income tax consequences) related to the transactions contemplated by this Agreement, and the Participant is in no manner relying on the Company or its representatives for an assessment of such tax consequences. The Participant acknowledges that there may be adverse tax consequences upon the grant of the Option and/or the acquisition or disposition of the Shares subject to the Option and that the Participant has been advised that Participant should consult with Participant's own attorney, accountant, and/or tax advisor regarding the decision to enter into this Agreement and the consequences thereof. The Participant also acknowledges that the Company has no responsibility to take or refrain from taking any actions in order to achieve a certain tax result for the Participant.

13. Administration. The authority to construe and interpret this Agreement and the Plan, and to administer all aspects of the Plan, shall be vested in the Committee, and the Committee shall have all powers with respect to this Agreement as are provided in the Plan. Any interpretation of the Agreement by the Committee and any decision made by it with respect to the Agreement is final and binding.

14. Notices. Except as may be otherwise provided by the Plan, any written notices provided for in this Agreement or the Plan shall be in writing and shall be deemed sufficiently given if either hand delivered or if sent by fax or overnight courier, or by postage paid first class mail. Notices sent by mail shall be deemed received three business days after mailed but in no event later than the date of actual receipt. Notices shall be directed, if to the Participant, at the Participant's address indicated on Schedule A (or such other address as may be designated by the Participant in a manner acceptable to the Committee), or, if to the Company, at the Company's principal office, attention Chief Financial Officer.

15. Severability. If any provision of the Agreement shall be held illegal or invalid for any reason, such illegality or invalidity shall not affect the remaining parts of the Agreement, and the Agreement shall be construed and enforced as if the illegal or invalid provision had not been included.

16. Restrictions on Option and Shares. The Company may impose such restrictions on the Option, the Shares and/or any other benefits underlying the Option as it may deem advisable, including without limitation restrictions under the federal securities laws, the requirements of any stock exchange or similar organization and any blue sky, state or foreign securities laws applicable to such securities. Notwithstanding any other provision in the Plan or the Agreement to the contrary, the Company shall not be obligated to issue, deliver or transfer Shares of Common Stock, make any other distribution of benefits, or take any other action, unless such delivery, distribution or action is in compliance with all Applicable Laws (including but not limited to the requirements of the Securities Act). The Company will be under no obligation to register Shares of Common Stock or other securities with the Securities and Exchange Commission or to effect compliance with the exemption, registration, qualification or listing requirements of any state or foreign securities laws, stock exchange or similar organization, and the Company will have no liability for any inability or failure to do so. The Company may cause a restrictive legend or legends to be placed on any certificate for Shares issued pursuant to the exercise of the Option in such form as may be prescribed from time to time by Applicable Laws or as may be advised by legal counsel. Further, the Committee may suspend the right to exercise the Option or dispose of Shares of Common Stock at any time when the Committee determines that allowing issuance of Common Stock (or distribution of other benefits) would violate any federal or state securities laws, and the Committee may provide in its discretion that any time periods to exercise the Option are tolled during a period of suspension.

17. Counterparts; Further Instruments. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. The parties hereto agree to execute such further instruments and to take such further action as may be reasonably necessary to carry out the purposes and intent of this Agreement.

18. Effect of Changes in Duties or Status. Notwithstanding the other provisions of the Plan or this Agreement, the Committee has discretion to determine, at the time of grant of the Option or at any time thereafter, the effect, if any, on the Option (including but not limited to the vesting and/or exercisability of the Option) if the Participant's duties and/or responsibilities change or the Participant's status as an Employee changes, including but not limited to a change from full-time to part-time, or vice versa, or if other similar changes in the nature or scope of the Participant's employment or service occur. In addition, unless otherwise determined by the Committee in its discretion, for purposes of the Plan, a Participant shall be considered to have terminated employment or service and to have ceased to be an Employee or Independent Contractor, as the case may be, if Participant's employer (or the party for whom the Participant is providing services, in the case of an Independent Contractor) was an Affiliate at the time of grant and such employer or other party ceases to be an Affiliate, even if Participant continues to be employed by or provide services to such employer or party.

19. Rules of Construction. Headings are given to the Sections of this Agreement solely as a convenience to facilitate reference. The reference to any statute, regulation or other provision of law shall be construed to refer to any amendment to or successor of such provision of law unless the Committee determines otherwise.

20. Successors and Assigns. The Agreement shall be binding upon the Company and its successors and assigns, and the Participant, and Participant's executors, administrators and permitted transferees and beneficiaries.

21. Right of Offset. Notwithstanding any other provision of the Plan or this Agreement (and taking into account applicable Code Section 409A considerations), the Company may at any time reduce the amount of any distribution or benefit otherwise payable to or on behalf of the Participant by the amount of any obligation of the Participant to the Company or an Affiliate that is or becomes due and payable (including, but in no way limited to, any obligation that may arise under Section 304 of the Sarbanes-Oxley Act of 2002).

22. Forfeiture of Shares and/or Gain from Shares.

(a) Notwithstanding any other provision of this Agreement, if, at any time during the Participant's employment with or service to the Company or an Affiliate or during the 12-month period following termination of employment or service for any reason (regardless of whether such termination was by the Company or the Participant, and whether voluntary or involuntary), the Participant engages in a Prohibited Activity (as defined herein), then: (A) the Option shall immediately be terminated and forfeited in its entirety; (B) any Shares shall immediately be forfeited and returned to the Company (without the payment by the Company of any consideration for such Shares), and the Participant shall cease to have any rights related thereto and shall cease to be recognized as the legal owner of such Shares; and (C) any Gain (as defined herein) realized by the Participant with respect to any Shares shall immediately be paid by the Participant to the Company.

(b) For purposes of this Agreement, a “Prohibited Activity” shall mean: (i) the Participant’s solicitation or assisting any other person in so soliciting, directly or indirectly, of any customers, suppliers, vendors or other service providers to or of the Company or any Affiliate within the United States that the Participant learned confidential information about or had contact with through Participant’s employment or service with the Company or an Affiliate for the purpose of inducing that customer, supplier, vendor or other service provider to terminate or alter Participant’s or its relationship with the Company or an Affiliate; (ii) the Participant’s inducement, directly or indirectly, of any employees or service providers to terminate their employment with or service to the Company or an Affiliate for the purpose of performing services for, assisting, advising or otherwise supporting any business which is competitive with the business of the Company or an Affiliate; (iii) the Participant’s violation of any noncompetition, nonsolicitation or confidentiality restrictions or other restrictive covenants applicable to the Participant; (iv) the Participant’s violation of any of the Company’s policies, including, without limitation, the Company’s insider trading policies; (v) the Participant’s violation of any material (as determined by the Committee) federal, state or other law, rule or regulation; (vi) the Participant’s disclosure or other misuse of any confidential information or material concerning the Company or an Affiliate (except as otherwise required by law or as agreed to by the parties herein); (vii) the Participant’s dishonesty in a manner that negatively impacts the Company in any way; (viii) the Participant’s refusal to perform Participant’s duties for the Company or an Affiliate; (ix) the Participant’s engaging in fraudulent conduct; or (x) the Participant’s engaging in any conduct that is or could be materially damaging to the Company or its Affiliates without a reasonable good faith belief that such conduct was in the best interest of the Company or any of its Affiliates. The Committee shall have sole and absolute discretion to determine if a Prohibited Activity has occurred.

(c) For purposes of this Agreement, “Gain” shall mean, unless the Committee determines otherwise, an amount equal to: (i) the greater of: (A) the Fair Market Value per Share of the Shares (or portion thereof) at the time of exercise; or (B) the disposition price per Share of any Shares sold or disposed at the time of disposition; multiplied by (ii) the number of Shares sold or disposed of, minus (iii) the Option Exercise Price paid for the Shares (or portion thereof).

(d) Notwithstanding the provisions of Section 22(a) herein, the waiver by the Company in any one or more instances of any rights afforded to the Company pursuant to the terms of Section 22(a) herein shall not be deemed to constitute a further or continuing waiver of any rights the Company may have pursuant to the terms of this Agreement or the Plan (including, but not limited, to the rights afforded the Company in Section 21 herein).

(e) The Company and the Participant hereby expressly agree that, notwithstanding the other provisions of this Section 22, if the Participant has entered into an employment agreement, consulting agreement or other agreement containing noncompetition, nonsolicitation, confidentiality or similar covenants, then the provisions contained in such agreement(s) with respect to the scope (e.g., duration, territory, or prohibited activity) of such restrictive covenants shall control (and thus prevail over Section 22(b)(i), Section 22(b)(ii) and Section 22(b)(iii) herein), unless the Committee should determine otherwise. In any event, the Company shall retain the forfeiture and recoupment rights provided in Section 22(a) in the event of a violation of such restrictive covenants unless, and then only to the extent prohibited by, or restricted under, Applicable Laws.

(f) By accepting this Agreement, and without limiting the effect of Section 21 herein, the Participant consents to a deduction (to the extent permitted by Applicable Laws) from any amounts the Company or an Affiliate may owe the Participant from time to time (including amounts owed to the Participant as wages or other compensation, fringe benefits, or vacation pay, as well as any other amounts owed to the Participant by the Company or an Affiliate), to the extent of the amounts the Participant owes the Company pursuant to this Agreement, including but not limited to this Section 22. Whether or not the Company elects to make any set-off in whole or in part, if the Company does not recover by means of set-off the full amount owed by the Participant pursuant to this Agreement, the Participant agrees to immediately pay the unpaid balance to the Company. Further, by executing and returning this Agreement to the Company, the Participant acknowledges and agrees that (i) Participant has read the Plan and this Agreement in its entirety; (ii) Participant has had the opportunity to consult with legal counsel prior to execution of this Agreement; (iii) this Agreement is valid and binding upon, and enforceable against, the Participant in accordance with its terms, including, but not limited to, the restrictions contained in this Section 22; and (iv) the consideration for this Agreement is valuable and sufficient consideration.

[Signatures of the Company and the Participant follow on Schedule A / Grant Notice.]

CHARLES & COLVARD, LTD.
2018 EQUITY INCENTIVE PLAN
Employee Nonqualified Stock Option Agreement
Schedule A / Grant Notice

1. Pursuant to the terms and conditions of the Company's 2018 Equity Incentive Plan (the "Plan"), you (the "Participant") have been granted an option (the "Option") to purchase _____ shares (the "Shares") of our Common Stock as outlined below.

Name of Participant: _____
Address: _____

Grant Date: _____, 20____
Number of Shares Subject to Option: _____
Option Exercise Price: \$ _____
Type of Option: Nonqualified Stock Option
Expiration Date (Last day of Option Period): _____, 20____
Vesting Schedule/Conditions: _____

2. By my signature below, I, the Participant, hereby acknowledge receipt of this Grant Notice and the Option Agreement (the "Agreement") dated _____, 20____, between the Participant and Charles & Colvard, Ltd. (the "Company") which is attached to this Grant Notice. I understand that the Grant Notice and other provisions of Schedule A herein are incorporated by reference into the Agreement and constitute a part of the Agreement. By my signature below, I further agree to be bound by the terms of the Plan and the Agreement, including but not limited to the terms of this Grant Notice and the other provisions of Schedule A contained herein. The Company reserves the right to treat the Option and the Agreement as cancelled, void and of no effect if the Participant fails to return a signed copy of the Grant Notice within thirty (30) days of Grant Date stated above.

Signature: _____
Participant

Date: _____

Agreed to by:

CHARLES & COLVARD, LTD.

By: _____

Attest: _____

Note: If there are any discrepancies in the name or address shown above, please make the appropriate corrections on this form. Please retain a copy of the Agreement, including a signed copy of this Grant Notice, for your files.

**CHARLES & COLVARD, LTD.
2018 EQUITY INCENTIVE PLAN**

Non-Employee Director Nonqualified Stock Option Agreement

THIS AGREEMENT (together with Schedule A, attached hereto, the "Agreement"), effective as of _____, 20__ (the "Grant Date"), between CHARLES & COLVARD, LTD., a North Carolina corporation (the "Company"), and _____, a Non-Employee Director of the Company (the "Participant");

RECITALS:

In furtherance of the purposes of the Charles & Colvard, Ltd. 2018 Equity Incentive Plan, as it may be hereafter amended and/or restated (the "Plan"), and in consideration of the services of the Participant and such other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Company and the Participant hereby agree as follows:

1. Incorporation of Plan. The rights and duties of the Company and the Participant under this Agreement shall in all respects be subject to and governed by the provisions of the Plan, the terms of which are incorporated herein by reference. In the event of any conflict between the provisions in the Agreement and those of the Plan, the provisions of the Plan shall govern. Unless otherwise defined herein, capitalized terms in this Agreement shall have the same definitions as set forth in the Plan.

 2. Grant of Option; Term of Option. The Company hereby grants to the Participant pursuant to the Plan, as a matter of separate inducement and agreement in connection with Participant's service to the Company, and not in lieu of any salary or other compensation for Participant's services, the right and Option (the "Option") to purchase all or any part of such aggregate number of shares (the "Shares") of common stock of the Company (the "Common Stock") at a purchase price (the "Option Exercise Price") as specified on Schedule A, and subject to such other terms and conditions as may be stated herein or in the Plan or on Schedule A. The Participant expressly acknowledges that the terms of Schedule A shall be incorporated herein by reference and shall constitute part of this Agreement. The Company and the Participant further acknowledge and agree that the signatures of the Company and the Participant on the Grant Notice contained in Schedule A (the "Grant Notice") shall constitute their acceptance of all of the terms of this Agreement and their agreement to be bound by the terms of this Agreement. The Option shall be designated as a Nonqualified Stock Option. Except as otherwise provided in the Plan or this Agreement, this Option will expire if not exercised in full by the Expiration Date specified on Schedule A.
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3. Exercise of Option. Subject to the terms of the Plan and this Agreement, the Option shall vest and become exercisable on the date or dates, and subject to such conditions, as are set forth on Schedule A. To the extent that the Option is exercisable but is not exercised, the Option shall accumulate and be exercisable by the Participant in whole or in part at any time prior to expiration of the Option, subject to the terms of the Plan and this Agreement. The minimum number of Shares that may be purchased under the Option at one time shall be ten (10). The total number of Shares that may be acquired upon exercise of the Option shall be rounded down to the nearest whole Share. The Participant expressly acknowledges that the Option shall vest and be exercisable only upon such terms and conditions as are provided in this Agreement (including the terms set forth in Schedule A) and the Plan. Upon the exercise of the Option in whole or in part and payment of the Option Exercise Price in accordance with the provisions of the Plan and this Agreement, the Company shall, as soon thereafter as practicable, deliver to the Participant a certificate or certificates (or, in the case of uncertificated Shares, other written notice of ownership in accordance with Applicable Laws) for the Shares purchased. Payment of the Option Exercise Price may be made in the form of cash or cash equivalent; provided that, except where prohibited by the Committee, Applicable Laws and/or any agreements evidencing indebtedness entered into by the Company from time to time, payment may also be made: (i) by delivery (by either actual delivery or attestation) of Shares of Common Stock owned by the Participant; (ii) by Shares of Common Stock withheld upon exercise but only if and to the extent that payment by such method does not result in variable accounting or other accounting consequences deemed unacceptable to the Company; (iii) by delivery of written notice of exercise to the Company and delivery to a broker of written notice of exercise and irrevocable instructions to promptly deliver to the Company the amount of sale or loan proceeds to pay the Option Exercise Price; (iv) by such other payment methods as may be approved by the Committee and which are acceptable under Applicable Laws; or (v) by any combination of the foregoing methods. Shares tendered or withheld in payment on the exercise of the Option shall be valued at their Fair Market Value on the date of exercise, as determined in accordance with the provisions of the Plan.

4. No Right of Service or Employment. Neither the Plan, this Agreement, the grant of the Option, nor any other action related to the Plan shall confer upon the Participant any right to continue in service with the Company or otherwise provide any right of future employment or service with the Company or an Affiliate or interfere with the right of the Company to terminate the Participant's service to or employment with the Company at any time. Except as otherwise provided in the Plan or this Agreement, all rights of the Participant with respect to the Option shall terminate upon termination of the Participant's Continuous Service to the Company.

5. Termination of Continuous Service. In the event of the Participant's termination of Continuous Service, the Option may be exercised only to the extent vested and exercisable on the date of the Participant's Termination Date (unless the termination was for Cause), and the Option must be exercised, if at all, prior to the first to occur of the following, as applicable: (X) the close of the period of three months next succeeding the Termination Date; or (Y) the close of the Option Period. If the services of such a Participant are terminated for Cause, the Option shall lapse and no longer be exercisable as of Participant's Termination Date as determined by the Committee. Notwithstanding the foregoing, unless the Committee determines otherwise: (i) if the Participant becomes an Employee of the Company or an Affiliate, Participant shall generally be subject to the provisions of the Plan applicable to Employees; and (ii) if the Participant terminates service on the Board (for any reason other than death or for Cause) but immediately enters into a written agreement to provide Continuous Services to the Company as a Consultant or an Independent Contractor, Participant shall continue to be treated as in Continuous Service to the Company and Participant's Termination Date shall not be treated as occurring until the later of the date Participant no longer is in service to the Company as a Director or the date Participant is no longer in service as a Consultant or Independent Contractor (as determined by the Committee). For purposes of the Agreement, "Cause" shall mean the Participant's termination of Continuous Service resulting from the Participant's: (i) termination for "cause" as defined under the Participant's employment, consulting or other agreement, if any, with the Company or an Affiliate; or (ii) if the Participant has not entered into any such employment, consulting or other agreement (or if any such agreement does not define a "cause" termination), then the Participant's termination shall be for "Cause" if termination results due to the Participant's (A) personal dishonesty; (B) gross incompetence; (C) willful misconduct; (D) breach of a fiduciary duty involving personal profit; (E) intentional failure to perform stated duties; (F) willful violation of any law, rule, regulation (other than minor traffic violations or similar offenses), written Company policy or final cease-and-desist order; (G) conviction of a felony or a misdemeanor involving moral turpitude; (H) unethical business practices in connection with the Company's business; (I) misappropriation of the Company's assets; or (J) engaging in any conduct that could be materially damaging to the Company without a reasonable good faith belief that such conduct was in the best interest of the Company. The determination of "Cause" shall be made by the Committee and its determination shall be final and conclusive. Without in any way limiting the effect of the foregoing, for purposes of the Plan and this Agreement, the Participant's employment or service shall be deemed to have terminated for Cause if, after the Participant's employment or service has terminated, facts and circumstances are discovered that would have justified, in the opinion of the Committee, a termination for Cause.

6. Effect of Change in Control.

(a) In the event of a Change in Control (as defined in the Plan), the Option, if outstanding as of the date of such Change in Control, shall become fully exercisable, whether or not then otherwise exercisable. In such event, the Committee may: (i) determine that the Option must be exercised, if at all, within a fixed time period (as determined by the Committee) following or prior to such Change in Control; and/or (ii) determine that the Option shall terminate after such time period; and/or (iii) make other similar determinations regarding the Participant's rights with respect to the Option.

(b) Notwithstanding the foregoing, in the event that a Change in Control event occurs, the Committee may, in its sole and absolute discretion, determine that the Option shall not vest or become exercisable on an accelerated basis, if the Company or the surviving or acquiring Company, as the case may be, shall have taken such action, including but not limited to the assumption of Awards granted under the Plan or the grant of substitute awards (in either case, with substantially similar terms or equivalent economic benefits as Awards granted under the Plan), as the Committee determines to be equitable or appropriate to protect the rights and interests of Participants under the Plan. For the purposes herein, if the Committee is acting as the Committee authorized to make the determinations provided for in this Section 6(b), the Committee shall be appointed by the Board of Directors, two-thirds of the members of which shall have been Directors of the Company prior to the Change in Control event.

(c) The Committee shall have full and final authority, in its discretion, to determine whether a Change in Control of the Company has occurred, the date of the occurrence of such Change in Control and any incidental matters relating thereto.

7. Nontransferability of Option. The Option shall not be transferable (including by sale, assignment, pledge or hypothecation) other than by will or the laws of intestate succession, except as may be permitted by the Committee in a manner consistent with the registration provisions of the Securities Act. The Option shall be exercisable during the Participant's lifetime only by Participant or by Participant's guardian or legal representative or a permitted transferee as provided in this Section 7. The designation of a beneficiary in accordance with the Plan does not constitute a transfer.

8. Superseding Agreement. This Agreement supersedes any statements, representations or agreements of the Company with respect to the grant of the Option and any related awards or rights, and the Participant hereby waives any rights or claims related to any such statements, representations or agreements. This Agreement does not supersede or amend any confidentiality agreement, non-solicitation agreement, non-competition agreement, employment agreement or any other similar agreement between the Participant and the Company, including, but not limited to, any restrictive covenants contained in such agreements.

9. Governing Law. Except as otherwise provided in the Plan or herein, this Agreement shall be construed and enforced according to the laws of the State of North Carolina, without regard to the conflict of laws provisions of any state, and in accordance with applicable federal laws of the United States.

10. Amendment and Termination; Waiver. Subject to the terms of the Plan and this Section 10, this Agreement may be amended, altered, suspended and/or terminated only by the written agreement of the parties hereto. Notwithstanding the foregoing, the Committee shall have unilateral authority to amend the Plan and this Agreement (without Participant consent) to the extent necessary to comply with Applicable Laws or changes to Applicable Laws (including but not limited to Code Section 409A and federal securities laws). The waiver by the Company of a breach of any provision of the Agreement by the Participant shall not operate or be construed as a waiver of any subsequent breach by the Participant.

11. No Rights as Shareholder. The Participant and Participant's legal representatives, legatees or distributees shall not be deemed to be the holder of any Shares subject to the Option and shall not have any rights of a shareholder unless and until certificates for such Shares have been issued and delivered to Participant or them (or, in the case of uncertificated Shares, other written notice of ownership in accordance with Applicable Laws shall have been provided).

12. Withholding; Tax Matters.

(a) The Participant acknowledges that the Company shall require the Participant to pay the Company in cash the amount of any applicable 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 Participant, if any, and the Participant agrees, as a condition to the grant of the Option and delivery of the Shares or any other benefit, to satisfy such obligations as applicable. Notwithstanding the foregoing, the Committee may establish procedures to permit the Participant to satisfy such obligations in whole or in part, and any other local, state, federal, foreign or other income tax obligations relating to the Option, by electing (the "election") to have the Company withhold Shares of Common Stock from the Shares to which the Participant is entitled to the extent determined permissible pursuant to Applicable Laws. The number of Shares to be withheld shall have a Fair Market Value as of the date that the amount of tax to be withheld is determined as nearly equal as possible to (but not exceeding) the amount of such obligations being satisfied. Each election must be made in writing to the Committee in accordance with election procedures established by the Committee.

(b) The Participant acknowledges that the Company has made no warranties or representations to the Participant with respect to the tax consequences (including but not limited to income tax consequences) related to the transactions contemplated by this Agreement, and the Participant is in no manner relying on the Company or its representatives for an assessment of such tax consequences. The Participant acknowledges that there may be adverse tax consequences upon the grant of the Option and/or the acquisition or disposition of the Shares subject to the Option and that the Participant has been advised that Participant should consult with Participant's own attorney, accountant, and/or tax advisor regarding the decision to enter into this Agreement and the consequences thereof. The Participant also acknowledges that the Company has no responsibility to take or refrain from taking any actions in order to achieve a certain tax result for the Participant.

13. Administration. The authority to construe and interpret this Agreement and the Plan, and to administer all aspects of the Plan, shall be vested in the Committee, and the Committee shall have all powers with respect to this Agreement as are provided in the Plan. Any interpretation of the Agreement by the Committee and any decision made by it with respect to the Agreement is final and binding.

14. Notices. Except as may be otherwise provided by the Plan, any written notices provided for in this Agreement or the Plan shall be in writing and shall be deemed sufficiently given if either hand delivered or if sent by fax or overnight courier, or by postage paid first class mail. Notices sent by mail shall be deemed received three business days after mailed but in no event later than the date of actual receipt. Notices shall be directed, if to the Participant, at the Participant's address indicated on Schedule A (or such other address as may be designated by the Participant in a manner acceptable to the Committee), or, if to the Company, at the Company's principal office, attention Chief Financial Officer.

15. Severability. If any provision of the Agreement shall be held illegal or invalid for any reason, such illegality or invalidity shall not affect the remaining parts of the Agreement, and the Agreement shall be construed and enforced as if the illegal or invalid provision had not been included.

16. Restrictions on Option and Shares. The Company may impose such restrictions on the Option, the Shares and/or any other benefits underlying the Option as it may deem advisable, including without limitation restrictions under the federal securities laws, the requirements of any stock exchange or similar organization and any blue sky, state or foreign securities laws applicable to such securities. Notwithstanding any other provision in the Plan or the Agreement to the contrary, the Company shall not be obligated to issue, deliver or transfer Shares of Common Stock, make any other distribution of benefits, or take any other action, unless such delivery, distribution or action is in compliance with all Applicable Laws, (including but not limited to the requirements of the Securities Act). The Company will be under no obligation to register Shares of Common Stock or other securities with the Securities and Exchange Commission or to effect compliance with the exemption, registration, qualification or listing requirements of any state or foreign securities laws, stock exchange or similar organization, and the Company will have no liability for any inability or failure to do so. The Company may cause a restrictive legend or legends to be placed on any certificate for Shares issued pursuant to the exercise of the Option in such form as may be prescribed from time to time by Applicable Laws or as may be advised by legal counsel. Further, the Committee may suspend the right to exercise the Option or dispose of Shares of Common Stock at any time when the Committee determines that allowing issuance of Common Stock (or distribution of other benefits) would violate any federal or state securities laws, and the Committee may provide in its discretion that any time periods to exercise the Option are tolled during a period of suspension.

17. Counterparts; Further Instruments. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. The parties hereto agree to execute such further instruments and to take such further action as may be reasonably necessary to carry out the purposes and intent of this Agreement.

18. Rules of Construction. Headings are given to the Sections of this Agreement solely as a convenience to facilitate reference. The reference to any statute, regulation or other provision of law shall be construed to refer to any amendment to or successor of such provision of law unless the Committee determines otherwise.

19. Successors and Assigns. The Agreement shall be binding upon the Company and its successors and assigns, and the Participant and Participant's executors, administrators and permitted transferees and beneficiaries.

20. Right of Offset. Notwithstanding any other provision of the Plan or this Agreement (and taking into account applicable Code Section 409A considerations), the Company may at any time reduce the amount of any distribution or benefit otherwise payable to or on behalf of the Participant by the amount of any obligation of the Participant to the Company or an Affiliate that is or becomes due and payable (including, but in no way limited to, any obligation that may arise under Section 304 of the Sarbanes-Oxley Act of 2002).

21. Effect of Changes in Duties or Status. Notwithstanding the other provisions of the Plan or this Agreement, the Committee has discretion to determine, at the time of grant of the Option or at any time thereafter, the effect, if any, on the Option (including but not limited to the vesting and/or exercisability of the Option) if the Participant's duties and/or responsibilities change or the Participant's status as a Director changes, including but not limited to a change from full-time to part-time, or vice versa, if applicable, or if other similar changes in the nature or scope of the Participant's service or employment occur.

22. Forfeiture of Shares and/or Gain from Shares.

(a) Notwithstanding any other provision of this Agreement, if, at any time during the Participant's service to or employment with the Company or an Affiliate or during the 12-month period following termination of service or employment for any reason (regardless of whether such termination was by the Company or the Participant, and whether voluntary or involuntary), the Participant engages in a Prohibited Activity (as defined herein), then: (A) the Option shall immediately be terminated and forfeited in its entirety; (B) any Shares shall immediately be forfeited and returned to the Company (without the payment by the Company of any consideration for such Shares), and the Participant shall cease to have any rights related thereto and shall cease to be recognized as the legal owner of such Shares; and (C) any Gain (as defined herein) realized by the Participant with respect to any Shares shall immediately be paid by the Participant to the Company.

(b) For purposes of this Agreement, a "Prohibited Activity" shall mean: (i) the Participant's solicitation or assisting any other person in so soliciting, directly or indirectly, of any customers, suppliers, vendors or other service providers to or of the Company or any Affiliate within the United States that the Participant learned confidential information about or had contact with through Participant's service or employment with the Company or an Affiliate for the purpose of inducing that customer, supplier, vendor or other service provider to terminate or alter Participant's or its relationship with the Company or an Affiliate; (ii) the Participant's inducement, directly or indirectly, of any employees or service providers to terminate their service to or employment with the Company or an Affiliate for the purpose of performing services for, assisting, advising or otherwise supporting any business which is competitive with the business of the Company or an Affiliate; (iii) the Participant's violation of any noncompetition, nonsolicitation or confidentiality restrictions or other restrictive covenants applicable to the Participant; (iv) the Participant's violation of any of the Company's policies, including, without limitation, the Company's insider trading policies; (v) the Participant's violation of any material (as determined by the Committee) federal, state or other law, rule or regulation; (vi) the Participant's disclosure or other misuse of any confidential information or material concerning the Company or an Affiliate (except as otherwise required by law or as agreed to by the parties herein); (vii) the Participant's dishonesty in a manner that negatively impacts the Company in any way; (viii) the Participant's refusal to perform Participant's duties for the Company or an Affiliate; (ix) the Participant's engaging in fraudulent conduct; or (x) the Participant's engaging in any conduct that is or could be materially damaging to the Company or its Affiliates without a reasonable good faith belief that such conduct was in the best interest of the Company or any of its Affiliates. The Committee shall have sole and absolute discretion to determine if a Prohibited Activity has occurred.

(c) For purposes of this Agreement, "Gain" shall mean, unless the Committee determines otherwise, an amount equal to: (i) the greater of: (A) the Fair Market Value per Share of the Shares (or portion thereof) at the time of exercise; or (B) the disposition price per Share of any Shares sold or disposed at the time of disposition; multiplied by (ii) the number of Shares sold or disposed of, minus (iii) the Option Exercise Price paid for the Shares (or portion thereof).

(d) Notwithstanding the provisions of Section 22(a) herein, the waiver by the Company in any one or more instances of any rights afforded to the Company pursuant to the terms of Section 22(a) herein shall not be deemed to constitute a further or continuing waiver of any rights the Company may have pursuant to the terms of this Agreement or the Plan (including, but not limited to, the rights afforded the Company in Section 20 herein).

(e) The Company and the Participant hereby expressly agree that, notwithstanding the other provisions of this Section 22, if the Participant has entered into an employment agreement, consulting agreement or other agreement containing noncompetition, nonsolicitation, confidentiality or similar covenants, then the provisions contained in such agreement(s) with respect to the scope (e.g., duration, territory, or prohibited activity) of such restrictive covenants shall control (and thus prevail over Section 22(b)(i), Section 22(b)(ii) and Section 22(b)(iii) herein), unless the Committee should determine otherwise. In any event, the Company shall retain the forfeiture and recoupment rights provided in Section 22(a) in the event of a violation of such restrictive covenants unless, and then only to the extent prohibited by, or restricted under, Applicable Laws.

(f) By accepting this Agreement, and without limiting the effect of Section 20 herein, the Participant consents to a deduction (to the extent permitted by Applicable Laws) from any amounts the Company or an Affiliate may owe the Participant from time to time (including amounts owed to the Participant as wages or other compensation, fringe benefits, or vacation pay, as well as any other amounts owed to the Participant by the Company or an Affiliate), to the extent of the amounts the Participant owes the Company pursuant to this Agreement, including but not limited to this Section 22. Whether or not the Company elects to make any set-off in whole or in part, if the Company does not recover by means of set-off the full amount owed by the Participant pursuant to this Agreement, the Participant agrees to immediately pay the unpaid balance to the Company. Further, by executing and returning this Agreement to the Company, the Participant acknowledges and agrees that (i) Participant has read the Plan and this Agreement in its entirety; (ii) Participant has had the opportunity to consult with legal counsel prior to execution of this Agreement; (iii) this Agreement is valid and binding upon, and enforceable against, the Participant in accordance with its terms, including, but not limited to, the restrictions contained in this Section 22; and (iv) the consideration for this Agreement is valuable and sufficient consideration.

[Signatures of the Company and the Participant follow on Schedule A / Grant Notice.]

CHARLES & COLVARD, LTD.
2018 EQUITY INCENTIVE PLAN
Non-Employee Director Nonqualified Stock Option Agreement

Schedule A/Grant Notice

1. Pursuant to the terms and conditions of the Company's 2018 Equity Incentive Plan (the "Plan"), you (the "Participant") have been granted an option (the "Option") to purchase _____ shares (the "Shares") of our Common Stock as outlined below.

Name of Participant:	_____
Address:	_____

Grant Date:	_____, 20____
Number of Shares Subject to Option:	_____
Option Exercise Price:	\$ _____
Type of Option:	<u>Nonqualified Stock Option</u>
Expiration Date (Last day of Option Period):	_____, 20____
Vesting Schedule/Conditions:	_____

2. By my signature below, I, the Participant, hereby acknowledge receipt of this Grant Notice and the Option Agreement (the "Agreement") dated _____, 20____, between the Participant and Charles & Colvard, Ltd. (the "Company") which is attached to this Grant Notice. I understand that the Grant Notice and other provisions of Schedule A herein are incorporated by reference into the Agreement and constitute a part of the Agreement. By my signature below, I further agree to be bound by the terms of the Plan and the Agreement, including but not limited to the terms of this Grant Notice and the other provisions of Schedule A contained herein. The Company reserves the right to treat the Option and the Agreement as cancelled, void and of no effect if the Participant fails to return a signed copy of the Grant Notice within thirty (30) days of Grant Date stated above.

Signature: _____
Participant

Date: _____

Agreed to by:

CHARLES & COLVARD, LTD.

By: _____

Attest:

Note: If there are any discrepancies in the name or address shown above, please make the appropriate corrections on this form. Please retain a copy of the Agreement, including a signed copy of this Grant Notice, for your files.

**CHARLES & COLVARD, LTD.
2018 EQUITY INCENTIVE PLAN**

Independent Contractor Nonqualified Stock Option Agreement

THIS AGREEMENT (together with Schedule A, attached hereto, the "Agreement"), effective as of _____, 20__ (the "Grant Date"), between CHARLES & COLVARD, LTD., a North Carolina corporation (the "Company"), and _____, an individual in service to the Company or an Affiliate (the "Participant");

RECITALS:

In furtherance of the purposes of the Charles & Colvard, Ltd. 2018 Equity Incentive Plan, as it may be hereafter amended and/or restated (the "Plan"), and in consideration of the services of the Participant and such other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Company and the Participant hereby agree as follows:

1. Incorporation of Plan. The rights and duties of the Company and the Participant under this Agreement shall in all respects be subject to and governed by the provisions of the Plan, the terms of which are incorporated herein by reference. In the event of any conflict between the provisions in the Agreement and those of the Plan, the provisions of the Plan shall govern. Unless otherwise defined herein, capitalized terms in this Agreement shall have the same definitions as set forth in the Plan.

2. Grant of Option; Term of Option. The Company hereby grants to the Participant pursuant to the Plan, as a matter of separate inducement and agreement in connection with Participant's service to the Company, and not in lieu of any salary or other compensation for Participant's services, the right and Option (the "Option") to purchase all or any part of such aggregate number of shares (the "Shares") of common stock of the Company (the "Common Stock") at a purchase price (the "Option Exercise Price") as specified on Schedule A, and subject to such other terms and conditions as may be stated herein or in the Plan or on Schedule A. The Participant expressly acknowledges that the terms of Schedule A shall be incorporated herein by reference and shall constitute part of this Agreement. The Company and the Participant further acknowledge and agree that the signatures of the Company and the Participant on the Grant Notice contained in Schedule A (the "Grant Notice") shall constitute their acceptance of all of the terms of this Agreement and their agreement to be bound by the terms of this Agreement. The Option shall be designated as a Nonqualified Stock Option. Except as otherwise provided in the Plan or this Agreement, this Option will expire if not exercised in full by the Expiration Date specified on Schedule A.

3. Exercise of Option. Subject to the terms of the Plan and this Agreement, the Option shall vest and become exercisable on the date or dates, and subject to such conditions, as are set forth on Schedule A. To the extent that the Option is exercisable but is not exercised, the Option shall accumulate and be exercisable by the Participant in whole or in part at any time prior to expiration of the Option, subject to the terms of the Plan and this Agreement. The minimum number of Shares that may be purchased under the Option at one time shall be ten (10). The total number of Shares that may be acquired upon exercise of the Option shall be rounded down to the nearest whole Share. The Participant expressly acknowledges that the Option shall vest and be exercisable only upon such terms and conditions as are provided in this Agreement (including the terms set forth in Schedule A) and the Plan. Upon the exercise of the Option in whole or in part and payment of the Option Exercise Price in accordance with the provisions of the Plan and this Agreement, the Company shall, as soon thereafter as practicable, deliver to the Participant a certificate or certificates (or, in the case of uncertificated Shares, other written notice of ownership in accordance with Applicable Laws) for the Shares purchased. Payment of the Option Exercise Price may be made in the form of cash or cash equivalent; provided that, except where prohibited by the Committee, Applicable Laws and/or any agreements evidencing indebtedness entered into by the Company from time to time, payment may also be made: (i) by delivery (by either actual delivery or attestation) of Shares of Common Stock owned by the Participant; (ii) by Shares of Common Stock withheld upon exercise but only if and to the extent that payment by such method does not result in variable accounting or other accounting consequences deemed unacceptable to the Company; (iii) by delivery of written notice of exercise to the Company and delivery to a broker of written notice of exercise and irrevocable instructions to promptly deliver to the Company the amount of sale or loan proceeds to pay the Option Exercise Price; (iv) by such other payment methods as may be approved by the Committee and which are acceptable under Applicable Laws; or (v) by any combination of the foregoing methods. Shares tendered or withheld in payment on the exercise of the Option shall be valued at their Fair Market Value on the date of exercise, as determined in accordance with the provisions of the Plan.

4. No Right of Employment or Service. Neither the Plan, this Agreement, the grant of the Option, nor any other action related to the Plan shall confer upon the Participant any right to continue in the service or employment of the Company or an Affiliate or interfere with the right of the Company or an Affiliate to terminate the Participant's service or employment at any time. Except as otherwise provided in the Plan or this Agreement, all rights of the Participant with respect to the Option shall terminate upon termination of the Participant's Continuous Service.

5. Termination of Continuous Service. In the event of the Participant's termination of Continuous Service, the Option may be exercised only to the extent vested and exercisable on the date of the Participant's Termination Date (unless the termination was for Cause), and the Option must be exercised, if at all, prior to the first to occur of the following, as applicable: (X) the close of the period of three months next succeeding the Termination Date; or (Y) the close of the Option Period. If the services of such a Participant are terminated for Cause, the Participant's Option shall lapse and no longer be exercisable as of Participant's Termination Date, as determined by the Committee. For purposes of this Agreement, "Cause" shall mean the Participant's termination of service or employment resulting from the Participant's: (i) termination for "cause" as defined under the Participant's consulting or other agreement, if any, with the Company or an Affiliate; or (ii) if the Participant has not entered into any such consulting or other agreement (or if any such agreement does not define a "cause" termination), then the Participant's termination shall be for "Cause" if termination results due to the Participant's: (A) personal dishonesty; (B) gross incompetence; (C) willful misconduct; (D) breach of a fiduciary duty involving personal profit; (E) intentional failure to perform stated duties; (F) willful violation of any law, rule, regulation (other than minor traffic violations or similar offenses), written Company policy or final cease-and-desist order; (G) conviction of a felony or a misdemeanor involving moral turpitude; (H) unethical business practices in connection with the Company's business; (I) misappropriation of the Company's assets; or (J) engaging in any conduct that could be materially damaging to the Company without a reasonable good faith belief that such conduct was in the best interest of the Company. The determination of "Cause" shall be made by the Committee and its determination shall be final and conclusive. Without in any way limiting the effect of the foregoing, for purposes of the Plan and this Agreement, the Participant's employment or service shall be deemed to have terminated for Cause if, after the Participant's employment or service has terminated, facts and circumstances are discovered that would have justified, in the opinion of the Committee, a termination for Cause.

6. Effect of Change in Control.

(a) In the event of a Change in Control (as defined in the Plan), the Option, if outstanding as of the date of such Change in Control, shall become fully exercisable, whether or not then otherwise exercisable. In such event, the Committee may: (i) determine that the Option must be exercised, if at all, within a fixed time period (as determined by the Committee) following or prior to such Change in Control; and/or (ii) determine that the Option shall terminate after such time period; and/or (iii) make other similar determinations regarding the Participant's rights with respect to the Option.

(b) Notwithstanding the foregoing, in the event that a Change in Control event occurs, the Committee may, in its sole and absolute discretion, determine that the Option shall not vest or become exercisable on an accelerated basis, if the Company or the surviving or acquiring Company, as the case may be, shall have taken such action, including but not limited to the assumption of Awards granted under the Plan or the grant of substitute awards (in either case, with substantially similar terms or equivalent economic benefits as Awards granted under the Plan), as the Committee determines to be equitable or appropriate to protect the rights and interests of Participants under the Plan. For the purposes herein, if the Committee is acting as the Committee authorized to make the determinations provided for in this Section 6(b), the Committee shall be appointed by the Board of Directors, two-thirds of the members of which shall have been Directors of the Company prior to the Change in Control event.

(c) The Committee shall have full and final authority, in its discretion, to determine whether a Change in Control of the Company has occurred, the date of the occurrence of such Change in Control and any incidental matters relating thereto.

7. Nontransferability of Option. The Option shall not be transferable (including by sale, assignment, pledge or hypothecation) other than by will or the laws of intestate succession, except as may be permitted by the Committee in a manner consistent with the registration provisions of the Securities Act. The Option shall be exercisable during the Participant's lifetime only by Participant or by Participant's guardian or legal representative or a permitted transferee as provided in this Section 7. The designation of a beneficiary in accordance with the Plan does not constitute a transfer.

8. Superseding Agreement. This Agreement supersedes any statements, representations or agreements of the Company with respect to the grant of the Option, any related awards or rights, and the Participant hereby waives any rights or claims related to any such statements, representations or agreements. This Agreement does not supersede or amend any confidentiality agreement, non-solicitation agreement, non-competition agreement, employment agreement or any other similar agreement between the Participant and the Company, including, but not limited to, any restrictive covenants contained in such agreements.

9. Governing Law. Except as otherwise provided in the Plan or herein, this Agreement shall be construed and enforced according to the laws of the State of North Carolina, without regard to the conflict of laws provisions of any state, and in accordance with applicable federal laws of the United States.

10. Amendment and Termination; Waiver. Subject to the terms of the Plan and this Section 10, this Agreement may be amended, altered, suspended and/or terminated only by the written agreement of the parties hereto. Notwithstanding the foregoing, the Committee shall have unilateral authority to amend the Plan and this Agreement (without Participant consent) to the extent necessary to comply with Applicable Laws or changes to Applicable Laws (including but not limited to Code Section 409A and federal securities laws). The waiver by the Company of a breach of any provision of the Agreement by the Participant shall not operate or be construed as a waiver of any subsequent breach by the Participant.

11. No Rights as Shareholder. The Participant and Participant's legal representatives, legatees or distributees shall not be deemed to be the holder of any Shares subject to the Option and shall not have any rights of a shareholder unless and until certificates for such Shares have been issued and delivered to Participant or them (or, in the case of uncertificated Shares, other written notice of ownership in accordance with Applicable Laws shall have been provided).

12. Withholding; Tax Matters.

(a) The Participant acknowledges that the Company shall require the Participant to pay the Company in cash the amount of any applicable 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 Participant, if any, and the Participant agrees, as a condition to the grant of the Option and delivery of the Shares or any other benefit, to satisfy such obligations as applicable. Notwithstanding the foregoing, the Committee may establish procedures to permit the Participant to satisfy such obligations in whole or in part, and any other local, state, federal, foreign or other income tax obligations relating to the Option, by electing (the "election") to have the Company withhold Shares of Common Stock from the Shares to which the Participant is entitled to the extent determined permissible pursuant to Applicable Laws. The number of Shares to be withheld shall have a Fair Market Value as of the date that the amount of tax to be withheld is determined as nearly equal as possible to (but not exceeding) the amount of such obligations being satisfied. Each election must be made in writing to the Committee in accordance with election procedures established by the Committee.

(b) The Participant acknowledges that the Company has made no warranties or representations to the Participant with respect to the tax consequences (including but not limited to income tax consequences) related to the transactions contemplated by this Agreement, and the Participant is in no manner relying on the Company or its representatives for an assessment of such tax consequences. The Participant acknowledges that there may be adverse tax consequences upon the grant of the Option and/or the acquisition or disposition of the Shares subject to the Option and that the Participant has been advised that Participant should consult with Participant's own attorney, accountant, and/or tax advisor regarding the decision to enter into this Agreement and the consequences thereof. The Participant also acknowledges that the Company has no responsibility to take or refrain from taking any actions in order to achieve a certain tax result for the Participant.

13. Administration. The authority to construe and interpret this Agreement and the Plan, and to administer all aspects of the Plan, shall be vested in the Committee, and the Committee shall have all powers with respect to this Agreement as are provided in the Plan. Any interpretation of the Agreement by the Committee and any decision made by it with respect to the Agreement is final and binding.

14. Notices. Except as may be otherwise provided by the Plan, any written notices provided for in this Agreement or the Plan shall be in writing and shall be deemed sufficiently given if either hand delivered or if sent by fax or overnight courier, or by postage paid first class mail. Notices sent by mail shall be deemed received three business days after mailed but in no event later than the date of actual receipt. Notices shall be directed, if to the Participant, at the Participant's address indicated on Schedule A (or such other address as may be designated by the Participant in a manner acceptable to the Committee), or, if to the Company, at the Company's principal office, attention Chief Financial Officer.

15. Severability. If any provision of the Agreement shall be held illegal or invalid for any reason, such illegality or invalidity shall not affect the remaining parts of the Agreement, and the Agreement shall be construed and enforced as if the illegal or invalid provision had not been included.

16. Restrictions on Option and Shares. The Company may impose such restrictions on the Option, the Shares and/or any other benefits underlying the Option as it may deem advisable, including without limitation restrictions under the federal securities laws, the requirements of any stock exchange or similar organization and any blue sky, state or foreign securities laws applicable to such securities. Notwithstanding any other provision in the Plan or the Agreement to the contrary, the Company shall not be obligated to issue, deliver or transfer Shares of Common Stock, make any other distribution of benefits, or take any other action, unless such delivery, distribution or action is in compliance with all Applicable Laws (including but not limited to the requirements of the Securities Act). The Company will be under no obligation to register Shares of Common Stock or other securities with the Securities and Exchange Commission or to effect compliance with the exemption, registration, qualification or listing requirements of any state or foreign securities laws, stock exchange or similar organization, and the Company will have no liability for any inability or failure to do so. The Company may cause a restrictive legend or legends to be placed on any certificate for Shares issued pursuant to the exercise of the Option in such form as may be prescribed from time to time by Applicable Laws or as may be advised by legal counsel. Further, the Committee may suspend the right to exercise the Option or dispose of Shares of Common Stock at any time when the Committee determines that allowing issuance of Common Stock (or distribution of other benefits) would violate any federal or state securities laws, and the Committee may provide in its discretion that any time periods to exercise the Option are tolled during a period of suspension.

17. Counterparts; Further Instruments. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. The parties hereto agree to execute such further instruments and to take such further action as may be reasonably necessary to carry out the purposes and intent of this Agreement.

18. Effect of Changes in Duties or Status. Notwithstanding the other provisions of the Plan or this Agreement, the Committee has discretion to determine, at the time of grant of the Option or at any time thereafter, the effect, if any, on the Option (including but not limited to the vesting and/or exercisability of the Option) if the Participant's duties and/or responsibilities change or the Participant's status as an Independent Contractor or Consultant changes, including but not limited to a change from full-time to part-time services, or vice versa, or if other similar changes in the nature or scope of the Participant's service occur. In addition, unless otherwise determined by the Committee in its discretion, for purposes of the Plan, a Participant shall be considered to have terminated service or employment and to have ceased to be an Independent Contractor or Employee, as the case may be, if Participant's employer (or the party for whom the Participant is providing services, in the case of an Independent Contractor or Consultant) was an Affiliate at the time of grant and such employer or other party ceases to be an Affiliate, even if the Participant continues to provide services to or be employed by such employer or party.

19. Rules of Construction. Headings are given to the Sections of this Agreement solely as a convenience to facilitate reference. The reference to any statute, regulation or other provision of law shall be construed to refer to any amendment to or successor of such provision of law unless the Committee determines otherwise.

20. Successors and Assigns. The Agreement shall be binding upon the Company and its successors and assigns, and the Participant and the Participant's executors, administrators, and permitted transferees and beneficiaries.

21. Right of Offset. Notwithstanding any other provision of the Plan or this Agreement (and taking into account any applicable Code Section 409A considerations), the Company may at any time reduce the amount of any distribution or benefit otherwise payable to or on behalf of the Participant by the amount of any obligation of the Participant to the Company or an Affiliate that is or becomes due and payable (including, but in no way limited to, any obligation that may arise under Section 304 of the Sarbanes-Oxley Act of 2002).

22. Forfeiture of Shares and/or Gain from Shares.

(a) Notwithstanding any other provision of this Agreement, if, at any time during the Participant's service to or employment with the Company or an Affiliate or during the 12-month period following termination of such service or employment for any reason (regardless of whether such termination was by the Company or the Participant, and whether voluntary or involuntary), the Participant engages in a Prohibited Activity (as defined herein), then: (A) the Option shall immediately be terminated and forfeited in its entirety; (B) any Shares shall immediately be forfeited and returned to the Company (without the payment by the Company of any consideration for such Shares), and the Participant shall cease to have any rights related thereto and shall cease to be recognized as the legal owner of such Shares; and (C) any Gain (as defined herein) realized by the Participant with respect to any Shares shall immediately be paid by the Participant to the Company.

(b) For purposes of this Agreement, a "Prohibited Activity" shall mean: (i) the Participant's solicitation or assisting any other person in so soliciting, directly or indirectly, of any customers, suppliers, vendors or other service providers to or of the Company or any Affiliate within the United States that the Participant learned confidential information about or had contact with through Participant's employment or service with the Company or an Affiliate for the purpose of inducing that customer, supplier, vendor or other service provider to terminate or alter Participant's or its relationship with the Company or an Affiliate; (ii) the Participant's inducement, directly or indirectly, of any employees or service providers to terminate their employment with or service to the Company or an Affiliate for the purpose of performing services for, assisting, advising or otherwise supporting any business which is competitive with the business of the Company or an Affiliate; (iii) the Participant's violation of any noncompetition, nonsolicitation or confidentiality restrictions or other restrictive covenants applicable to the Participant; (iv) the Participant's violation of any of the Company's policies, including, without limitation, the Company's insider trading policies; (v) the Participant's violation of any material (as determined by the Committee) federal, state or other law, rule or regulation; (vi) the Participant's disclosure or other misuse of any confidential information or material concerning the Company or an Affiliate (except as otherwise required by law or as agreed to by the parties herein); (vii) the Participant's dishonesty in a manner that negatively impacts the Company in any way; (viii) the Participant's refusal to perform Participant's duties for the Company or an Affiliate; (ix) the Participant's engaging in fraudulent conduct; or (x) the Participant's engaging in any conduct that is or could be materially damaging to the Company or its Affiliates without a reasonable good faith belief that such conduct was in the best interest of the Company or any of its Affiliates. The Committee shall have sole and absolute discretion to determine if a Prohibited Activity has occurred.

(c) For purposes of this Agreement, "Gain" shall mean, unless the Committee determines otherwise, an amount equal to: (i) the greater of: (A) the Fair Market Value per Share of the Shares (or portion thereof) at the time of exercise; or (B) the disposition price per Share of any Shares sold or disposed at the time of disposition; multiplied by (ii) the number of Shares sold or disposed of, minus (iii) the Option Exercise Price paid for the Shares (or portion thereof).

(d) Notwithstanding the provisions of Section 22(a) herein, the waiver by the Company in any one or more instances of any rights afforded to the Company pursuant to the terms of Section 22(a) herein shall not be deemed to constitute a further or continuing waiver of any rights the Company may have pursuant to the terms of this Agreement or the Plan (including, but not limited to, the rights afforded the Company in Section 21 herein).

(e) The Company and the Participant hereby expressly agree that, notwithstanding the other provisions of this Section 22, if the Participant has entered into a consulting or other agreement containing noncompetition, nonsolicitation, confidentiality or similar covenants, then the provisions contained in such agreement(s) with respect to the scope (e.g., duration, territory, or prohibited activity) of such restrictive covenants shall control (and thus prevail over Section 22(b)(i), Section 22(b)(ii) and Section 22(b)(iii) herein), unless the Committee should determine otherwise. In any event, the Company shall retain the forfeiture and recoupment rights provided in Section 22(a) in the event of a violation of such restrictive covenants unless, and then only to the extent prohibited by, or restricted under, Applicable Laws.

(f) By accepting this Agreement, and without limiting the effect of Section 21 herein, the Participant consents to a deduction (to the extent permitted by Applicable Laws) from any amounts the Company or an Affiliate may owe the Participant from time to time (including amounts owed to the Participant as compensation or fringe benefits, as well as any other amounts owed to the Participant by the Company or an Affiliate), to the extent of the amounts the Participant owes the Company pursuant to this Agreement, including but not limited to this Section 22. Whether or not the Company elects to make any set-off in whole or in part, if the Company does not recover by means of set-off the full amount owed by the Participant pursuant to this Agreement, the Participant agrees to immediately pay the unpaid balance to the Company. Further, by executing and returning this Agreement to the Company, the Participant acknowledges and agrees that (i) Participant has read the Plan and this Agreement in its entirety; (ii) Participant has had the opportunity to consult with legal counsel prior to execution of this Agreement; (iii) this Agreement is valid and binding upon, and enforceable against, the Participant in accordance with its terms, including, but not limited to, the restrictions contained in this Section 22; and (iv) the consideration for this Agreement is valuable and sufficient consideration.

[Signatures of the Company and the Participant follow on Schedule A / Grant Notice.]

CHARLES & COLVARD, LTD.
2018 EQUITY INCENTIVE PLAN
Independent Contractor Nonqualified Stock Option Agreement

Schedule A / Grant Notice

1. Pursuant to the terms and conditions of the Company's 2018 Equity Incentive Plan (the "Plan"), you (the "Participant") have been granted an option (the "Option") to purchase _____ shares (the "Shares") of our Common Stock as outlined below.

Name of Participant:	_____
Address:	_____

Grant Date:	_____, 20____
Number of Shares Subject to Option:	_____
Option Exercise Price:	\$ _____
Type of Option:	<u>Nonqualified Stock Option</u>
Expiration Date (Last day of Option Period):	_____, 20____
Vesting Schedule/Conditions:	_____

2. By my signature below, I, the Participant, hereby acknowledge receipt of this Grant Notice and the Option Agreement (the "Agreement") dated _____, 20____, between the Participant and Charles & Colvard, Ltd. (the "Company") which is attached to this Grant Notice. I understand that the Grant Notice and other provisions of Schedule A herein are incorporated by reference into the Agreement and constitute a part of the Agreement. By my signature below, I further agree to be bound by the terms of the Plan and the Agreement, including but not limited to the terms of this Grant Notice and the other provisions of Schedule A contained herein. The Company reserves the right to treat the Option and the Agreement as cancelled, void and of no effect if the Participant fails to return a signed copy of the Grant Notice within thirty (30) days of Grant Date stated above.

Signature: _____
Participant

Date: _____

Agreed to by:

CHARLES & COLVARD, LTD.

By: _____

Attest:

Note: If there are any discrepancies in the name or address shown above, please make the appropriate corrections on this form. Please retain a copy of the Agreement, including a signed copy of this Grant Notice, for your files.