SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)
[x] Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended June 30, 1999

[ ] Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from ____________________to_____________________

COMMISSION FILE NUMBER: 000-23329

C3, Inc.

(Exact name of Registrant as specified in its charter)

North Carolina	56-1928817
(State or other jurisdiction of incorporation or organization)	I.R.S. Employer (Identification No.)

3800 Gateway Boulevard, Suite 310, Morrisville, N.C. 27560

(Address of principal executive offices)

919-468-0399

(Registrant's telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

As of August 3, 1999 there were 7,019,361 shares of the Registrant's Common Stock, no par value per share, outstanding.

C3, Inc.
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PART II. OTHER INFORMATION

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

C3, Inc.
Condensed Statements Of Operations
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	1999	1998	1999	1998
Net sales	$ 3,533,612	$ 202,010	$ 6,763,076	$ 452,565
Cost of goods	1,631,677	135,476	3,727,255	290,552
Gross profit	1,901,935	66,534	3,035,821	162,013
Operating expenses:				
Marketing and sales	1,172,334	512,863	1,775,638	1,273,999
General and administrative	641,876	714,874	1,440,810	1,342,204
Research and development	789,694	1,088,331	1,592,750	2,410,843
Total operating expenses	2,603,904	2,316,068	4,809,198	5,027,046
Operating loss	(701,969)	(2,249,534)	(1,773,377)	(4,865,033)
Interest income, net	321,364	473,690	686,341	994,185
Net loss	(380,605)	$ (1,775,844)	(1,087,036)	$ (3,870,848)
Basic and diluted net loss per share	$ (0.05)	$ (0.26)	$ (0.16)	$ (0.56)
Weighted-average common shares, basic and diluted	7,011,284	6,941,315	7,004,543	6,939,904

See Notes to Condensed Financial Statements.

C3, Inc.
Condensed Balance Sheets

	June 30, 1999	December 31, 1998
	(Unaudited)	
ASSETS		
Current Assets:		
Cash and equivalents	$ 27,841,676	$ 32,004,045
Accounts receivable, net	980,785	546,921
Interest receivable	100,555	121,276
Inventories	6,176,892	3,092,448
Prepaid expenses and other assets	390,875	294,797
Total current assets	35,490,783	36,059,487
Equipment, net	3,693,810	3,832,019
Patent and license rights, net	319,370	276,817
Total assets	$ 39,503,963	$ 40,168,323
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable:		
Cree Research, Inc.	$ 1,434,641	$ 1,679,600
Other	737,793	250,157
Accrued expenses	203,176	223,248
Deferred revenue	6,031	18,986
Total current liabilities	2,381,641	2,171,991
Commitments		
Shareholders' Equity:		
Common stock	48,218,280	48,149,406
Additional paid-in capital - stock options	2,054,520	1,910,368
Accumulated deficit	(13,150,478)	(12,063,442)
Total shareholders' equity	37,122,322	37,996,332
Total liabilities and shareholders' equity	$ 39,503,963	$ 40,168,323

See Notes to Condensed Financial Statements

C3, Inc.
Condensed Statements Of Cash Flows
(Unaudited)

	Six Months Ended June 30,	
	1999	1998
OPERATING ACTIVITIES:		
Net loss	$(1,087,036)	$(3,870,848)
Adjustments:		
Depreciation and amortization	262,013	43,917
Compensation expense related to stock options	151,831	146,778
Change in operating assets and liabilities:		
Net change in assets	(3,593,665)	(1,365,303)
Net change in liabilities	209,650	485,078
Net cash used by operating activities	(4,057,207)	(4,560,378)
INVESTING ACTIVITIES:		
Purchase of equipment	(114,875)	(286,492)
Patent costs	(51,482)	(63,334)
Net cash used by investing activities	(166,357)	(349,826)
FINANCING ACTIVITIES:		
Stock options exercised	61,195	----
Net cash provided by financing activities	61,195	----
Net change in cash and equivalents	(4,162,369)	(4,910,204)
Cash and equivalents, beginning of period	32,004,045	43,980,385
Cash and equivalents, end of period	$27,841,676	$39,070,181

See Notes to Condensed Financial Statements.

C3, Inc.
Notes To Condensed Financial Statements
(Unaudited)

1. BASIS OF PRESENTATION

The accompanying unaudited financial statements have been prepared in conformity with generally accepted accounting principles. However, certain information or footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed, or omitted, pursuant to the rules and regulations of the Securities and Exchange Commission. In the opinion of management, the financial statements include all normal recurring adjustments which are necessary for the fair presentation of the results of the interim periods presented. Interim results are not necessarily indicative of results for the year. Certain reclassifications have been made to prior year's financial statements to conform to the classifications used in fiscal 1999. These financial statements should be read in conjunction with the Company's audited financial statements for the year ended December 31, 1998, as set forth in the Company's Form 10-K, filed with the Securities and Exchange Commission on March 18, 1999.

Prior to July 1, 1998 C3, Inc. was a development stage company which devoted substantially all of its efforts to research and product development and development of its initial markets and did not, through June 30, 1998, generate significant revenues from its planned principal operations.

In preparing financial statements that conform with generally accepted accounting principles, management must make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and amounts of revenues and expenses reflected during the reporting period. Actual results could differ from those estimates.

2. INVENTORIES

Inventories are stated at the lower of cost or market determined on a first in, first out basis. At June 30, 1999 finished goods includes $636,000 of test instruments, net of a $356,000 reserve for excess inventory. At December 31, 1998 finished goods includes $1,018,000 of test instruments, net of a $132,000 reserve for excess inventory. Inventories consisted of the following:

	June 30, 1999	December 31, 1998
Raw materials	$ 94,346	$ 140,411
Work in process	2,647,177	819,953
Finished goods	3,435,369	2,132,084
Total inventory	$ 6,176,892	$ 3,092,448

3. NON-CASH OPERATING EXPENSES

During the quarter and six months ended June 30, 1999, in accordance with Accounting Principles Board Opinion No. 25, the Company recorded compensation expense of approximately $83,374 and $151,831, respectively, relating to stock options. Compensation expense related to stock options for the quarter and six months ended June 30, 1998 was approximately $95,899 and $146,778, respectively. This compensation expense is recorded in general and administrative expense in the statements of operations.

4. NEWLY ISSUED ACCOUNTING PRONOUNCEMENTS

In June 1998, Statement of Financial Accounting Standards No. 133 ("FAS 133"), ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES, was issued. This statement establishes standards for valuing and reporting at fair value all derivative instruments as either assets or liabilities. FAS 133, as amended by FAS 137, is effective for all fiscal quarters of all fiscal years beginning after June 15, 2000. The Company has not evaluated the impact of the adoption of this Statement on the financial statements.

ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 that relate to the Company's future plans, objectives, estimates and goals. These statements are subject to numerous risks and uncertainties, including macro and micro economic factors that affect businesses operating in the international economy, the Company's reliance on Cree Research, Inc. ("Cree") as a developer and supplier of SiC crystals, the level of growth in domestic and international gemstone jewelry markets, the level of market acceptance of and demand for the Company's products, and the actions of existing and potential competitors. These and other risks and uncertainties are described under the heading "Business Risks" in the Company's Form 10-K for the year ended December 31, 1998, which was filed with the Securities and Exchange Commission on March 18, 1999. These risks and uncertainties could cause actual results and developments to be materially different from those expressed or implied by any of the forward-looking statements included herein.

OVERVIEW

From its inception in June 1995 through June 30, 1998, the Company was a development stage enterprise that devoted its resources to funding research and development of colorless lab-created moissanite gemstones, market research, developing initial consumer marketing themes and assembling a management team. The Company's principal business is the manufacture, marketing and distribution of lab-created moissanite gemstones (hereinafter referred to as moissanite or moissanite gemstones). Moissanite is being marketed as an exclusive new gemstone with properties, including brilliance, fire and hardness, that rival other fine gemstones like diamond, sapphire, ruby and emerald.

The Company began shipping moissanite to authorized retail jewelers in Atlanta and Miami/Ft. Lauderdale during the second quarter of 1998, and in July 1998 launched targeted consumer-focused advertising and promotion activities in those areas. Since mid-1998, the Company has focused on introducing moissanite domestically in other selected markets following the same model used in Atlanta and Miami/Ft. Lauderdale. The Company has expanded the number of specialty retail jewelry store locations authorized to sell moissanite to 193. During the second half of 1999, the Company will continue product introduction in other US markets. The Company expects moissanite to be available in as many as 400 to 500 retail locations by the end of 1999. In conjunction with the broader introduction of moissanite, the Company expects to begin a national advertising campaign as early as the fourth quarter of 1999. The Company also has developed relationships with distributors in certain international territories. In the second half of 1999, the Company will seek to expand the international distribution of moissanite and believes international sales could represent as much as 2/3 of total sales for 1999.

In the first half of 1999 efforts to expand the distribution of moissanite were limited in line with the availability of product. During the second quarter of 1999, Cree showed marked improvement in silicon carbide crystal quality resulting in increased yield of salable gemstones. Throughout the remainder of the year, particularly as the new 3-inch diameter crystal growth systems come on-line, yields may vary. Any significant increases or decreases in yields would have a corresponding material impact on gross margins. As the Company continues to expand its distribution channels, it is developing a deeper understanding of the impacts that seasonality will have on its quarterly sales. Although the Company is confident it will meet its second-half sales goals, the summer season is typically slow in the worldwide jewelry industry which could cause the Company's sequential quarter's sales to be flat for the third quarter of 1999. As the Company is expanding its marketing and promotion activities, it expects to continue operating at a loss through at least the third quarter of 1999. Moreover, there can be no assurance that the Company will ever achieve sales increases or profitability, or that if profitability is achieved, that such profitability can be sustained.

RESULTS OF OPERATIONS

THREE MONTHS ENDED JUNE 30, 1999 COMPARED WITH THREE MONTHS ENDED JUNE 30, 1998.

Net sales increased by $3,331,602 from $202,010 for the three months ended June 30, 1998 to $3,533,612 for the three months ended June 30, 1999. The Company generated net sales of approximately $3,224,000 from gemstones for the three months ended June 30, 1999. During the quarter ended June 30, 1998, prior to emerging from the development stage, the Company generated net sales of approximately $243,000 from gemstones, which have been netted against research and development expenses on the operating statement because many of the gemstones sold were associated with the Company's research and development program. Net sales from the Company's proprietary test instrument decreased from approximately $202,010 for the three months ended June 30, 1998 to $159,662 for the three months ended June 30, 1999.

Gross profit increased by $1,835,401 from $66,534 or 33% of sales for the three months ended June 30, 1998 to $1,901,935 or 54% of sales for the three months ended June 30, 1999. Gross profit for the three months ended June 30, 1998 related entirely to sales of the Company's proprietary test instrument and gross profit for the three months ended June 30, 1999 related primarily to sales of moissanite gemstones. Gross margins increased in the second quarter of 1999 primarily as a result of significant improvement in yields of salable gemstones from silicon carbide crystals during the second quarter of 1999. Throughout the remainder of the year, particularly as the new 3-inch diameter crystal growth systems come on-line yields may vary. Any significant yield changes would have a material impact on gross profit.

Marketing and sales expenses increased by $659,471 from $512,863 for the three months ended June 30, 1998 to $1,172,334 for the three months ended June 30, 1999. The increase was primarily due to advertising and promotion activities supporting the product launch activities in selected domestic cities and compensation and other expenses related to additional staff.

General and administrative expenses decreased by $72,998 from $714,874 for the three months ended June 30, 1998 to $641,876 for the three months ended June 30, 1999. The decrease resulted primarily from the Company moving a significant portion of its SEC compliance activities in-house.

Research and development expenses decreased by $298,637 from $1,088,331 for the three months ended June 30, 1998 to $789,694 for the three months ended June 30, 1999. The decrease resulted primarily from the more focused development effort under the Company's July 1998 Amended and Restated Development Agreement with Cree. The July 1998 agreement replaced the June 1997 Development Agreement and the January 1998 Supplemental Development Agreement between C3 and Cree and provides both parties increased flexibility to pursue further color and yield improvements on both 2-inch and 3-inch diameter crystals.

Net interest income decreased by $152,326 from $473,690 for the three months ended June 30, 1998 to $321,364 for the three months ended June 30, 1999. This decrease resulted from lower interest income earned on lower cash balances due primarily to the use of the invested proceeds from the Company's initial public offering in November 1997. See Part II, Item 2.

SIX MONTHS ENDED JUNE 30, 1999 COMPARED WITH SIX MONTHS ENDED JUNE 30, 1998.

Net sales increased by $6,310,511 from $452,565 for the six months ended June 30, 1998 to $6,763,076 for the six months ended June 30, 1999. The Company generated net sales of approximately $6,175,499 from moissanite gemstones for the six months ended June 30, 1999. During the first six months of 1998, prior to emerging from the development stage, the Company generated net sales of approximately $324,000 from gemstones, which have been netted against research and development expenses on the operating statement because many of the gemstones sold were associated with the Company's research and development program. Net sales from the Company's proprietary test instrument decreased from approximately $452,565 for the six months ended June 30, 1998 to $321,834 for the six months ended June 30, 1999.

Gross profit increased by $2,873,808 from $162,013 or 36% of sales for the six months ended June 30, 1998 to $3,035,821 or 45% of sales for the six months ended June 30, 1999. Gross profit for the six months ended June 30, 1998 related entirely to sales of the Company's proprietary test instrument. Gross profit for six months ended June 30, 1999 related primarily to sales of moissanite gemstones. The increase in gross margins is primarily related to a significant improvement in yields of salable gemstones from silicon carbide crystals during the second quarter of 1999. Throughout the remainder of the year, particularly as the new 3-inch diameter crystal growth systems come on-line yields may vary. Any significant yield changes would have a material impact on gross profit.

Marketing and sales expenses increased by $501,639 from $1,273,999 for the six months ended June 30, 1998 to $1,775,638 for the six months ended June 30, 1999. The increase was primarily due to advertising and promotion activities supporting the product launch activities in selected domestic cities and compensation and other expenses related to additional staff.

General and administrative expenses increased by $98,606 from $1,342,204 for the six months ended June 30, 1998 to $1,440,810 for the six months ended June 30, 1999. The increase resulted primarily from compensation and other expenses related to additional staff.

Research and development expenses decreased by $818,093 from $2,410,843 for the six months ended June 30, 1998 to $1,592,750 for the six months ended June 30, 1999. The decrease resulted primarily from the more focused development effort under the Company's July 1998 Amended and Restated Development Agreement with Cree. The July 1998 agreement replaced the June 1997 Development Agreement and the January 1998 Supplemental Development Agreement between C3 and Cree and provides both parties increased flexibility to pursue further color and yield improvements on both 2-inch and 3-inch diameter crystals.

Net interest income decreased by $307,844 from $994,185 for the six months ended June 30, 1998 to $686,341 for the six months ended June 30, 1999. This decrease resulted from lower interest income earned on lower cash balances due primarily to the use of the invested proceeds from the Company's initial public offering in November 1997. See Part II, Item 2.

LIQUIDITY AND CAPITAL RESOURCES

The Company has financed its operations since inception primarily through the net proceeds of its initial public offering of Common Stock in November 1997 and, prior to such offering, through private equity sales. Net proceeds from the Company's initial public offering were $41,072,982. During the second quarter of 1999, the Company used $2,418,622 to fund operations and $75,198 to fund capital expenditures and patent expenses. At June 30, 1999, the Company had $27,841,676 of cash and equivalents and $33,109,142 of working capital. The Company anticipates that its existing capital resources will be adequate to satisfy its capital requirements for at least the next 12 months.

The Company has entered into a number of agreements with specialty retail jewelry stores in the United States and with international distributors. See Item 5 of Part II of this Quarterly Report. To support this expansion of its distribution network, the Company has begun to build inventory levels and intends to significantly increase its advertising and marketing expenditures as it develops and implements a national advertising campaign. The advertising campaign could total $1.5 - 2 million in the second half of 1999. The Company intends to fund these inventories and advertising and marketing expenditures from its existing cash and equivalents.

Additionally, in May 1999, the Company entered into a letter agreement ("Letter Agreement") with its exclusive supplier, Cree. Under the Letter Agreement the Company has agreed to purchase $2.8 million of crystal growth equipment from Cree and to purchase all crystals produced by existing crystal growers and the new crystal growers through June 30, 2000 at a price based upon a sliding scale depending on the quality of each crystal received. Additionally the two companies agreed to reduce the Company's monthly funding commitment under the Amended and Restated Development Agreement from $240,000 to $120,000. A portion of the crystal growers will be built to grow 3-inch diameter crystals and the rest will grow 2-inch diameter crystals.

The Company will pay the purchase price of the systems on a monthly basis as the systems are manufactured. Once completed the systems will remain at Cree where Cree will use them to produce SiC crystals for the Company. When the systems are fully depreciated, the Company is obligated to transfer title to Cree. The first of these systems will come on-line in August 1999 with the balance coming on-line through the remainder of 1999. The Company intends to fund the purchase of these systems from its existing cash and equivalents.

YEAR 2000 COMPLIANCE

Many currently installed computer systems and software products are coded to accept only two digit entries in the date code field. These date code fields will need to accept entries to distinguish 21st century dates from 20th century dates. The inability to recognize or properly treat dates subsequent to December 31, 1999 may cause a company's systems and applications to process critical financial and operational information incorrectly. The Company has undertaken a program to address the Year 2000 issue with respect to the following: (i) the Company's information technology and operating systems; and (ii) certain systems of the Company's major suppliers, including Cree (insofar as such systems relate to the Company's business activities with such parties).

As part of its evolution to an operating company, the Company selected and implemented an enterprise-wide information technology system to support the information needs of the Company. The Company has received written confirmation from the software vendor that the information technology system selected by the Company is fully Year 2000 compliant. The Company has substantially completed the implementation of this system and the testing of the Year 2000 compliance of the system and does not expect the Year 2000 issue to pose significant operational problems for its computer systems. The Company has also substantially completed reviewing its non-information technology systems for Year 2000 compliance and believes the Year 2000 exposure with respect to those systems is not material.

The Company believes that its greatest risk with respect to the Year 2000 issue stems from the potential non-compliance of our suppliers. The Company depends on one supplier of SiC crystals, Cree, and on a limited number of suppliers of other components services necessary for the manufacture of moissanite gemstones. Accordingly, if those suppliers are unable to process or fill the Company's orders or otherwise interact with the Company because of Year 2000 problems, the Company could experience material adverse effects to its business. The Company has initiated communications with its significant suppliers and vendors, including Cree. The Company is coordinating efforts with these parties to minimize the extent to which the Company's business will be vulnerable to their failure to remediate their own Year 2000 issues. The Company has received confirmation from its significant suppliers and vendors that they have developed plans to address the Year 2000 compliance issues of their systems prior to December 31, 1999.

The crystal growth systems, which Cree uses to produce SiC crystals for the Company, are dependent upon microprocessors. The Company has received written confirmation from Cree that it has evaluated the crystal growth systems and determined that they are fully Year 2000 compliant. Cree has also evaluated and remediated its other business systems that rely on microprocessors. According to Cree's Form 10Q for the quarter ended March 28, 1999, Cree has completed all Year 2000 compliance efforts with respect to its business systems. Any unexpected Year 2000 issues at Cree could cause delays in the receipt of SiC crystals which would, in turn, delay deliveries of moissanite gemstones to the Company's customers. Any significant delay in the Company's receipt of SiC crystals or resulting delay in delivery of moissanite gemstones would have a material adverse effect on the Company's business, operating results and financial condition.

There can be no assurance that the systems of third parties on which the Company's business relies will be modified on a timely basis. Additionally, to the extent that the general economy slows down as a result of Year 2000 compliance issues, the Company's operations could be affected. The Company's business, financial condition and results of operations could be materially adversely affected by the failure of its systems or those operated by other parties to operate properly beyond December 31, 1999. Although there is currently no alternative source for SiC crystals, to the extent possible, the Company will develop and execute contingency plans designed to allow continued operation in the event of failure of the Company's or third parties' systems.

ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company believes that its exposure to market risk for changes in interest rates is not significant because the Company's investments are limited to highly liquid instruments with maturities of three months or less. At June 30, 1999 the Company has approximately $27.2 million of short-term investments classified as cash and equivalents. All of the Company's transactions with international customers and suppliers are denominated in US dollars.

PART II - OTHER INFORMATION

ITEM 2: CHANGES IN SECURITIES AND USE OF PROCEEDS

On November 14, 1997, the Securities and Exchange Commission declared the Company's Registration Statement on Form S-1 (File No. 333-36809) to be effective. The net proceeds of this offering were $41,072,982. As of June 30, 1999, the Company had approximately $17,378,000 of the remaining net proceeds of the offering invested in money market accounts, debt instruments having an original maturity of three months or less and other highly liquid investments. Approximately $6,380,000 of the proceeds has been used in research and development, of which $209,131 was paid to officers, directors or shareholders owning more than ten percent (10%) of the Common Stock outstanding. The Company has also used approximately $7,548,000 to fund sales, marketing and administrative expenses, of which $478,000 was paid to officers, directors or shareholders owning more than ten percent (10%) of the Common Stock outstanding. The Company also expended approximately $5,770,000 to fund working capital. In addition, the Company acquired $3,992,000 of production equipment, including $3,375,000 of crystal growth systems from Cree, certain computerized wafering and preform development equipment, and other equipment.

ITEM 4: SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Annual Meeting of Shareholders of C3, Inc. was held on May 17, 1999. At the meeting, the shareholders voted on the election of directors and the selection of independent auditors. The following three nominees were elected to the Board of Directors for a three year term: Jeff N. Hunter, Kurt Leutzinger and Barbara Kotlikoff. Additionally, the appointment of Deloitte & Touche LLP as independent auditors for the Company for the fiscal year ending December 31, 1999 was ratified. The number of votes cast for, against or withheld, as well as the number of abstentions, for each proposal are as follows:

A. Election of Directors

Director Nominee	Votes For	Votes Withheld
Jeff N. Hunter	5,112,065	6,770
Kurt Leutzinger	5,111,690	7,145
Barbara Kotlikoff	5,093,050	27,785

A. Ratification of Deloitte & Touche LLP as auditors for fiscal year ending December 31, 1999

	Votes For	Votes Against	Abstentions
Ratification of Deloitte & Touche LLP	5,104,305	12,255	2,275

ITEM 5: OTHER INFORMATION

The Company has entered into a number of agreements with specialty retail jewelers with an aggregate of over 193 locations in 35 states. Additionally, the Company has entered into 28 international agreements for distribution of moissanite gemstones in 27 countries and various areas in the Caribbean. The international agreements require aggregate annual moissanite purchases of approximately $11 million during the remainder of 1999 and approximately $12 million during calendar year 2000.

In June 1999, the Company entered into a third amendment to its agreement with John M. Bachman, Inc. ("JMB"). The amendment provides for the Company to advance JMB additional funds to expand the production facilities of its affiliate which facets the Company's moissanite gemstone preforms. These funds will be repaid through reductions to future cutting charges. The amendment extends the term of the Company's agreement with JMB to December 31, 2001. The Company has the right to terminate the agreement at any time after January 1, 2001 upon 90 days written notice.

ITEM 6: EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

Exhibit No.	Description
10.36	Third Amendment to Agreement, dated June 16, 1999, between John M. Bachman, Inc. and C3, Inc.*
27.1	Financial Data Schedule

* The Company has requested that certain portions of this exhibit be given confidential treatment.
+ Denotes a management contract or compensatory plan or arrangement.

(b) Report on Form 8-K

The Company did not file any reports on Form 8-K during the three months ended June 30, 1999.

SIGNATURES

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.

C3, Inc.

Date: August 16, 1999	/s/ Jeff N. Hunter ------------------- Jeff N. Hunter Chief Executive Officer and Chairman of the Board and Director (Principal Executive Officer)
Date: August 16, 1999	/s/ Mark W. Hahn ---------------- Mark W. Hahn Chief Financial Officer (Principal Financial and Accounting Officer)

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

EXHIBIT NO. 10.36

THIRD AMENDMENT TO AGREEMENT

THIS THIRD AMENDMENT TO AGREEMENT (this "Amendment") is entered into as of June 16, 1999 by and among C3, INC., a North Carolina corporation ("C3"), JOHN M. BACHMAN, INC. ("JMB").

Statement of Purpose

C3 and JMB entered into an Ageement dated Septemer 24, 1997 (the "Agreement") to formalize the terms upon which JMB will cut moissanite gemstones for C3, a First Amendment to the Agreement dated March 23, 1998 (the "First Amendment") and a Second Amendment to the Agreement dated September 28, 1998 (the "Second Amendment"). C3 and JMB now desire to amend the Agreement to provide additional expansion funds to JMB, to provide for JMB to perform certain preform identification and finished gemstone grading services, to extend the term of the Agreement as forth below.

Therefore, in consideration of the foregoing, the mutual covenants and agreements contained herein, and other good and valuable consideration the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

1. Additional Expansion Funds. Within 3 business days after the date of this Amendment, C3 will advance to JMB by certified check delivered to the address set forth in Section 7 of the Agreement, additional expansion funds in the amount of $*******, which will make the total expansion funds advances by C3 equal $*******(the "Expansion Funds"), which funds will be utilized by JMB solely to expand its affiliate's production facility and procure additional equipment and labor as needed to enable JMB and its affiliate to satisfy the production volumes contemplated by the Agreement. The entire amount of the Expansion Funds will be an advance against production charges payable by C3 pursuant to Section 2, below, and C3 will be credited against production charges for the entire amount of the Expansion Funds pursuant to Section 2, below.

2. Cutting Charges. C3 will pay JMB for Moissanite Gemstone cutting services at rates as set forth on Exhibit A to the Second Amendment. Beginning with the invoice reflecting cutting services provided by JMB from and after June 1, 1999 through January 31, 2000, the amount payable to JMB by C3 reflected on each invoice will be reduced by **% and from and after February 1, 2000 by **% until the aggregate amount of such reductions prior to and after this Amendment equals $******* and C3 has received full credit against production charges for the amount of the Expansion Funds. In all other respects the cutting charges and payment procedures in the Agreement, the First Amendment and the Second Amendment are hereby confirmed.

3. Extension of Term. The initial term of the Agreement will be extended from the date

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

first set forth in the Agreement through December 31, 2001, however, C3 may terminate the Agreement at any time after January 1, 2001 with 90 days prior written notice.

4. Production Procedures: Standards

a. The monthly production volumes (in finished pieces) will be as follows:

June 1999	*****
July 1999	*****
Aug 1999	*****
Sep 1999	*****
Oct 1999	*****
Nov 1999	*****
Dec 1999	*****
Jan 2000	*****
Feb 2000	*****
March 2000	*****
April 2000	*****
May 2000	*****
Jun-Dec 2001	*****

b. In all other respects the production procedures and standards in the Agreement, the First Amendment and the Second Amendment are hereby confirmed.

5. Confirmation of Agreement. In all other respects the parties hereto confirm the terms of the Agreement, the First Amendment and the Second Amendment. JMB will obtain in writing, and provide to C3, the consent of its affiliate to be bound by the terms of this Amendment.

IN WITNESS WHEREOF, each of the parties has executed and delivered this Amendment by its duly authorized officer, as of the date first above written.

C3, INC.

By: /s/ Mark W. Hahn

Name: Mark W. Hahn
Title: Chief Financial Officer

JOHN M. BACHMAN, INC.

By: /s/ John M. Bachman

Name: John M. Bachman
Title: Managing Director

This Schedule Contains Summary Financial Information Extracted From The Condensed Balance Sheet As Of June 30, 1999 And The Condensed Statement Of Operations For The Six Months Ended June 30, 1999 And Is Qualified In Its Entirety By Reference To Such Financial Statements.

6-MOS
DEC-31-1999
JAN-01-1999
Jun-30-1999
27,841,676
0
980,785
0
6,176,892
35,490,783
4,178,907
485,097
39,503,963
2,381,641
0
0
0
48,218,280
(11,095,958)
39,503,963
6,763,076
6,763,076
3,727,255
3,727,255
0
0
0
(1,087,036)
0
(1,087,036)
0
0
0
(1,087,036)
(.016)
(.016)