
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

February 14, 2006 (Date of earliest event reported)

Commission file number: 0-23329

Charles & Colvard, Ltd.

(Exact name of registrant as specified in its charter)

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

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

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

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

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 1.01 Entry into a Material Definitive Agreement

On February 14, 2006, Charles & Colvard, Ltd. signed a letter agreement with Cree, Inc. that amended and supplemented the February 9, 2005 letter agreement (filed February 11, 2005 as exhibit 10.71 to the Current Report on Form 8-K) and provided a framework for the Company's purchases during 2006 under the Amended and Restated Exclusive Supply Agreement dated June 6, 1997 with Cree, Inc. (filed September 30, 1997 as exhibit 10.11 to the Registration Statement on Form S-1 (file 333-36809)). Pursuant to the terms of the new letter agreement, Charles & Colvard, Ltd. is obligated to purchase a minimum quantity of usable material on a quarterly basis if Cree, Inc. meets certain minimum quality levels. For each quarter during 2006, we have committed to purchase approximately \$3,600,000 of raw material, assuming the quality of material received is consistent with that received in 2005. A copy of the new letter agreement is attached as Exhibit 10.86.

Item 9.01 Financial Statements and Exhibits

(d) Exhibits

Exhibit 10.86 Letter Agreement, dated February 14, 2006, between Cree, Inc. and Charles & Colvard, Ltd.*

* The registrant has requested that certain portions of this exhibit be given confidential treatment.

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, thereunto duly authorized.

Charles & Colvard, Ltd.

By: /s/ James R. Braun

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

Date: February 17, 2006

EXHIBIT INDEX

<u>Exhibit No.</u>	<u>Exhibit Description</u>
Exhibit 10.86	Letter Agreement, dated February 14, 2006, between Cree, Inc. and Charles & Colvard, Ltd.*

* The registrant has requested that certain portions of this exhibit be given confidential treatment.

REDACTED – OMITTED MATERIAL HAS BEEN SEPARATELY FILED WITH THE COMMISSION
AND IS DENOTED HEREIN BY *****

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

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

This letter, when signed on behalf of Charles & Colvard, Ltd. (“C&C”) and Cree, Inc. (“Cree”), will serve as an agreement between C&C and Cree to provide the following terms effective on and after December 26, 2005, amending the parties’ February 9, 2005 letter agreement:

1. Cree will supply Silicon Carbide (“SiC”) production crystals to C&C, and C&C will purchase SiC production crystals from Cree, according to the terms stated in this letter agreement.
2. C&C will purchase ***** each quarter of calendar 2006 of “usable material” (where “usable material” will be determined in the manner described in Paragraph 3) at a price of *****. Provided that Cree uses its best commercially reasonable efforts to deliver the quantities of usable material required by this letter agreement, Cree will not be held in breach for delays in delivery. As used in this letter agreement, “quarter” refers to fiscal quarters of Cree ending during the indicated period.
3. The quantity of “usable material” of crystals delivered to C&C pursuant to this letter agreement will be determined according to the following:
 - A. Material will be graded according to the specifications in Attachment A.
 - B. Grams of usable material will be calculated on a crystal-by-crystal basis according to the following equation: (usable mm) as a percent of total length of the crystal in mm multiplied by the actual weight of the crystal in grams. “Usable mm” means millimeters of usable material as defined in Attachment A.
 - C. Crystals shipped to C&C must contain at least ***** of usable material for the 2” crystals, ***** for 2.25” crystals or ***** for 3” crystals. This usable area must be contiguous. Crystal diameter to be shipped will be 2”, 2,25” or 3” as determined by Cree.
4. Except as expressly provided herein, the supply and purchase of SiC material will be governed by the terms and conditions of the parties’ Amended and Restated Exclusive Supply Agreement dated June 6, 1997 (the “Supply Agreement”, as amended).
5. The contents of this letter agreement shall be considered “Confidential Information” of each party subject to the provisions of Section 5 of the Supply Agreement.

CHARLES & COLVARD, LTD.

CREE, INC.

By: /s/ Robert S. Thomas

By: /s/ Charles M. Swoboda

Robert S. Thomas
President & CEO
Date: February 14, 2006

Charles M. Swoboda
President & CEO
Date: February 10, 2006

ATTACHMENT A

Specification of usable material as referenced in paragraph 2 above.

COLOR: Usable material is calculated as “light gray” or “very light gray”. Specifically tone/color number 20 and 10¹ as used in the C&C boule-grading screen will be considered acceptable tone and color material. (Note: Grade 10 is preferred. Grade 20 material will be valued at *****.)

DEFECTS:

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

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

Notes

- 1 CH0257R 17.4mm tone/color 20 (lightest 20), new gray boules that are lighter than this will grade as 10, CE0269R 9.5mm tone/color 30 (lightest 30), new gray boules that are lighter than this will grade as 20
- 2 Micropipe grading will be performed according to the Cree document identified as the CCG – 948 Dense Fine Pipe Grading procedure (Revision 12/3/03). The area determined according to this procedure multiplied by 1.2, (“20% adder”), defines the area of non-usable material for micropipes.