

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): **April 17, 2014**

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.)

300 Perimeter Park Drive, Suite A
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))
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Item 5.02 Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers.

On April 17, 2014, the Compensation Committee of the Board of Directors (the “Committee”) of Charles & Colvard, Ltd. (the “Company”) approved (i) the Charles & Colvard, Ltd. Short-Term Incentive Plan (the “STI Plan”) and the Charles & Colvard, Ltd. Long-Term Incentive Program (the “LTI Program”) with effect as of January 1, 2014 and (ii) new forms of restricted stock award and nonqualified stock option agreements to be used by the Company for grants of restricted stock and stock options, respectively, to participants under the LTI Program. The STI Plan and LTI Program supersede and replace all prior annual bonus and long-term incentive plans or programs, including the Charles & Colvard, Ltd. Corporate Incentive Plan.

The STI Plan provides a short-term incentive opportunity payable as a cash award to the Company’s eligible employees. Executive officers are eligible for awards under the STI Plan based on threshold, target, and maximum performance levels set by the Committee, and the actual award amounts, if any, will therefore vary depending on the Company’s achievement of certain performance goals. Awards are determined based on the achievement of different target levels of EBITDA, revenues and personal objectives as set forth by the Committee. The Committee assigns the following weight to each factor for the Company’s executive officers: Chief Executive Officer and Chief Financial Officer performance achievement is based 70% on EBITDA, 20% on revenues, and 10% on personal objectives; Chief Operating Officer performance achievement is based 50% on EBITDA, 40% on revenues, and 10% on personal objectives; and President level and below performance achievement is weighted according to recommendations from management. The target award opportunity under the STI Plan for the Company’s executive officers will be calculated based on a percentage of each executive officer’s total base salary, with the Chief Executive Officer’s target bonus equal to 50% of his base salary, the Chief Financial Officer’s and the Chief Operating Officer’s target bonus equal to 45% of his base salary and the target bonus of officers at the President level and below equal to 40% of such officer’s base salary.

There will be no payout under the STI Plan for any performance cycle unless EBITDA is at least equal to a threshold level established by the Committee for this purpose. Any of the performance levels on the performance measures or the threshold EBITDA target can be adjusted for one-time events, including accounting charges not forecasted, as approved by the Committee. Under the STI Plan, each performance measure operates independently of the other measure. That is, an award may be paid when the threshold performance level is achieved for a single measure, without regard to results for any other measure. Actual award payouts for the Company’s executive officers can vary from 80% of target awards to 150% of target awards for achieving the maximum performance level. For performance below the threshold performance level of 80%, the payout percentage is 0%. The final determination of achievement with respect to the applicable targets and whether to pay in excess of, or below, the performance level achieved, will be made by the Committee in its sole discretion.

The LTI Program provides a long-term incentive opportunity through annual equity grants with three-year vesting periods to the Company’s executive officers. The target equity compensation under the LTI Program for executive officers will be calculated based on a percentage of each executive officer’s total base salary, with the Chief Executive Officer’s target grant equal to 80% of his base salary and the Chief Financial Officer’s, Chief Operating Officer’s and Presidents’ target grants equal to 60% of their base salary. The grants will be 70% in the form of stock options with performance- and time-based elements and 30% in the form of time-based restricted stock grants.

Stock options and restricted stock granted under the LTI Program will vest in three equal annual installments, beginning on the one-year anniversary of the grant date. In addition, the vesting of the stock options will be subject to the achievement of a budgeted level of EBITDA for the year in which they are granted. For eligible employees below the President level, equity grants will only be in the form of stock options that vest in three equal annual installments, beginning on the one-year anniversary of the grant date. Management will recommend the size of the stock option pool for grant to eligible employees below the President level, as well as the individual grants.

The new form of restricted stock award agreement outlines terms relating to grants of restricted stock awards, including but not limited to (i) the terms of vesting and earning of the restricted stock award, generally subject to the participant's continued service to the Company; (ii) acceleration provisions upon a change of control (as defined in the Charles & Colvard, Ltd. 2008 Stock Incentive Plan (the "2008 Plan")), subject to certain exceptions, and (iii) forfeiture provisions upon the termination of service of the participant for any reason or upon the participant engaging in a prohibited activity (as defined in the agreement).

The new form of nonqualified stock option award agreement outline terms relating to grants of stock options to participants, including but not limited to (i) the number of shares of common stock subject to the option and the purchase price for the option; (ii) the terms of vesting and exercisability of the option, generally subject to the participant's continued employment with or service to the Company; (iii) acceleration provisions upon a change of control (as defined in the 2008 Plan), subject to certain exceptions; and (iv) forfeiture provisions upon the termination of employment or service of the participant or upon the participant engaging in a prohibited activity (as defined in the agreement).

The foregoing descriptions of the STI Plan, LTI Program, form of restricted stock award agreement and form of nonqualified stock option award agreement do not purport to be complete and are qualified in their entirety by reference to the STI Plan, LTI Program, form of restricted stock award agreement and form of nonqualified stock option award agreement, copies of which are filed as Exhibits 10.1, 10.2, 10.3 and 10.4 to this Current Report on Form 8-K, respectively, and are incorporated herein by reference.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits.

Exhibit No.	Description of Document
10.1	Charles & Colvard, Ltd. Short-Term Incentive Plan, effective January 1, 2014
10.2	Charles & Colvard, Ltd. Long-Term Incentive Program, effective January 1, 2014
10.3	Form of Restricted Stock Award Agreement pursuant to the Charles & Colvard, Ltd. Long-Term Incentive Program
10.4	Form of Employee Nonqualified Stock Option Agreement pursuant to the Charles & Colvard, Ltd. Long-Term Incentive Program

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.

April 21, 2014

By: /s/ Kyle Macemore
Kyle Macemore
Senior Vice President and
Chief Financial Officer

EXHIBIT INDEX

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**CHARLES & COLVARD, LTD.
SHORT-TERM INCENTIVE PLAN**

Adopted April 17, 2014

The Charles & Colvard, Ltd. Short-Term Incentive Plan (the “Plan”) is a compensatory bonus plan established by Charles & Colvard, Ltd. (the “Company”) to provide performance-based cash bonuses to certain of the Company’s employees, including its executive officers.

Executive officers are eligible for annual bonuses under the Plan based on achievement of certain threshold, target, and maximum goals set for individual Performance Measures (as defined below) established by the Compensation Committee of the Company’s Board of Directors (the “Committee”) each year. As a result, the actual bonus amounts paid, if any, under the Plan will vary depending on the Company’s achievement of specified goals as well as certain individual performance objectives. The Plan’s performance cycle and performance goals are concurrent with the Company’s fiscal year ending December 31st.

The Plan supersedes and replaces all prior annual bonus plans or programs, including the Company’s Amended and Restated Corporate Incentive Plan (as amended August 30, 2013), for all periods beginning on or after January 1, 2014.

I. Short-Term Incentive Opportunity

A. Purpose and Objective

The Plan is intended to strengthen the Company’s pay for performance philosophy by providing Eligible Employees (as defined below) the opportunity to earn significant cash bonuses upon achieving annual Performance Measures established by the Committee to incent significant revenue growth and increase the overall profitability of the Company. The Plan places a strong emphasis on individual accountability to both organizational and individual performance objectives and is designed to ensure that a significant portion of Eligible Employees’ total cash compensation is comprised of bonuses that remain “at risk” or unearned unless specific performance goals are attained. In addition, the Plan is designed to ensure that the percentage of total compensation comprised of annual bonus awards increases with an employee’s overall role and scope within the Company and an individual’s ability to directly impact the achievement of specific performance goals. The Performance Measures used may vary from person to person under the Plan in order to tie each participant’s overall compensation to achievement of those specific Performance Measures most directly within their scope. The Plan also provides the Committee the flexibility and discretion to provide additional bonuses in recognition of extraordinary performance far exceeding target levels as well as downward discretion to reduce bonuses otherwise payable under the Plan as circumstances warrant.

B. Minimum Annual EBITDA Threshold to Fund the Plan

The Company must achieve a minimum level of earnings before interest, taxes, depreciation, and amortization (“EBITDA”) in order to fund the Plan and permit any payouts to be made under the Plan for a particular year. This minimum annual EBITDA funding threshold shall be established by the Committee in consultation with Company management each year. Provided the minimum annual EBITDA funding threshold is attained for a particular year, individual bonuses under the Plan shall be calculated based upon the level of achievement toward specific Performance Measures established by the Committee on an annual basis as further described below.

C. Performance Measures

Although the Committee may draw from any of the various “Performance Measures” set forth in the Charles & Colvard, Ltd. 2008 Stock Incentive Plan adopted by the Company effective May 27, 2008 (the “2008 Plan”) in establishing individual Performance Measures under the Plan, the Committee has determined that the most appropriate Performance Measures for tracking and rewarding short-term performance at the present time are: (1) EBITDA, (2) revenues, and (3) certain personal objectives. The weighing of the Performance Measures as a component of an individual’s overall bonus opportunity may vary from person-to-person and may vary from year-to-year depending upon the Committee’s determination of the most appropriate Performance Measures.

The Committee has adopted the following Performance Measures and their respective weightings for the Company’s executive officers because it believes these Performance Measures are key indicators of the Company’s overall financial and operating results:

Performance Measure	CEO	CFO	COO
EBITDA	70%	70%	50%
Revenue	20%	20%	40%
Personal Objectives	10%	10%	10%

The respective weightings of individual Performance Measures for other Company employees shall be determined by the Committee upon consultation with Company management or delegated to the Company’s executive officers as appropriate. The Committee shall establish specific performance targets or performance goals for each of the Performance Measures along with personal objectives for executive officers each year in consultation with management.

D. Target Bonus Awards

The Committee has established the following percentages of applicable officers’ Base Salary (as defined below) as overall targeted bonus awards under the Plan:

Position	Targeted Bonus (as percentage of Base Salary)
Chief Executive Officer (CEO)	50%
Chief Financial Officer (CFO)	45%
Chief Operating Officer (COO)	45%
Presidents and Below	40%

By way of illustration, when applying the weighted Performance Measures to the CEO's 50% targeted bonus award, the CEO's overall bonus will consist of the following three targeted bonus components: (1) an EBITDA component worth a total of 35% of Base Salary (e.g., 70% EBITDA component x 50% Base Salary = 35% Base Salary), (2) a revenue component worth a total of 10% of Base Salary, and (3) a Personal Objectives component worth a total of 5% of Base Salary assuming achievement at 100% of the targeted goals for each Performance Measure.

For purposes of this Plan, the term "Base Salary" shall mean an Eligible Employee's regular annualized base salary amount in effect as of the last day of the fiscal year for which the bonus award is payable and shall exclude any other bonuses, commissions, reimbursements, equity compensation proceeds, deferred compensation payments, disability benefits, fringe benefits, cash-outs, or other similar compensatory amounts included in an Eligible Employee's income for the applicable year.

E. Sliding Scale Used to Calculate Actual Bonus Payouts

Although the Committee established the above target bonus awards as a percentage of Base Salary assuming 100% achievement of each of the target Performance Measures, the actual bonus payouts under the Plan will be calculated using a sliding scale based upon the overall percentage of the targeted Performance Measure or target goal achieved for the applicable year. The Plan requires a minimum performance threshold of 80% toward the target performance goal under each Performance Measure before any bonus can be paid out for that particular component of the overall bonus payment. In addition, the Plan caps the maximum performance level at 150% of a specified performance goal for each Performance Measure unless the Committee elects to make an additional discretionary bonus award in cases of extraordinary performance.

For example, if the Company's performance for a particular year is at only 75% of a specified Performance Measure, there will be no bonus payouts for that Performance Measure under the Plan for that year. On the other hand, if the Company's performance attained 200% of a particular Performance Measure, the bonus payout under the Plan will be capped at 150% of the target bonus amount for that Performance Measure. By way of further illustration, in the event of 90% achievement of each of the Performance Measures for a particular year, the CEO would be entitled to 90% of his targeted bonus award or a total cash bonus equal to 45% of Base Salary. Alternatively, in the case of 120% achievement of each of the Performance Measures for a given year, the CEO would be entitled to 120% of his targeted bonus award or a total cash bonus equal to 60% of Base Salary.

Under the Plan, each Performance Measure shall operate independently of the other Performance Measures provided that the minimum annual EBITDA funding threshold has been achieved and payouts are permitted under the Plan. Accordingly, an award may be paid under the Plan for a particular Performance Measure provided threshold performance is achieved for that particular Performance Measure without regard to the results of the other Performance Measures. For example, if the Company achieves at least the minimum EBITDA and Revenue thresholds for a year but an officer fails to meet the threshold requirement for the officer's personal objectives for that year, the officer may still be eligible to receive payments pursuant to the EBITDA and Revenue components (with the targeted bonus amounts for each component calculated to be based on the actual percentage of targeted performance goal actually achieved) even though the officer will not be eligible for a payment under the personal objectives component of the bonus.

Any of the Company's performance levels on the Performance Measures or the threshold EBITDA target may be adjusted for one-time events, including accounting charges not forecasted, as approved by the Committee.

F. Discretion to Recognize Extraordinary Performance or Underachievement

The Committee may, in its sole discretion, make award payouts or otherwise increase, reduce, or eliminate payouts that would otherwise be made under the Plan, including the discretion to make bonus awards beyond the 150% cap generally applicable to bonus payouts under the Plan in the case of extraordinary performance.

G. Coordination with 2008 Stock Incentive Plan

Notwithstanding the foregoing, if the Committee determines that it is in the best interests of the Company for the short-term bonus awards made pursuant to this Plan to comply with the performance-based compensation exception to Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"), the Committee may, in its discretion, instead make such short-term incentive awards in the form of Performance Awards issued under and pursuant to the appropriate Performance Measures set forth in the Charles & Colvard, Ltd. 2008 Stock Incentive Plan adopted by the Company effective May 27, 2008 (the "2008 Plan"), or any successor equity incentive plan approved by the Company and its shareholders, as applicable for purposes of complying with Code Section 162(m). The Plan shall be subject to the terms and conditions of the 2008 Plan or any successor equity incentive plan of the Company, as applicable.

II. Terms and Conditions of the Plan

A. Administration of the Plan

The Plan shall be administered by the independent members of the Board or, upon the Board's delegation, by the Compensation Committee of the Board (the "Committee").

In addition to action by meeting in accordance with applicable law, any action of the Committee with respect to the Plan may be taken by a written instrument signed by all of the members of the Committee and any such action so taken by written consent shall be as fully effective as if it had been taken by a majority of the members at a meeting duly held and called.

Subject to the provisions of the Plan, the Committee shall have full and final authority in its discretion to take any action with respect to the Plan including, without limitation, authority to:

(1) determine all matters relating to any awards under the Plan, including selection of individuals to be granted bonuses or awards, the Performance Measures to be used, the mix and appropriate weighting of each Performance Measure as well as personal objectives to be used under the Plan, the types of bonuses and awards, and all terms, conditions, restrictions and limitations of a bonus or award;

- (2) prescribe the form or forms of any agreements, if any, evidencing any awards granted under the Plan;
- (3) establish, amend and rescind rules and regulations for administering the Plan;
- (4) construe and interpret the Plan and any agreements evidencing awards granted under the Plan, to establish and interpret rules and regulations for administering the Plan and to make all other determinations deemed necessary or advisable for administering the Plan; and
- (5) in its sole discretion, adjust the EBITDA calculation for one-time events, including accounting charges not forecasted, as approved by the Committee.

In addition, except to the extent otherwise required under Code Section 409A, related regulations or other guidance, the Committee shall have authority, in its sole discretion, to accelerate the date that any award that was not otherwise exercisable or vested shall become exercisable or vested in whole or in part without any obligation to accelerate such date with respect to any other awards granted to any recipient. The Committee also shall have the authority and discretion to establish terms and conditions of awards (including but not limited to the establishment of subplans) as the Committee determines to be necessary or appropriate to conform to the applicable requirements or practices of jurisdictions outside of the United States.

B. Eligible Employees

Each of the Company's executive officers employed at the beginning of the Company's fiscal year shall be eligible to participate in the Plan for that year. In addition to the Company's executive officers, no later than the first regularly scheduled meeting of the Committee coinciding with the Committee's adoption of the Plan and the first regularly scheduled meeting of the Committee in each subsequent fiscal year (the "Effective Date"), the Committee shall expressly designate the employees eligible to participate in the Plan (such employees along with the executive officers herein referred to as the "Eligible Employees") for such fiscal year upon recommendation of the Chief Executive Officer of the Company. Participation in the Plan in any one year does not guarantee the right to participate in any other year.

The Committee shall have full authority and discretion to reduce or eliminate all awards made pursuant to the Plan at any time.

Eligible Employees must be employed on the date awards are paid pursuant to Section II.D. of the Plan in order to receive a payout. Notwithstanding the foregoing, the Committee may, in its sole and exclusive discretion, provide for awards to be paid to Eligible Employees (or their heirs, as applicable) whose employment with the Company has terminated due to death or Disability (as defined below) or for other exceptional reasons; provided, however, that such bonus amounts, if any, be prorated based on the period of service rendered to the Company and expressly scheduled by the Committee to be paid in the same calendar year other bonuses for the applicable fiscal year are to be paid under the Plan. The term "Disability" for purposes of this Plan shall have the meaning ascribed to such term in Treasury Regulations Section 1.409A-3(i)(4).

C. Commencement of Employment After Effective Date for a Particular Year

Non-Officer Employees

Any non-officer employee of the Company who commences employment with the Company after the Effective Date for a particular fiscal year may be designated an Eligible Employee for purposes of the Plan for such fiscal year at the discretion of the Chief Executive Officer and upon concurrence of the Chairperson of the Committee; provided that any non-officer employee who commences his/her employment during the fourth fiscal quarter of a year will not be eligible to participate in the Plan for such fiscal year unless the Committee expressly approves such participation.

Executive Officers

Any executive officer of the Company who commences employment with the Company after the Effective Date for a particular fiscal year may be designated an Eligible Employee for purposes of the Plan for such fiscal year at the discretion and upon approval of the Committee.

Pro-Ration of Awards

Any non-officer employee or executive officer who is designated an Eligible Employee pursuant to this Section II.C. of the Plan after the Effective Date of a fiscal year will have any award amounts for that fiscal year pro-rated in a manner as determined by the Committee.

D. Timing of Awards Under the Plan

As soon as practicable upon the completion of the annual audit by the Company's independent accountant and delivery of an audit opinion to the Company by such accountant for the applicable fiscal year and the Committee's review and certification of attainment of specified performance goals, as applicable, each of the Eligible Employees shall be eligible to receive a cash bonus award as described in this Plan.

E. Source of Performance Awards

Any Performance Awards made under the Plan shall be issued under and pursuant to the 2008 Plan. With respect to any Performance Awards made under the Plan, all terms, conditions, and requirements of such 2008 Plan are incorporated into the Plan by reference. For any Performance Awards, to the extent that there is a contradiction between the Plan and the 2008 Plan or an ambiguity as to the provisions of the Plan, the terms of such 2008 Plan shall control.

F. Compliance with Code Section 409A

The Plan is designed to permit awards under the Plan to be exempt from regulation under Code Section 409A by generally requiring participants to remain employed with the Company through payment of the awards and requiring that the Committee specify the year of payment in the event of bonuses paid out following separation from service due to death or Disability or for other exceptional reasons as determined in the Committee's sole discretion. Notwithstanding any other provision in the Plan or an award to the contrary, if and to the extent that Section 409A of the Code is deemed to apply to the Plan or any bonus or award granted under the Plan, it is the general intention of the Company that the Plan and all such awards shall comply with Code Section 409A, related regulations or other guidance, and the Plan and any such award shall, to the extent practicable, be construed in accordance therewith. Deferrals of cash distributable pursuant to the Plan in a manner that would cause Code Section 409A to apply shall not be permitted. Without in any way limiting the effect of the foregoing, in the event that Code Section 409A, related regulations or other guidance require that any special terms, provisions or conditions be included in the Plan or any award, then such terms, provisions and conditions shall, to the extent practicable, be deemed to be made a part of the Plan or award, as applicable. Further, in the event that the Plan or any award shall be deemed not to comply with Code Section 409A or any related regulations or other guidance, then neither the Company, the Board nor its or their designees or agents shall be liable to any participant or other person for actions, decisions or determinations made in good faith.

G. Applicable Law

The Plan shall be governed by and construed in accordance with the laws of the State of North Carolina, without regard to the conflicts of laws provisions of any state, and in accordance with applicable federal laws of the United States.

H. Amendment and Termination of the Plan

The Plan and any award may be amended or terminated at any time by the Board or the Committee. No action to amend or terminate the Plan or an award shall permit the acceleration of the time or schedule or any payment of amounts deemed to involve the deferral of compensation under Code Section 409A, except as may be otherwise permitted under Section 409A, related regulations or other guidance.

Without limiting the effect of this Section II.H., the Board shall have unilateral authority to amend the Plan and any award (without participant consent) to the extent necessary to comply with applicable laws, rules or regulations or changes to applicable laws, rules or regulations (including but not limited to Code Section 409A, federal securities laws or related regulations or other guidance).

I. No Right or Obligation of Continued Employment

Nothing contained in the Plan shall require the Company or a related corporation to continue the employment or service of an employee, nor shall any such individual be required to remain in the employment or service of the Company or a related corporation. Except as otherwise expressly provided in the Plan (or 2008 Plan, if applicable), all rights of a participant with respect to any award shall terminate upon the participant's termination of employment or service with the Company.

J. Compliance with Laws

The Board may impose such restrictions on any payments or awards hereunder as it may deem advisable, including without limitation restrictions under the Securities Act of 1933, as amended (the "Securities Act"), under the requirements of any stock exchange or similar organization and under any blue sky, state or foreign securities laws. Notwithstanding any other Plan provision to the contrary, the Company shall not be obligated to issue, deliver or transfer shares of common stock under the Plan, make any other distribution of benefits under the Plan or take any other action, unless such delivery, distribution or action is in compliance with all applicable laws, rules and regulations (including but not limited to the requirements of the Securities Act). In the event Performance Awards under the 2008 Plan, the Company may cause a restrictive legend to be placed on any certificate issued hereunder in such form as may be prescribed from time to time by applicable laws and regulations or as may be advised by legal counsel.

K. Unfunded Plan; No Effect on Other Plans

The Plan shall be unfunded, and the Company shall not be required to create a trust or segregate any assets that may at any time be represented by awards under the Plan. The Plan shall not establish any fiduciary relationship between the Company and any employee or other person. Neither an employee nor any other person shall, by reason of the Plan, acquire any right in or title to any assets, funds or property of the Company or any related corporation, including, without limitation, any specific funds, assets or other property that the Company or any related corporation, in their discretion, may set aside in anticipation of a liability under the Plan. A participant shall have only a contractual right to bonus amounts, if any, payable under the Plan, unsecured by any assets of the Company or any related corporation. Nothing contained in the Plan shall constitute a guarantee that the assets of such entities shall be sufficient to pay any benefits to any person.

The amount of any compensation deemed to be received by a participant pursuant to an award shall not constitute compensation with respect to which any other employee benefits of such participant are determined, including, without limitation, benefits under any bonus, pension, profit sharing, life insurance or salary continuation plan, except as otherwise specifically provided by the terms of such plan or as may be determined by the Board or Committee.

The adoption of the Plan shall not affect any other compensation plans in effect for the Company or any related corporation, nor shall the Plan preclude the Company from establishing any other forms of compensation for employees or service providers of the Company or any related corporation.

L. Withholding; Tax Matters

The Company shall withhold, or shall require the participant to pay the Company in cash, the amount of any local, state, federal, foreign or other tax or other amount required by any governmental authority to be withheld and paid over by the Company to such authority for the account of the participant.

The Company makes no warranties or representations with respect to the tax consequences (including but not limited to, income tax consequences) related to the transactions contemplated by this Plan. A participant should consult with his/her own attorney, accountant, and/or tax advisor regarding the decision to participate in the Plan and the consequences thereof. The Company has no responsibility to take or refrain from taking any actions in order to achieve a certain tax result for any participant.

**CHARLES & COLVARD, LTD.
LONG-TERM INCENTIVE PROGRAM**

Adopted April 17, 2014

The Charles & Colvard, Ltd. Long-Term Incentive Program (the “Program”) is a compensatory program established pursuant to the Charles & Colvard, Ltd. 2008 Stock Incentive Plan (the “2008 Plan”). The Program is intended to guide the Compensation Committee (the “Committee”) of the Board of Directors of Charles & Colvard, Ltd. (the “Company”) in making annual long-term equity compensation awards to the Company’s executive officers and other Eligible Employees (as defined below) pursuant to the 2008 Plan.

The Program supersedes and replaces all prior long-term incentive plans or programs, including the Company’s Amended and Restated Corporate Incentive Plan (amended August 30, 2013) for all periods commencing on or after January 1, 2014.

Purpose and Objective

The Program is intended to further strengthen the Company’s pay for performance philosophy and more closely align the Eligible Employee’s long-term interests with the Company and its shareholders’ by granting Eligible Employees significant long-term equity compensation awards. In addition, the Program provides for a mixture of both performance-based and time-based vesting to permit the Committee to tie vesting of equity compensation awards under the 2008 Plan to the attainment of specific Performance Measures under the 2008 Plan while also encouraging the longer-term retention of Eligible Employees.

Targeted Annual Equity Compensation Award Levels

The Program serves as a guide to the Committee and executive officers with respect to permitting consistent grants of annual equity compensation awards pursuant to the 2008 Plan. Nothing in the Program, however, obligates the Committee to make annual equity compensation awards to executive officers or other Eligible Employees for a particular year.

The Committee has established the following targets for the value of equity compensation awards to be provided under the Program when calculated as a percentage of an officer’s Base Salary (as defined below):

Position	Targeted Award (as percentage of Base Salary)
Chief Executive Officer (CEO)	80%
Chief Financial Officer (CFO)	60%
Chief Operating Officer (COO)	60%
Presidents and Below	60%

For Eligible Employees below the President level, the Committee, in consultation with Company management, will reserve a pool of the Company's Common Stock to be reserved for award of stock options pursuant to the 2008 Plan. The Committee will delegate to corporate officers authority to award stock options subject to certain award limits and subject to standard stock option award agreements under the 2008 Plan to Eligible Employees below the President level. The number of options granted to Eligible Employees below the President level may be determined by executive officers by using a percentage of an Eligible Employee's Base Salary or by such other criteria as the executive officers in their discretion deem appropriate.

The Program provides the Committee discretion to make additional equity compensation awards above the targeted award level in recognition of extraordinary performance or, alternatively, reduce targeted award levels as circumstances warrant.

For purposes of the Program, the term "Base Salary" shall mean an Eligible Employee's regular annualized base salary amount in effect as of the date the equity compensation award is granted, excluding any bonuses, commissions, reimbursements, equity compensation proceeds, deferred compensation payments, disability benefits, fringe benefits, cash-outs, or other similar compensatory amounts included in an Eligible Employee's overall income.

Composition of Equity Compensation Awards

Awards to Executive Officers and Presidents

Equity compensation awards granted to officers at the President level and above shall include a mix of both Nonqualified Stock Options ("NSOs") and Restricted Stock Awards pursuant to the 2008 Plan. The Committee anticipates annual equity compensation awards under the Program shall consist of seventy percent (70%) NSOs and thirty percent (30%) Restricted Stock Awards. All equity compensation awards under the Program shall be subject to three-year vesting schedules.

NSO Awards

NSOs granted to officers at the President level and above under the Program will include a mix of both performance-based and time-based vesting. The performance-based vesting component shall provide for one-third (1/3) vesting of the option provided the Company achieves certain minimum targeted earnings before interest, taxes, depreciation, and amortization ("EBITDA") for the fiscal year for which the NSO was granted. The EBITDA target for such purposes shall be established by the Committee, in consultation with Company management, at the beginning of the applicable fiscal year and may be the same as or different from EBITDA targets established under the Company's Short-Term Incentive Plan or other Company bonus plans or programs.

One hundred percent (100%) of the EBITDA target must be achieved in order for an optionee to vest in the portion of the NSO subject to the EBITDA performance goal. If the EBITDA target is not achieved at the end of the fiscal year for which the NSO was granted, the entire NSO shall be immediately forfeited and the optionee shall have no further rights or interests in the NSO.

If the EBITDA target for the fiscal year for which the NSO was granted is achieved, one-third (1/3) of the NSO award (rounded down to the nearest whole share, if applicable) shall vest on the first anniversary of the NSO grant date provided the optionee remains in continuous service with the Company through the NSO grant date. In addition, another one-third (1/3) of the NSO (rounded down to the nearest whole share, if applicable) shall vest on the second anniversary of the NSO grant date with the remaining portion of the NSO vesting in full on the third anniversary of the NSO grant date provided the optionee remains in continuous service with the Company through each vesting date.

Restricted Stock Awards

Restricted Stock Awards granted under the Program will also be subject to a three year vesting schedule with one-third (1/3) of the restricted shares (rounded down to the nearest whole share, if applicable) vesting on each of the first and second anniversaries of the award date and the remaining shares vesting in full on the third anniversary of the award date provided the recipient remains in continuous service with the Company through each vesting date.

Awards to Other Eligible Employees

Awards granted to Eligible Employees below the President level under the Program shall consist entirely of NSOs. The NSOs may include a mix of performance-based and time-based vesting or may be subject solely to time-based vesting as the Committee, in the Committee's sole discretion, may provide. In all cases, however, NSOs awarded pursuant to the Program shall be subject to a three year or longer vesting schedule unless the Committee expressly approves awards subject to a shorter vesting schedule.

Committee Discretion in Making Awards and Administering the Program

The Committee may grant equity compensation awards at levels above or below the targeted award levels as the Committee, in the Committee's sole discretion, deems appropriate. Executive officers who join the Company during a fiscal year may be eligible for equity compensation awards in conjunction with their hiring or may otherwise be eligible for equity compensation awards pursuant to the Program, including prorated awards, as the Committee shall determine.

Participants must remain in continuous service with the Company through the applicable vesting dates, including the first anniversary of the NSO grant date for NSOs subject to performance-based vesting, in order to receive the award.

The Committee shall have full and absolute discretion to adjust the threshold EBITDA target applicable to the portion of the NSO subject to performance-based vesting for one-time events, including accounting charges not forecasted, as approved by the Committee.

For NSOs granted to officers and above under the Program, the applicable EBITDA Performance Measure shall serve as a threshold requirement in order for the officers to have the potential to actually vest in any portion of the NSO by remaining in continuous service with the Company on each of the first three anniversaries of the NSO grant date.

Eligible Employees

Each of the Company's executive officers and the Company's other officers employed at the President level or above as of the date this Program is adopted and as of the beginning of each of the Company's subsequent fiscal years shall be eligible to participate in the Program and receive equity compensation awards granted by the Committee for that particular year. In addition, the Company's management shall, no later than the first regularly scheduled meeting of the Committee coinciding with the Committee's adoption of this Program and the first regularly scheduled meeting of the Committee in each subsequent fiscal year (the "Effective Date"), provide to the Committee the list of other Company employees selected to receive equity compensation awards pursuant to the Program (such employees along with the executive officers herein referred to as the "Eligible Employees") for such fiscal year. Participation in the Program in any one year shall not guarantee the right to participate in any other year.

Any non-officer employee of the Company who commences employment with the Company after the Effective Date for a particular fiscal year may be designated an Eligible Employee for purposes of the Program for such fiscal year at the discretion of the Committee or executive officer delegated authority for granting equity compensation awards under the Program; provided, however, that any non-officer employee who commences employment during the fourth fiscal quarter of a year shall not be eligible to participate in the Program for said fiscal year unless the Committee expressly approves such participation.

Source of Equity Compensation Awards; Coordination with 2008 Plan

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

Amendment and Termination of the Program

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

Withholding; Tax Matters

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

CHARLES & COLVARD, LTD.
2008 STOCK INCENTIVE PLAN

Restricted Stock Award Agreement
Pursuant to Long-Term Incentive Program

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

RECITALS:

In furtherance of the purposes of the Charles & Colvard, Ltd. 2008 Stock Incentive Plan, as it may be hereafter amended and/or restated (the "Plan"), the Charles & Colvard, Ltd. Long-Term Incentive Program adopted April 17, 2014 (the "LTIP"), 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 Corporation and the Participant hereby agree as follows:

1. **Incorporation of Plan.** The rights and duties of the Corporation 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 with 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 such date or dates and satisfaction of such conditions as described in Schedule A, which is attached hereto and expressly made a part of this Agreement.

The number of shares of common stock of the Corporation (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, the LTIP and the Plan, the Corporation 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 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 upon such date or dates, and subject to such conditions, as are described in this Agreement, including but not limited to the terms of Schedule A, attached hereto. The Administrator has sole 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 of Control.

(a) In the event of a Change of Control (as defined in the Plan), the Award, if outstanding as of the date of such Change of Control, shall become fully vested, whether or not then otherwise vested.

(b) Notwithstanding the foregoing, in the event that a Change of Control event occurs, the Administrator may, in its sole and absolute discretion, determine that the Award shall not vest on an accelerated basis, if the Corporation or the surviving or acquiring corporation, 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 Administrator 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 Administrator authorized to make the determinations provided for in this Section 5(b), the Committee shall be appointed by the Board of Directors, two-thirds of the members of which shall have been Directors of the Corporation prior to the Change of Control event.

(c) The Administrator shall have full and final authority, in its discretion, to determine whether a Change of Control of the Corporation has occurred, the date of the occurrence of such Change of 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 for any reason (whether by the Corporation or the Participant and whether voluntary or involuntary) and all or part of the Award has not yet vested pursuant to Section 4, Section 5 and/or Schedule A herein, 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 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 his or her employment shall result in forfeiture of the Award and the Shares to the extent the Award has not vested as of his or her Termination Date. Notwithstanding the above provisions of this Section 6, unless the Administrator determines otherwise, if the Participant terminates employment with the Corporation (for any reason other than death) but enters into a written agreement to provide continuing services without interruption to the Corporation or an Affiliate as an Independent Contractor, the Participant shall continue to be treated as an Employee of or in service to the Corporation and shall not be treated as having a termination of employment until the later of the date he is no longer an Employee of the Corporation or an Affiliate or the date he is no longer in service as an Independent Contractor (as determined by the Administrator, in the Administrator's discretion).

7. Settlement of Award. The Award shall be payable in whole shares of Common Stock.

8. No Right of Employment; Forfeiture of Award. None of the Plan, the LTIP, this Agreement, the grant of the Award, or any other action or documentation related to the Plan or the LTIP shall confer upon the Participant any right to continue in the employment of the Corporation or an Affiliate or interfere with the right of the Corporation 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 Corporation with respect to the grant of the Award, any other equity-based awards or any related 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 Corporation, 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, the LTIP, 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 Administrator 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 in no way limited to Code Section 409A and federal securities laws). The waiver by the Corporation 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. Certificates for Shares; Rights as Shareholder. Unless the Administrator 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 Administrator 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 Administrator 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 Administrator may require that: (a) the Participant deliver the certificate(s) (or other written instruments) for the Shares to the Administrator 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 Corporation) and/or (b) the Participant deliver to the Corporation a stock power (or similar instrument), endorsed in blank, relating to the Shares subject to the Award that are subject to forfeiture. Except as otherwise provided in the Plan or this Agreement, the Participant will have all voting, dividend and other rights of a shareholder with respect to the Shares following issuance of the certificate or certificates for the Shares.

14. Withholding; Tax Matters.

(a) The Participant acknowledges that the Corporation shall require the Participant to pay the Corporation in cash the amount of any local, state, federal, foreign or other tax or other amount required by any governmental authority to be withheld and paid over by the Corporation to such authority for the account of the Participant, 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. Notwithstanding the foregoing, the Administrator 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 Corporation 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 Administrator in accordance with election procedures established by the Administrator.

(b) The Participant acknowledges that the Corporation 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 Corporation 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 he or she should consult with his 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 Corporation 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 Administrator, and the Administrator shall have all powers with respect to this Agreement as are provided in the Plan. Any interpretation of this Agreement by the Administrator and any decision made by the Administrator 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 Corporation's records (or at such other address as may be designated by the Participant in a manner acceptable to the Administrator), or if to the Corporation, at the Corporation'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 Corporation 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 Corporation 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 Corporation 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 Corporation will have no liability for any inability or failure to do so. The Corporation 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 Administrator 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 Administrator determines that allowing issuance of Common Stock (or distribution of other benefits) would violate any federal or state securities laws, and the Administrator 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 Administrator 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 occur. In addition, unless otherwise determined by the Administrator, in the Administrator'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 his employer was an Affiliate at the time of grant and such employer or other party ceases to be an Affiliate, even if he 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 Administrator determines otherwise.

22. Successors and Assigns. The Agreement shall be binding upon the Corporation and its successors and assigns, and the Participant and his or her 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), the Corporation 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 Corporation 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 Corporation 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 Corporation 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 Corporation (without the payment by the Corporation 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 herein) realized by the Participant with respect to any Shares shall immediately be paid by the Participant to the Corporation.

(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 Corporation or any Affiliate within the United States that the Participant learned confidential information about or had contact with through his employment or other service with the Corporation or an Affiliate within the United States for the purpose of inducing that customer, supplier, vendor or other service provider to terminate or alter his or its relationship with the Corporation 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 Corporation 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 Corporation 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 Corporation’s policies, including, without limitation, the Corporation’s insider trading policies; (v) the Participant’s violation of any material (as determined by the Administrator) federal, state or other law, rule or regulation; (vi) the Participant’s disclosure or other misuse of any confidential information or material concerning the Corporation 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 Corporation in any way; (viii) the Participant’s refusal to perform his duties for the Corporation 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 Corporation or its Affiliates without a reasonable good faith belief that such conduct was in the best interest of the Corporation or any of its Affiliates. The Administrator 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 Administrator 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 Corporation in any one or more instances of any rights afforded to the Corporation pursuant to the terms of Section 24(a) herein shall not be deemed to constitute a further or continuing waiver of any rights the Corporation may have pursuant to the terms of this Agreement or the Plan (including, but not limited to, the rights afforded the Corporation in Section 23 herein).

(e) The Corporation 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 Administrator should determine otherwise. In any event, the Corporation 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 Corporation 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 Corporation or an Affiliate), to the extent of the amounts the Participant owes the Corporation pursuant to this Agreement, including but not limited to this Section 24. Whether or not the Corporation elects to make any set-off in whole or in part, if the Corporation 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 Corporation. Further, by executing and returning this Agreement to the Corporation, 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 Corporation and the Participant follow on Separate Page.]

IN WITNESS WHEREOF, this Agreement has been executed in behalf of the Corporation 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.
2008 STOCK INCENTIVE PLAN**

Restricted Stock Award Agreement

SCHEDULE A

SERVICE MEASURES

Grant Date: _____, ____.

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 Agreement²:

<u>Date of Vesting</u>	<u>Shares Vested</u>
1 st Anniversary of Grant Date	1/3 (rounded down to nearest whole share)
2 nd Anniversary of Grant Date	1/3 (rounded down to nearest whole share)
3 rd Anniversary of Grant Date	All Remaining Shares

² Vesting of the Award is subject to continued employment or service of the Participant and the other terms and conditions imposed under the Plan and/or this Agreement.

**CHARLES & COLVARD, LTD.
2008 STOCK INCENTIVE PLAN**

**Employee Nonqualified Stock Option Agreement
For Grants Pursuant to Long-Term Incentive Program**

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 "Corporation"), and _____, an Employee of the Corporation or an Affiliate (the "Participant");

RECITALS:

In furtherance of the purposes of the Charles & Colvard, Ltd. 2008 Stock Incentive Plan, as it may be hereafter amended and/or restated (the "Plan"), the Charles & Colvard, Ltd. Long-Term Incentive Program adopted April 17, 2014 (the "LTIP"), 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 Corporation and the Participant hereby agree as follows:

1. Incorporation of Plan. The rights and duties of the Corporation 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 Corporation hereby grants to the Participant pursuant to the Plan and the LTIP, as a matter of separate inducement and agreement in connection with his or her employment or service to the Corporation, and not in lieu of any salary or other compensation for his or her 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 Corporation (the "Common Stock") at a purchase price (the "Option 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 Corporation and the Participant further acknowledge and agree that the signatures of the Corporation and the Participant on the Grant Notice contained in Schedule A 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 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), the LTIP and the Plan. Upon the exercise of the Option in whole or in part and payment of the Option Price in accordance with the provisions of the Plan and this Agreement, the Corporation 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 Price may be made in the form of cash or cash equivalent; provided that, except where prohibited by the Administrator and/or Applicable Laws (and subject to any terms and conditions that may be established by the Administrator), payment may also be made as follows: (i) by delivery (by either actual delivery or attestation) of shares of Common Stock previously 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 Corporation; (iii) by delivery of written notice of exercise to the Corporation and delivery to a broker of written notice of exercise and irrevocable instructions to promptly deliver to the Corporation the amount of sale or loan proceeds to pay the Option Price; (iv) by such other payment methods as may be approved by the Administrator 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. None of the Plan, the LTIP, this Agreement, the grant of the Option, or any other action or documentation related to the Plan shall confer upon the Participant any right to continue in the employment or service of the Corporation or an Affiliate or interfere with the right of the Corporation 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 service.

5. Termination of Employment. The Option shall not be exercised unless the Participant is, at the time of exercise, an Employee or in service as described in the Plan and has been an Employee or in service to the Corporation continuously 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. The Administrator 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: (i) the close of the one-year period following the Termination Date; or (ii) 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 his or her Termination Date, as determined by the Administrator. 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 Corporation 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 Corporation 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 Corporation's business, (I) misappropriation of the Corporation's assets, or (J) engaging in any conduct that could be materially damaging to the Corporation without a reasonable good faith belief that such conduct was in the best interest of the Corporation. The determination of "Cause" shall be made by the Administrator and the Administrator's determination shall be conclusive, final, and binding in all respects. 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 Administrator, the Participant's 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: (i) the close of the period of three months next succeeding the Termination Date; or (ii) 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 (i) or (ii) 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 Administrator determines otherwise, if the Participant terminates employment with the Corporation (for any reason other than death or for Cause) but enters into a written agreement to provide continuing services without interruption to the Corporation or an Affiliate as an Independent Contractor, he shall continue to be treated as an Employee of or in service to the Corporation and his Termination Date shall not be treated as occurring until the later of the date he is no longer an Employee of the Corporation or an Affiliate or the date he is no longer in service as an Independent Contractor (as determined by the Administrator in its discretion).

6. Effect of Change of Control.

(a) In the event of a Change of Control (as defined in the Plan), the Option, if outstanding as of the date of such Change of Control, shall become fully exercisable, whether or not then otherwise exercisable. In such event, the Administrator may: (i) determine that the Option must be exercised, if at all, within a fixed time period (as determined by the Administrator) following or prior to such Change of 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 of Control event occurs, the Administrator may, in its sole and absolute discretion, determine that the Option shall not vest or become exercisable on an accelerated basis, if the Corporation or the surviving or acquiring corporation, 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 Administrator 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 Administrator 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 Corporation prior to the Change of Control event.

(c) The Administrator shall have full and final authority, in its discretion, to determine whether a Change of Control of the Corporation has occurred, the date of the occurrence of such Change of 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 Administrator in a manner consistent with the registration provisions of the Securities Act. The Option shall be exercisable during the Participant's lifetime only by the Participant or by the 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 Corporation with respect to the grant of the Option, any other equity-based awards or any related 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 Corporation, 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, the LTIP, 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 Administrator 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 Corporation 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 the 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 him or her 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 Corporation shall require the Participant to pay the Corporation in cash the amount of any local, state, federal, foreign or other tax or other amount required by any governmental authority to be withheld and paid over by the Corporation to such authority for the account of the Participant, 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. Notwithstanding the foregoing, the Administrator 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 Corporation 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 Administrator in accordance with election procedures established by the Administrator.

(b) The Participant acknowledges that the Corporation 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 Corporation 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 he or she should consult with his or her 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 Corporation 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 Administrator, and the Administrator shall have all powers with respect to this Agreement as are provided in the Plan. Any interpretation of this Agreement by the Administrator and any decision made by the Administrator with respect to this Agreement shall be conclusive, final, and binding in all respects.

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 Administrator), or, if to the Corporation, at the Corporation'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 Corporation 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 securities. Notwithstanding any other provision in the Plan or the Agreement to the contrary, the Corporation 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 Corporation 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 Corporation will have no liability for any inability or failure to do so. The Corporation 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 Administrator may suspend the right to exercise the Option or dispose of shares of Common Stock at any time when the Administrator determines that allowing issuance of Common Stock (or distribution of other benefits) would violate any federal or state securities laws, and the Administrator 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 Administrator 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 occur. In addition, unless otherwise determined by the Administrator, in the Administrator's discretion, for purposes of the Plan, a Participant shall be considered to have terminated employment and to have ceased to be an Employee if his employer was an Affiliate at the time of grant and such employer or other party ceases to be an Affiliate, even if he continues to 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 Administrator determines otherwise.

20. Successors and Assigns. The Agreement shall be binding upon the Corporation and its successors and assigns, and the Participant, and his or her 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 Code Section 409A considerations), the Corporation 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 Corporation 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 the Corporation or an Affiliate or during the 12-month period following termination of employment for any reason (regardless of whether such termination was by the Corporation or the Participant, and whether voluntary or involuntary), the Participant engages in a Prohibited Activity (as defined herein), then: (i) the Option shall immediately be terminated and forfeited in its entirety; (ii) any Shares shall immediately be forfeited and returned to the Corporation (without the payment by the Corporation 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 herein) realized by the Participant with respect to any Shares shall immediately be paid by the Participant to the Corporation.

(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 Corporation or any Affiliate within the United States that the Participant learned confidential information about or had contact with through his employment or service with the Corporation or an Affiliate for the purpose of inducing that customer, supplier, vendor or other service provider to terminate or alter his or its relationship with the Corporation 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 Corporation 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 Corporation 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 Corporation's policies, including, without limitation, the Corporation's insider trading policies; (v) the Participant's violation of any material (as determined by the Administrator) federal, state or other law, rule or regulation; (vi) the Participant's disclosure or other misuse of any confidential information or material concerning the Corporation 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 Corporation in any way; (viii) the Participant's refusal to perform his duties for the Corporation 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 Corporation or its Affiliates without a reasonable good faith belief that such conduct was in the best interest of the Corporation or any of its Affiliates. The Administrator 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 Administrator 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 Price paid for the Shares (or portion thereof).

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

(e) The Corporation 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 Administrator should determine otherwise. In any event, the Corporation 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 Law) from any amounts the Corporation 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 Corporation or an Affiliate), to the extent of the amounts the Participant owes the Corporation pursuant to this Agreement, including but not limited to this Section 22. Whether or not the Corporation elects to make any set-off in whole or in part, if the Corporation 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 Corporation. Further, by executing and returning this Agreement to the Corporation, 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 Corporation and the Participant follow on Schedule A / Grant Notice.]

**CHARLES & COLVARD, LTD.
2008 STOCK INCENTIVE PLAN**

**Employee Nonqualified Stock Option Agreement
For Grants Pursuant to Long-Term Incentive Program**

Schedule A / Grant Notice

1. Pursuant to the terms and conditions of the Corporation's 2008 Stock Incentive Plan (the "Plan") and the Corporation's Long-Term Incentive Program adopted April __, 2014 (the "LTIP"), 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:

Number of Shares Subject to Option:

Option Price:

Type of Option:

Expiration Date (Last day of Option Period):

_____, 20____

\$ _____
Nonqualified Stock Option
_____, 20____

Performance and Service Conditions / Vesting Schedule:

Vesting in any portion of the Option is contingent upon the Corporation's achievement of one hundred percent (100%) of the EBITDA Target (specified below) for the Corporation's fiscal year in which the Option is granted.

If 100% of the EBITDA Target is not achieved, the entire Option shall be immediately forfeited and the Participant shall have no further rights or interest in the Option.

If 100% of the EBITDA Target is achieved, the Option shall vest in accordance with the following service-based vesting schedule provided Participant remains in continuous employment with the Corporation or Affiliate through each vesting date:

- 1/3 of the Option (rounded down to the nearest whole share, as applicable) shall vest on the first anniversary of the Grant Date;
- 1/3 of the Option (rounded down to the nearest whole share, as applicable) shall vest on the second anniversary of the Grant Date; and
- The remaining portion of the Option shall vest in full on the third anniversary of the Grant Date.

EBITDA Target: _____

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 "Corporation") 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 Corporation 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 30 days of grant date stated above.

Signature: _____ (SEAL) Date: _____
Participant

Agreed to by:

CHARLES & COLVARD, LTD.

By: _____

Title:

Attest:

By: _____

[Corporate Seal]

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.