AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON SEPTEMBER 30, 1997
REGISTRATION NO. 333-

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM S-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

C3, INC.
(Exact name of registrant as specified in its charter)

NORTH CAROLINA	3915	56-0308470
(State or Other Jurisdiction of Incorporation or Organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification No.)

3800 GATEWAY BOULEVARD, SUITE 310
MORRISVILLE, NC 27560
(919) 468-0399
(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant's Principal Executive Office)

JEFF N. HUNTER
PRESIDENT
C3, INC.
3800 GATEWAY BOULEVARD, SUITE 310
MORRISVILLE, NC 27560
(919) 468-0399
(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent for Service)

COPIES TO:

DEBORAH H. HARTZOG	DEBRA K. WEINER
WOMBLE CARLYLE SANDRIDGE & RICE, PLLC	GROVER T. WICKERSHAM, P.C.
2505 MERIDIAN PARKWAY	430 CAMBRIDGE AVENUE
SUITE 300	SUITE 100
RESEARCH TRIANGLE PARK, NC 27713	PALO ALTO, CA 94306
(919) 484-2311	(650) 323-6400

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: As soon as practicable after this Registration Statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. []

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. []

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. []

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. []

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. []

CALCULATION OF REGISTRATION FEE

TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED	AMOUNT TO BE REGISTERED(1)	PROPOSED MAXIMUM OFFERING PRICE PER UNIT(2)	PROPOSED MAXIMUM AGGREGATE OFFERING PRICE(2)	AMOUNT OF REGISTRATION FEE
Common Stock.....	2,300,000 shares	$15	$34,500,000	$10,455.00
Representative's Warrants(3).....	200,000 shares	.0001	20	0.01
Common Stock(4).....	200,000 shares	18	3,600,000	1,091.00
Totals.....			$38,100,020	$11,546.00

(1) Includes 300,000 shares of Common Stock which the Underwriters have the option to purchase from the Company solely to cover over-allotments, if any. See "Underwriting."

(2) Estimated solely for purposes of calculation of the registration fee pursuant to Rule 457(a) under the Securities Act of 1933, as amended.

(3) In connection with the sale of the shares of Common Stock, the Registrant is granting to the Representative warrants to purchase 200,000 shares of Common Stock (the "Representative's Warrants").
(4) Issuable upon exercise of the Representative's Warrants.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933 OR UNTIL THIS REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE SECURITIES AND EXCHANGE COMMISSION, ACTING PURSUANT TO SECTION 8(A), MAY DETERMINE.

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INFORMATION CONTAINED HEREIN IS SUBJECT TO COMPLETION OR AMENDMENT. A REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAS BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION. THESE SECURITIES MAY NOT BE SOLD NOR MAY OFFERS TO BUY BE ACCEPTED PRIOR TO THE TIME THE REGISTRATION STATEMENT BECOMES EFFECTIVE. THIS PROSPECTUS SHALL NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY NOR SHALL THERE BE ANY SALE OF THESE SECURITIES IN ANY STATE IN WHICH SUCH OFFER, SOLICITATION OR SALE WOULD BE UNLAWFUL PRIOR TO REGISTRATION OR QUALIFICATION UNDER THE SECURITIES LAWS OF ANY SUCH STATE.

SUBJECT TO COMPLETION, DATED SEPTEMBER 30, 1997

2,000,000 SHARES

[LOGO]

C3, INC.

COMMON STOCK

All of the shares of Common Stock, no par value ("Common Stock"), of C3, Inc. ("C3" or the "Company") offered hereby are being sold by the Company. Prior to this offering, there has been no public market for the Common Stock of the Company. It is currently estimated that the initial public offering price will be between $12.00 and $15.00 per share. For information relating to the factors considered in determining the initial offering price, see "Underwriting."

At the request of the Company, the Underwriters have reserved approximately 100,000 of the shares of Common Stock offered by the Company hereby for sale at the initial public offering price to directors, officers, employees and certain individuals associated with the Company, its directors, its officers or its employees. See "Underwriting."

The Company has applied to have its Common Stock approved for quotation on the Nasdaq National Market under the symbol "CTHR."

THIS OFFERING INVOLVES A HIGH DEGREE OF RISK. SEE "RISK FACTORS" COMMENCING ON PAGE 5 FOR A DISCUSSION OF CERTAIN FACTORS THAT SHOULD BE CONSIDERED BY PROSPECTIVE PURCHASERS OF THE COMMON STOCK OFFERED HEREBY.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	PRICE TO PUBLIC	UNDERWRITING DISCOUNT(1)	PROCEEDS TO COMPANY(2)
Per Share	$	$	$
Total(3)	$	$	$

(1) Excludes a non-accountable expense allowance payable to Paulson Investment Company, Inc., the representative (the "Representative") of the several underwriters named herein (the "Underwriters"), equal to 1% of the total price to the public of the shares being offered hereby. The Company has agreed to issue to the Representative warrants (the "Representative's Warrants") to purchase up to 200,000 shares of Common Stock for $ per share (120% of the initial public offering price of the shares offered hereby). The Company has agreed to indemnify the Underwriters against certain liabilities, including liabilities under the Securities Act of 1933, as amended (the "Securities Act"). See "Underwriting."

(2) Before deducting expenses payable by the Company estimated at $900,000, including the Representative's non-accountable expense allowance.

(3) The Company has granted the Underwriters a 45-day option to purchase up to 300,000 additional shares of Common Stock on the same terms as set forth above solely to cover over-allotments, if any (the "Over-allotment Option"). If the Over-allotment Option is exercised in full, the Price to Public, Underwriting Discount and the Proceeds to Company will be $, $ and $, respectively. See "Underwriting."

The shares of Common Stock are offered by the several Underwriters, subject to receipt and acceptance by them, to prior sale and to their right to reject orders in whole or in part. It is expected that delivery of certificates for the shares will be made against payment therefor in New York City on or about , 1997.

PAULSON INVESTMENT COMPANY, INC.

THE DATE OF THIS PROSPECTUS IS , 1997.

DESCRIPTION OF FOLDOUT FACING FRONT COVER PAGE

The background of this graphic consists of a photograph of grayish brown slate taken at close range. In the upper left hand corner, in three lines and white lettering, are the words "THE HARDNESS, THE BRILLIANCE, THE FIRE YOU EXPECT . . .", and in the bottom right hand corner are the words, in two lines and white lettering, ". . . FROM AN UNEXPECTED NEW SOURCE." Scattered across the mid-range of the graphic are eight loose lab-created moissanite gemstones, all produced by the Company. Beneath this picture are the words "A sample of the Company's promotional materials." Beneath this caption appears the Company's name in its trademark stylized name logo, consisting of a large capital C, similarly sized 3, with a geometric diamond shape to the right of, and intersecting, the numeral "3". In the logo, the word "Inc." appears to the right of the geometric diamond shape.

DESCRIPTION OF INSIDE FRONT COVER PAGE FOLDOUT

The inside front cover page foldout consists of a large single photograph. The background of this graphic consists of a photograph of grayish brown slate taken at close range. In the top middle of the graphic appears the Company's trademark stylized moissanite gemstones logo. The logo consists of a black box in which the word "MOISSANITE" appears in large silver capital letters, traversed by an orange arc ending with a burst of light rays at the bottom right corner of the box. The logo also includes the word "GEMSTONES" appearing underneath the box in white capital letters approximately one-third of the size of the letters used in "MOISSANITE." Underneath this logo are the words "CREATED BY" in white capital letters approximately two-thirds of the size of the letters used in "GEMSTONES" and the Company's stylized name logo, as described above. Throughout the mid range of this page appear pictures of the Company's lab-created gemstones. The photograph features a total of 13 loose lab-created gemstones, one of which is held by jeweler's tweezers, and a total of 8 lab-created gemstones set in the following jewelry: two pairs of earrings, two pendant necklaces, and one ring. In the bottom middle of this graphic appear the following words in white lettering: "This jewelry features samples of the Company's lab-created moissanite gemstones set in gold, silver or platinum. The Company plans to distribute loose gemstones."

CERTAIN PERSONS PARTICIPATING IN THIS OFFERING MAY ENGAGE IN TRANSACTIONS THAT STABILIZE, MAINTAIN OR OTHERWISE AFFECT THE PRICE OF THE COMMON STOCK OFFERED HEREBY, INCLUDING THE ENTRY OF STABILIZING BIDS, SYNDICATE COVERING TRANSACTIONS OR THE IMPOSITION OF PENALTY BIDS. FOR A DESCRIPTION OF THESE ACTIVITIES, SEE "UNDERWRITING."

C3(TM), the stylized C3, Inc. logo, the stylized logo for "MOISSANITE" and the stylized logo for "MOISSANITE GEMSTONES" are trademarks of the Company. This Prospectus may contain certain other trademarks and service marks of other parties.

PROSPECTUS SUMMARY

The following summary is qualified in its entirety by the more detailed information and the Financial Statements and Notes thereto appearing elsewhere in this Prospectus. Unless otherwise indicated, information in this Prospectus (i) reflects the automatic conversion of all outstanding shares of 1996 Series A Preferred Stock, no par value ("Series A Preferred Stock"), and 1997 Series B Preferred Stock, no par value ("Series B Preferred Stock"), into an aggregate of 1,677,375 shares of Common Stock upon consummation of this offering; (ii) reflects a 2.13-for-1 stock split effected in September 1997; and (iii) assumes no exercise of the Over-allotment Option. See "Underwriting."

THE COMPANY

The Company is finalizing the development of, and intends to begin marketing during the first half of 1998, colorless lab-created moissanite gemstones which it will sell as a substitute for diamond in the jewelry market. The physical properties of lab-created moissanite gemstones more closely match those of diamond than any other known gemstone material. The Company believes that its products are superior to other commercially available diamond substitutes and intends to position its gemstone products as the ideal substitute for diamond. The Company believes that its products will be attractive to working women who desire an affordable alternative to diamond and to middle and upper-income women who desire affordable "everyday" or "security" jewelry.

Moissanite, also known by its chemical name, silicon carbide ("SiC"), is a rare, naturally occurring mineral found primarily in meteorites. Moissanite and diamond are both carbon-based minerals; moissanite is composed of silicon and carbon while diamond is composed of carbon.

The Company's lab-created moissanite gemstones are made from crystals of SiC grown by Cree Research, Inc. ("Cree") using patented and proprietary technology. Cree has an exclusive license to the patent related to a process for growing large single crystals of SiC. To the Company's knowledge, there are no producers of SiC other than Cree that could supply lab-grown SiC crystals in colors, sizes or volumes suitable for use as a diamond substitute. The Company has undertaken a significant development program with Cree to develop a fully repeatable process to grow SiC crystals in the desired diamond color grades and sizes. The Company has certain exclusive licenses and supply rights with Cree for SiC materials to be used for gemstone applications. In addition, the Company has developed certain proprietary methods and processes for the production of gemstones from lab-grown SiC crystals and has patent applications pending for certain of these methods and processes. As a result, the Company believes that its lab-created moissanite gemstones are proprietary products and that there are technological barriers to prevent other competitors from developing or marketing lab-created moissanite gemstones at affordable prices.

The Company currently intends to sell only loose lab-created gemstones, rather than finished jewelry products, in round brilliant cuts of approximately 1/2 to 1 carat in colors and clarities comparable to those commonly used in diamond jewelry. The Company plans to begin delivery of its products in the first half of 1998 in selected cities in the United States and the Pacific Rim. The Company believes that these market areas represent a significant portion of the worldwide jewelry market and that consumers in these markets are relatively accepting of diamond substitutes. The Company intends to grant exclusive distribution rights to retail jewelry chains and high-volume independent retail jewelry stores in certain U.S. cities and is exploring distribution arrangements for the Pacific Rim.

The Company believes that neither visual inspection by jewelers who are not trained gemologists nor commonly used test instruments reliably distinguish its products from diamond. The Company recently began production of a moissanite/diamond test instrument that distinguishes lab-created moissanite gemstones from diamonds in the colors and clarities most commonly sold by retail jewelers. The Company plans to introduce this new test instrument for sale to jewelers, gemologists and pawnbrokers during the first half of 1998.

The Company was incorporated as a North Carolina corporation in June 1995. The Company's principal executive offices are located at 3800 Gateway Boulevard, Suite 310, Morrisville, North Carolina 27560, and its telephone number is (919) 468-0399.

THE OFFERING

Common Stock offered	2,000,000 shares
Common Stock outstanding after the offering	5,938,476 shares(1)
Use of proceeds	For product development, acquisition of manufacturing equipment, sales and marketing, working capital and other general corporate purposes. See "Use of Proceeds."
Proposed Nasdaq National Market symbol	CTHR

(1) Excludes 1,009,066 shares of Common Stock issuable upon the exercise of stock options outstanding at September 30, 1997. See "Dilution," "Management -- Stock Option Plans" and "Description of Capital Stock."

SUMMARY FINANCIAL DATA

	PERIOD FROM INCEPTION (JUNE 28, 1995) TO DECEMBER 31, 1995	YEAR ENDED DECEMBER 31, 1996	SIX MONTHS ENDED JUNE 30, 1996	SIX MONTHS ENDED JUNE 30, 1997
STATEMENT OF OPERATIONS DATA:				
Revenues	--	--	--	--
Operating expenses:				
Marketing and sales	$10,313	$ 47,019	$ 8,017	$ 46,611
General and administrative(1)	10,024	131,097	48,069	316,154
Research and development	6,052	236,047	68,115	452,571
Depreciation and amortization	798	3,618	1,306	6,649
Operating loss	27,187	417,781	125,507	821,985
Interest income, net	--	(35,173)	(1,231)	(113,376)
Net loss	$27,187	$382,608	$124,276	$ 708,609
Pro forma net loss per share	$ 0.01	$ 0.14	$ 0.05	$ 0.17
Shares used in computing pro forma net loss per share(2)	2,204,062	2,652,250	2,381,562	4,199,978

	JUNE 30, 1997	
	ACTUAL	AS ADJUSTED(3)
BALANCE SHEET DATA:		
Cash and equivalents	$5,538,099	$29,938,099
Working capital	5,428,225	29,828,225
Total assets	5,661,920	30,061,920
Shareholders' equity	5,552,046	29,952,046

(1) For the six months ended June 30, 1997, includes $66,000 of compensation expense related to the issuance of Common Stock to Cree pursuant to a stock option agreement. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 10 of Notes to Financial Statements.
(2) The calculation of shares for all periods reflects a 2.13-for-1 stock split effected in September 1997 and the automatic conversion of the Series A Preferred Stock and Series B Preferred Stock to be effected upon completion of this Offering. See Notes 2 and 9 of Notes to Financial Statements.
(3) Adjusted to give effect to the sale by the Company of 2,000,000 shares of Common Stock offered hereby at an assumed initial public offering price of $13.50 per share, after deducting the underwriting discount and estimated offering expenses and the application of net proceeds therefrom. See "Use of Proceeds."

RISK FACTORS

An investment in the shares of Common Stock being offered hereby involves a high degree of risk. In addition to the other information set forth in this Prospectus, the following risk factors should be considered carefully in evaluating the Company and its business before purchasing any of the shares of Common Stock offered hereby. This Prospectus contains certain forward-looking statements that involve risks and uncertainties, such as statements of the Company's plans, objectives, expectations and intentions. The cautionary statements made in this Prospectus should be read as being applicable to all related forward-looking statements wherever they appear in this Prospectus. The Company's actual results could differ materially from those discussed in this Prospectus. Factors that could cause or contribute to such differences include those discussed below, as well as those discussed elsewhere in this Prospectus.

LACK OF OPERATING HISTORY; DEVELOPMENT STAGE COMPANY

The Company, which was incorporated in June 1995, is in the development stage and has not yet engaged in any revenue-producing business activities. Accordingly, the Company has no operating history upon which an evaluation of the Company and its prospects can be based. To date, the Company's principal activities have been to develop a process for the production of colorless lab-created moissanite gemstones and the infrastructure to support the rapid commercialization of those products. The Company's business is subject to the risks inherent in the transition from pilot production to commercial production. Likewise, the Company's products are in an early stage of development and are subject to the risks inherent in the development and marketing of new products, including unforeseen design, manufacturing or other problems or failure to develop market acceptance. Failure by the Company to complete development of its products or to develop the ability to produce such products in commercial quantities would have a material adverse effect on the Company's business, operating results and financial condition. Accordingly, the Company's prospects must be considered in light of the risks, expenses and difficulties frequently encountered by companies in their early stage of development, particularly technology-based companies operating with undeveloped and unproven products. To address these risks, the Company must, among other things, respond to competitive developments, attract and motivate qualified personnel, develop market acceptance for its products, establish effective distribution channels, effectively manage any growth that may occur and continue to upgrade its technologies and successfully commercialize products incorporating such technologies. See "Business" and "Management."

NEED FOR FURTHER PRODUCT DEVELOPMENT

Although the Company has produced small quantities of colorless lab-created moissanite gemstones, the Company and its supplier of SiC crystals, Cree Research Inc. ("Cree"), have not yet established a fully repeatable process for producing lab-grown SiC crystals in the colors, sizes and volumes desired for the Company's products. The Company intends to market lab-created gemstones in the comparable diamond color grade range, according to the standards generally accepted by the diamond industry for color using pregraded master color stones ("comparable diamond color grade"), of "G" through "J", but Cree has not yet consistently achieved production of SiC crystals in this color range. The Company's development agreement with Cree establishes milestones for developing a fully repeatable process that will consistently grow SiC crystals in the desired color grades, sizes and volumes. If Cree is unable to develop and sustain a fully repeatable process for growing SiC crystals in the desired color grades, sizes and volumes, the Company's business, operating results and financial condition would be materially adversely affected. See "Business -- Dependence on Cree and Cree Technology" and "-- Products."

RELIANCE ON CREE RESEARCH, INC.

The Company is dependent on a single source, Cree, for development and supply of SiC crystals. Cree has certain patents and other proprietary rights relating to its process for growing large single crystals of SiC and its process for growing colorless SiC crystals. The Company's effort to develop colorless SiC crystals in colors, sizes and volumes suitable for use as lab-created gemstones is concentrated entirely with Cree and is dependent on Cree's expertise in SiC technology.

Under the Company's Amended and Restated Exclusive Supply Agreement with Cree dated June 6, 1997 (the "Exclusive Supply Agreement"), the Company is obligated to buy from Cree and Cree is obligated to sell to the Company 50%, by dollar volume, of the Company's requirements for SiC material for the production of gemstones in each calendar quarter. Although the Company is only required to purchase 50% of its SiC requirements from Cree, the Company believes that no other SiC producer could supply crystals in the colors, sizes and volumes needed for the Company's products. Therefore, the Company is, and expects for the forseeable future to be, entirely dependent on Cree as its source for its principal raw material.

Cree will have to build additional crystal growth capacity in order to grow enough SiC crystals to meet the Company's requirements. Under the Exclusive Supply Agreement, Cree may elect to have the Company purchase the additional crystal growth systems that will be needed, and Cree would be obligated to supply the Company 100% of the output from systems funded by the Company. If, however, Cree elects to fund the cost of these additional growth systems on its own, then there can be no assurance that Cree will supply the Company with all of the output from these crystal growth systems or fill all of the Company's orders for SiC crystals. Any delay or reduction in the availability of SiC crystals could delay or limit the Company's ability to deliver and sell its lab-created gemstones, which would have a material adverse effect on the Company's business, operating results and financial condition.

The Company also obtains from Cree a component proprietary to Cree used in the production of the Company's moissanite/diamond test instrument. The Company believes that the test instrument may be important to building market acceptance of the Company's lab-created gemstones. See "Business -- Manufacturing." If Cree were unable to deliver this component in the quantities and at the times needed by the Company, the Company's ability to provide the market with its test instrument would be adversely affected.

Thus, the Company is dependent on Cree's ability to protect its patents and other proprietary rights concerning the growth of SiC crystals, on Cree's technological capabilities for the further development needed to deliver SiC crystals acceptable to the Company, on Cree consistently producing and delivering volumes of SiC crystals as and when needed by the Company and on Cree's ability to supply the Company with components for its test instrument, all of which are beyond the Company's control. Cree's failure to protect its patents or other proprietary rights, to complete the desired development objectives and to supply the Company with SiC crystals or components for its moissanite/diamond test instrument would have a material adverse effect on the Company's business, operating results and financial condition and could result in a curtailment, suspension or cessation of the Company's business. See "Business -- Dependence on Cree and Cree Technology."

UNDEVELOPED MARKETS; UNPROVEN ACCEPTANCE OF THE COMPANY'S PRODUCTS

There currently is no market among retail jewelers or consumers for colorless lab-created moissanite gemstones, and the Company believes that retail jewelers and consumers are generally unaware of the existence and attributes of these lab-created gemstones. As is the case with any new or potential product, market acceptance and demand are subject to a significant amount of uncertainty. Although retail jewelers typically purchase finished jewelry rather than loose gemstones, the Company plans to market loose lab-created gemstones to retailers. The retailers will then select the jewelry into which the stones will be set and will be responsible for completing the setting. The quality, design and workmanship of the jewelry settings selected by retail jewelers, which will not be within the Company's control, could impact the consumer's perception and acceptance of the Company's lab-created gemstones. The Company's future financial performance will depend upon consumer acceptance of the Company's lab-created gemstones as a realistic and affordable substitute for diamond, which may be impacted by (i) the jewelers' acceptance of lab-created gemstones as a diamond substitute, (ii) the willingness of retail jewelers to purchase loose stones and undertake setting of the loose stones, (iii) the ability of retail jewelers to select jewelry settings that encourage consumer acceptance of and demand for the Company's lab-created gemstones and (iv) the ability of retail jewelers to set loose lab-created gemstones in jewelry with high quality workmanship. The Company has not conducted extensive market tests to predict retail jeweler or consumer reaction to its products.

Because no market now exists for lab-created moissanite gemstones, it is difficult to predict the future growth rate, if any, and the size of the market for the Company's products. In order to build inventory to meet anticipated future demand, the Company expects to place orders with Cree for SiC crystals in advance of actual demand for the Company's products. As a result, the Company may spend significant amounts of its capital to acquire additional SiC crystal growth systems or to purchase crystals at a time when there is not demand for the Company's products at a level to fund those expenditures.

The market for the Company's lab-created gemstones may never develop or may develop at a slower pace than expected as a result of lack of acceptance of lab-created gemstones by retail jewelers or by consumers. If the market fails to develop or develops more slowly than expected, or if the Company's products do not achieve significant market acceptance, the Company's business, operating results and financial condition would be materially adversely affected. See "Business -- Dependence on Cree and Cree Technology" and "-- Marketing and Sales."

UNDEVELOPED DISTRIBUTION CHANNELS

The Company currently plans to sell its products initially in selected cities in the United States and the Pacific Rim. Although most loose gemstones are sold to wholesalers or jewelry manufacturers, the Company initially intends to sell its gemstones directly to retail jewelry chains and high-volume independent retail jewelry stores in the United States under exclusive distribution arrangements. In addition, the Company is exploring distribution arrangements in the Pacific Rim. The Company must enter into distribution agreements with and will be dependent upon a number of third parties for sales of its lab-created moissanite gemstones to consumers. The Company has not yet entered into distribution agreements with any retail jewelers or other distributors. There can be no assurance that the Company will be able to enter into distribution agreements with retail jewelers or other distributors, that its strategy of eliminating dependence on gemstone wholesalers and jewelry manufacturers will prove to be successful, or that jewelers or other distributors will devote the efforts needed for successful distribution of the Company's products. The inability of the Company to enter into favorable arrangements with retail jewelers or other distributors or to achieve desired distribution of its lab-created moissanite gemstones would have a material adverse effect on the Company's business, operating results and financial condition. See "Business -- Product Distribution."

DEPENDENCE ON INTELLECTUAL PROPERTY

The Company is heavily dependent upon Cree's technology for SiC crystals and is dependent upon its own technology for the production of lab-created gemstones from SiC crystals. Cree is exclusively licensed to use certain patents concerning a process for growing large single crystals of SiC, has certain patents of its own relating to growth of large single crystals of SiC and has a patent pending for a process for growing colorless SiC. However, there can be no assurance that any patents issued to or licensed by Cree will provide any significant commercial protection to Cree or to the Company, that Cree will have sufficient resources to prosecute its patents or that any patents will be upheld by a court should the Company, Cree or Cree's licensor seek to enforce their respective rights against an infringer. See "Business -- Dependence on Cree and Cree Technology."

The Company has certain patent applications pending for lab-created moissanite gemstones and also has an application pending on its moissanite/diamond test instrument. Although one of the Company's pending patent applications for lab-created moissanite gemstones has been rejected by the United States Patent and Trademark Office (the "PTO") in its initial office action, the Company intends to vigorously prosecute its patent applications. There can be no assurance that any patent will be granted or that a patent, if granted, will have any commercial or competitive value. See "Business -- Intellectual Property of the Company."

The existence of valid patents does not prevent other companies from independently developing competing technologies. Existing producers of SiC or others may refine existing processes for growing SiC crystals or develop new technologies for growing large single crystals of SiC or colorless SiC crystals in a manner that does not infringe patents owned or licensed by Cree or the Company. In addition, existing producers of SiC, existing producers of other diamond simulants or other parties may develop new

technologies for producing lab-created moissanite gemstones in a manner that does not infringe patents owned or licensed by Cree or the Company.

The Company regards certain of its technology as critical to its business and attempts to protect such technology under copyright and trade secrets laws and through the use of employee, customer and business partner confidentiality agreements. Such measures, however, afford only limited protection, and the Company may not be able to maintain the confidentiality of its technology.

As a result of the foregoing factors, existing and potential competitors may be able to develop products that are competitive with or superior to the Company's products, and such competition could have a material adverse effect on the Company's business, operating results and financial condition. See "Business -- Competition."

DEPENDENCE ON THIRD PARTIES

In addition to its significant dependence on Cree and on third party distribution channels, the Company's prospects depend upon its ability to identify, reach agreements with and work successfully with other third parties. In particular, the Company expects to rely on third parties to facet its lab-created gemstones and manufacture components for and assemble its moissanite/diamond test instrument. Faceting lab-created moissanite gemstones requires different techniques than faceting diamond and other gemstones. There can be no assurance that the Company can enter into contracts with faceting vendors on terms satisfactory to the Company or that faceting vendors will be able to provide faceting services in the quality and quantities required by the Company. In addition, there can be no assurance that the Company will be successful in identifying component manufacturers and assemblers for its moissanite/diamond test instrument. Failure by the Company to achieve any of the above would have a material adverse effect on the Company's business, operating results and financial condition. See "Business -- Manufacturing."

COMPETITION

Competition in the market for gemstones is intense. The Company's planned products face competition from established producers and sellers of diamonds, synthetic gemstones and diamond simulants such as synthetic cubic zirconia. In addition, other companies could seek to introduce synthetic diamonds or other competing products or to develop competing processes for production of lab-created moissanite gemstones. The Company believes that the more successful it is in creating market acceptance for colorless lab-created moissanite gemstones, the more competition can be expected to increase. Increased competition could result in a decrease in the price charged by the Company for its products or reduce demand for the Company's products, which would have a material adverse effect on the Company's business, operating results and financial condition. Further, the Company's current and potential competitors have significantly greater financial, technical, manufacturing and marketing resources and greater access to distribution channels than the Company. There can be no assurance that the Company will be able to compete successfully with its existing or potential competitors. See "Business -- Competition."

NEED FOR ADDITIONAL CAPITAL

The Company will require substantial additional capital to continue to develop and improve the process for growing colorless SiC crystals in the desired colors, sizes and volumes, to fund expansion of manufacturing capacity to meet projected growth and to fund its expansion into new markets. The Company's future capital requirements will depend on many factors, including the speed at which the SiC crystal growth process can be refined and improved, market acceptance of and demand for the Company's products and the timing of the Company's expansion into new markets. The Company currently believes that its existing capital resources, together with the proceeds of this offering and interest earned thereon, will satisfy its capital requirements for at least the 12 months following this offering. However, there can be no assurance that additional financing will not be required prior to such time. Moreover, there can be no assurance that additional equity or debt financing, if required, will be available on acceptable terms or at all. The inability of the Company to obtain financing on acceptable terms when needed would have a material adverse effect on the Company's business,

operating results and financial condition. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources."

INTERNATIONAL OPERATIONS

The Company intends to target certain international markets for its products. In addition, it expects to use certain companies based outside the United States to facet its lab-created moissanite gemstone products. Due to the Company's reliance on development of foreign markets and use of foreign vendors, the Company is subject to the risks of conducting business outside of the United States. These risks include unexpected changes in, or impositions of, legislative or regulatory requirements, delays resulting from difficulty in obtaining export licenses, tariffs and other trade barriers and restrictions and the burdens of complying with a variety of foreign laws and other factors beyond the Company's control. The Company is also subject to general geopolitical risks in connection with its international operations, such as political, social and economic instability, potential hostilities and changes in diplomatic and trade or business relationships. There can be no assurance that such factors will not adversely affect the Company's operations in the future or require the Company to modify its anticipated business practices.

GOVERNMENTAL REGULATION

The Company is subject to governmental regulations in the manufacture and sale of lab-created moissanite gemstones and the moissanite/diamond test instrument. In particular, the Federal Trade Commission (the "FTC") has the power to restrict the offer and sale of products that could deceive or have the tendency or effect of misleading or deceiving purchasers or prospective purchasers with regard to the type, kind, quality, character, origin or other characteristics of a diamond. The Company may be under close scrutiny both by governmental agencies and by competitors in the gemstone industry, any of which may challenge the Company's promotion and marketing of its gemstone products. If the Company's production or marketing of its lab-created gemstones is challenged by governmental agencies or competitors, or if regulations are issued that restrict the ability of the Company to produce and market its products as diamond substitutes, the Company's business, operating results and financial condition could be materially adversely affected. See "Business -- Government Regulation."

IMITATION MOISSANITE

If the Company's products achieve market acceptance, it is possible that low-quality gemstones or synthetics could be marketed as lab-created moissanite. The sale of low-quality products as lab-created moissanite could damage the perception of lab-created moissanite gemstones as a realistic substitute for diamond, damage the Company's reputation among retail jewelers and consumers and result in a loss of consumer confidence in the Company's products. The introduction of low-quality imitation moissanite gemstones and the inability of the Company to limit the adverse effects thereof could have a material adverse effect on the Company's business, operating results and financial condition.

MANAGEMENT OF RAPID GROWTH

The Company currently is experiencing a period of rapid and significant growth, which is expected to continue over the next several years. This rapid growth has placed and will continue to place a significant strain on the Company's resources. The Company's ability to manage its growth effectively will require it to implement and improve operational and financial systems and to expand, train and manage its employee base. The Company also will be required to manage multiple relationships with various suppliers, customers and other third parties. The Company's future operating results will also depend on its ability to expand its sales and marketing, research and development and administrative support organizations. The Company's executive officers have no significant experience in managing rapidly growing businesses. If the Company is unable to manage growth effectively, the Company's business, financial condition and results of operations would be materially adversely affected.

DEPENDENCE UPON KEY PERSONNEL; NEED FOR ADDITIONAL PERSONNEL

The Company's success depends in part upon retaining the services of certain executive officers and other key employees. The Company has entered into employment agreements with the Company's President, Chief Financial Officer, Vice President of Marketing, Director of Technology, Director of Manufacturing and Director of Sales. In addition, the Company intends to obtain "key man" life insurance policies on its President and Chief Financial Officer, but each policy is expected to provide coverage of only $1 million per individual. The loss of the services of the Company's executive officers or other key employees could have a material adverse effect on the Company's business, operating results and financial condition. See "Management."

Because of the Company's early stage of development, the Company is also dependent on its ability to recruit, retain and motivate personnel with technical, manufacturing and gemological skills. There are a limited number of personnel with these qualifications and competition for such personnel is intense. The inability of the Company to attract and retain additional qualified personnel would materially adversely affect the Company's business, operating results and financial condition.

OPERATING LOSSES

The Company had net losses of $27,187 for the period from June 28, 1995 (inception) to December 31, 1995, $382,608 for the year ended December 31, 1996 and $708,609 for the six months ended June 30, 1997. As of June 30, 1997, the Company had an accumulated deficit of $1,118,404. The Company expects to incur substantial additional costs to complete the development of its products and to market and distribute such products. The Company expects to incur losses through at least some or all of 1998, and there can be no assurance that the Company will ever achieve profitability or, if achieved, that such profitability will be sustained. See "Selected Financial Data" and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

POTENTIAL FOR FLUCTUATIONS IN QUARTERLY RESULTS

Because the Company has no operating history, management has very little data upon which to base estimated operating revenues and expenses. The Company's revenues will be affected by many factors, including those discussed in "Risk Factors." At the same time, the Company's expenses will be growing to support anticipated rapid expansion. The Company will likely experience substantial quarterly fluctuations in its operating results. As a result, the Company believes that period-to-period comparisons of its results of operations are not necessarily meaningful and should not be relied upon as an indication of future performance. Moreover, it is likely that in some future quarters the Company's operating results will be below the expectations of public market analysts and investors. In such event, the price of the Common Stock would likely be materially adversely affected.

NO PRIOR PUBLIC MARKET; POSSIBLE VOLATILITY OF STOCK PRICE

Prior to this offering, there has been no public market for the Common Stock, and there can be no assurance that an active public market for the Common Stock will develop or be sustained after this offering. The initial public offering price will be determined by negotiation between the Company and the Representative of the Underwriters. See "Underwriting."

The trading price of the Common Stock could be subject to wide fluctuations in response to quarterly variations in operating results, changes in financial estimates by securities analysts, announcements of technological innovations or new products by the Company or its competitors, or other events or factors. In addition, the stock market has experienced extreme price and volume fluctuations that have particularly affected the market prices for many technology and small capitalization companies. These broad market fluctuations may materially and adversely affect the market price of the Common Stock.

SUBSTANTIAL DILUTION

Purchasers of the Common Stock offered hereby will incur immediate and substantial dilution of approximately $8.47 per share in the pro forma net tangible book value per share of the Common Stock from the initial public offering price. See "Dilution."

SHARES ELIGIBLE FOR FUTURE SALE

Sales of the Common Stock in the public market after this offering could adversely affect the market price of the Common Stock. Following this offering, there will be 5,938,476 shares of Common Stock outstanding, of which the 2,000,000 shares offered hereby (2,300,000 if the Over-allotment Option is exercised in full) will be freely tradeable without restriction under the Securities Act, except for shares acquired in this offering by "affiliates" of the Company, as that term is defined in Rule 144 under the Securities Act. All of the shares of Common Stock held by the officers, directors, director nominees and beneficial owners of more than five percent of the Company's Common Stock, aggregating 1,927,393 shares, are subject to lock-up agreements and may not be sold or otherwise transferred until one year after the date of this Prospectus unless sooner released by the Representative in its sole discretion. Upon expiration of the lock-up agreements, all such shares of Common Stock will become eligible for sale in the public market, subject to the provisions of Rule 144 or Rule 701. In addition, approximately 1,921,621 shares of Common Stock outstanding prior to this offering and not subject to lock-up agreements will become eligible for sale in the public markets under Rule 144, 90 days after the effective date of this offering (the date on which these shares are assumed to be eligible for resale is February 12, 1998). Moreover, the Company intends to file registration statements under the Securities Act covering shares of Common Stock reserved for issuance under stock option plans.

The Company has entered into an agreement under which holders of an aggregate of 1,453,725 shares of Common Stock, which are to be issued at the time of the offering upon the automatic conversion of the currently outstanding Series B Preferred Stock, are entitled to cause the Company to register their shares for sale and to participate in any future registration of securities effected by the Company, subject to certain limitations and restrictions. See "Shares Eligible For Future Sale" and "Description of Capital Stock -- Registration Rights."

BROAD DISCRETION OVER USE OF PROCEEDS

The principal purpose of this offering is to increase the Company's equity capital to fund anticipated expenses for the development, production and marketing and sale of the Company's lab-created gemstones. The Company currently estimates that the net proceeds of this offering will be approximately $24.4 million and that $4.9 million (representing 20.0%) of such proceeds will be allocated to working capital and other general corporate purposes. The Company's management will have broad discretion to reallocate the use of the proceeds and to direct the use of working capital without any action or approval of the Company's shareholders. See "Use of Proceeds."

ANTI-TAKEOVER AND CERTAIN OTHER PROVISIONS

Certain provisions of the Company's Articles of Incorporation and Bylaws could have the effect of making it more difficult for a third party to acquire, or of discouraging a third party from attempting to acquire, control of the Company or limit the price that third parties might be willing to pay in the future for shares of the Company's Common Stock. See "Description of Capital Stock -- Certain Anti-Takeover Provisions."

Under the terms of the Exclusive Supply Agreement, the Company is prohibited from entering into exclusive marketing or distribution agreements with DeBeers or its affiliates or the Central Selling Organization (the international cartel of diamond producers) or any party whose primary business is the development, manufacture, marketing or sale of diamond gemstones or any non-gemstone and non-jewelry industry competitor of Cree (collectively, the "Prohibited Parties"). The agreement also prohibits the Company from entering into certain merger, acquisition, sale of assets or similar transactions with a Prohibited Party. These provisions of the Exclusive Supply Agreement could limit the price that third parties might be willing to pay in the future for some or all of the shares of the Company's Common Stock. In addition, this agreement could prevent the Company from entering into certain potentially profitable transactions with Prohibited Parties.

USE OF PROCEEDS

The net proceeds to be received by the Company from the sale of the Common Stock offered hereby are estimated to be approximately $24.4 million (approximately $28.2 million if the Over-allotment Option is exercised in full), assuming an initial public offering price of $13.50 per share and after deducting underwriting discounts and estimated offering expenses.

The Company intends to use approximately $5.5 million of the net proceeds of this offering to fund research and development activities. Of this amount, approximately $4.9 million will be paid to Cree under the Development Agreement and $600,000 will be used to fund other aspects of the Company's development efforts. The Company has reserved approximately $6.0 million of the net proceeds of this offering to fund the acquisition of additional SiC crystal growth systems from Cree, which the Company could be required to purchase for use by Cree in supplying commercial production quantities of SiC crystals to the Company. Under the Exclusive Supply Agreement, Cree has the option to require the Company to purchase such systems from Cree at Cree's cost or to build such systems itself and recoup its costs by incorporating the cost of the systems into the cost of the SiC crystals purchased by the Company. See "Business -- Dependence on Cree and Cree Technology." The Company has not received any indication from Cree as to whether future capacity requirements will be met at the Company's or Cree's expense. The Company also intends to use approximately $1.9 million to purchase other equipment from unaffiliated third parties. In addition, the Company plans to use approximately $6.1 million of the net proceeds to fund its sales and marketing efforts.

The remaining net proceeds will be used for working capital and general corporate purposes. Pending application of the net proceeds as set forth above, the Company intends to invest the net proceeds in short-term, investment grade debt securities. The Company reserves the right to reallocate the use of the net proceeds of the offering to meet the business needs of the Company, which could be required if Cree is unable to develop a fully repeatable process for growing SiC crystals in desired colors, sizes and volumes, if market acceptance of lab-created moissanite gemstones is slower than anticipated or if there are unanticipated technological or other changes within the jewelry industry. The Company currently believes that its existing capital resources, together with the net proceeds of this offering and interest earned thereon, will satisfy the Company's capital requirements at least through the 12 months following this offering.

DIVIDEND POLICY

The Company has never declared or paid any cash dividends on its capital stock. The Company intends to retain its future earnings, if any, to fund the development and growth of its business and, therefore, does not anticipate paying any cash dividends in the foreseeable future. Any future decision concerning the payment of dividends on the Common Stock will depend upon the results of operations, financial condition and capital expenditure plans of the Company, as well as such other factors as the Board of Directors, in its sole discretion, may consider relevant.

DILUTION

As of June 30, 1997, the Company had a pro forma net tangible book value of approximately $5.5 million or $1.39 per share of Common Stock. "Pro forma net tangible book value" represents the amount of total tangible assets less total liabilities divided by the number of shares of Common Stock outstanding, after giving effect to the 2.13-for-1 stock split effected in September 1997, and the automatic conversion of the outstanding shares of the Series A Preferred Stock and Series B Preferred Stock into an aggregate of 1,677,375 shares of Common Stock. After giving effect to the sale of 2,000,000 shares of Common Stock in this offering at an assumed initial public offering price of $13.50 per share, and the receipt of the net proceeds therefrom, the pro forma net tangible book value of the Company as of June 30, 1997 is approximately $29.9 million or $5.03 per share of Common Stock. This represents an immediate dilution of $8.47 per share to new investors purchasing shares of Common Stock offered hereby. The following table illustrates the per share dilution:

Assumed public offering price per share.....		$13.50
Pro forma net tangible book value per share as of June 30, 1997.....	$1.39	
Increase in net tangible book value per share attributable to this offering.....	3.64	
Pro forma net tangible book value per share after this offering.....		5.03
Dilution per share to new investors.....		$ 8.47

The following table summarizes as of June 30, 1997, after giving effect to the 2.13-for-1 stock split in September 1997, the automatic conversion of the Series A Preferred Stock and Series B Preferred Stock and the sale of 2,000,000 shares of Common Stock in this offering, the number of shares of Common Stock purchased from the Company, the total consideration paid therefor and the average price per share paid by the existing shareholders and by the new investors purchasing shares of Common Stock in this offering, at an assumed initial public offering price of $13.50 per share, before deduction of the estimated underwriting discount and offering expenses payable by the Company:

	SHARES PURCHASED		TOTAL CONSIDERATION		AVERAGE PRICE
	NUMBER	PERCENT	AMOUNT	PERCENT	PER SHARE
Existing shareholders.....	3,938,476	66.3%	$ 6,670,125	19.8%	$ 1.96
New investors.....	2,000,000	33.7	27,000,000	80.2	13.50
Total.....	5,938,476	100%	$33,670,125	100%	

The foregoing tables assume no exercise of the Over-allotment Option and no exercise of outstanding stock options to purchase Common Stock. There are (i) 661,791 shares of Common Stock issuable upon the exercise of options granted under the 1996 Option Plan exercisable at a weighted average price of approximately $3.95 per share and (ii) 37,275 shares of Common Stock issuable upon the exercise of options granted to certain independent contractors exercisable at a weighted average price of approximately $1.88 per share. To the extent that any of these options are exercised in the future, there will be further substantial dilution to new investors. See "Management -- Stock Option Plans."

CAPITALIZATION

The following table sets forth the capitalization of the Company as of June 30, 1997 on an actual and pro forma basis. The pro forma capitalization gives effect to a 2.13-for-1 stock split effected in September 1997, the automatic conversion of the Series A Preferred Stock and Series B Preferred Stock into an aggregate of 1,677,375 shares of Common Stock, an amendment to the Company's articles of incorporation to be effective prior to completion of the offering and the sale of 2,000,000 shares of Common Stock in this offering at an assumed initial public offering price of $13.50 and the application of the estimated net proceeds therefrom. See "Use of Proceeds." This information should be read in conjunction with the Company's Financial Statements and the Notes thereto appearing in this Prospectus.

	JUNE 30, 1997	
	ACTUAL	PRO FORMA
Shareholders' equity:		
1996 Series A Preferred Stock, no par value; 105,000 shares authorized, 105,000 shares issued and outstanding, actual; none authorized or issued and outstanding, pro forma(1)	$ 593,271	$ --
1997 Series B Preferred Stock, no par value; 682,500 shares authorized, 682,500 shares issued and outstanding, actual; none authorized or issued and outstanding, pro forma(1)	4,981,376	--
Preferred Stock, no par value; 4,212,500 shares authorized, none issued and outstanding, actual; 10,000,000 authorized, none issued and outstanding, pro forma	--	--
Common Stock, no par value; 10,000,000 shares authorized, 1,061,550 issued and outstanding, actual; 50,000,000 shares authorized, 5,938,476 issued and outstanding, pro forma(1)(2)	1,095,803	31,070,450
Deficit accumulated during the development stage	(1,118,404)	(1,118,404)
Total shareholders' equity(2)	5,552,046	29,952,046
Total capitalization	$ 5,552,046	$29,952,046

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(1) Net of related offering expenses. The Company intends to amend its articles of incorporation prior to the completion of this offering to provide that the shares will automatically convert into shares of Common Stock upon consummation of this offering.

(2) Excludes (i) 37,275 shares of Common Stock issuable upon the exercise of stock options granted to certain independent consultants with an exercise price of approximately $1.88 per share, (ii) 661,791 shares of Common Stock issuable upon the exercise of stock options granted under the 1996 Option Plan with a weighted average exercise price of approximately $3.95 per share and (iii) 310,000 shares of Common Stock issuable upon the exercise of stock options granted under the 1997 Omnibus Plan with an exercise price equal to the initial public offering price of the shares of Common Stock offered hereby.

SELECTED FINANCIAL DATA

The following selected statement of operations data for the period from inception through December 31, 1995 and for the year ended December 31, 1996 and the selected balance sheet data at December 31, 1995 and December 31, 1996 have been derived from, and are qualified by reference to, the Company's financial statements included elsewhere in this Prospectus, which have been audited by Deloitte & Touche LLP, independent auditors. The selected statements of operations data for the six month periods ended June 30, 1996 and June 30, 1997 and the selected balance sheet data at June 30, 1997 have been derived from the Company's unaudited financial statements included elsewhere in this Prospectus. In the opinion of management of the Company, such unaudited financial statements have been prepared on a basis consistent with the audited financial information and include all adjustments, consisting of normal recurring accruals, necessary for a fair presentation of the results of such periods. The results of operations for the six month period ended June 30, 1997 are not necessarily indicative of the results of operations for the year ending December 31, 1997. The selected financial data set forth below should be read in conjunction with the "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Financial Statements and Notes thereto included elsewhere in this Prospectus.

	PERIOD FROM INCEPTION (JUNE 28, 1995) TO DECEMBER 31, 1995	YEAR ENDED DECEMBER 31, 1996	SIX MONTHS ENDED JUNE 30, 1996	SIX MONTHS ENDED JUNE 30, 1997
STATEMENT OF OPERATIONS DATA:				
Revenues	--	--	--	--
Operating expenses:				
Marketing and sales	$ 10,313	$ 47,019	$ 8,017	$ 46,611
General and administrative(1)	10,024	131,097	48,069	316,154
Research and development	6,052	236,047	68,115	452,571
Depreciation and amortization	798	3,618	1,306	6,649
Operating loss	27,187	417,781	125,507	821,985
Interest income, net	--	(35,173)	(1,231)	(113,376)
Net loss	$ 27,187	$ 382,608	$ 124,276	$ 708,609
Pro forma net loss per share	$ 0.01	$ 0.14	$ 0.05	$ 0.17
Shares used in computing pro forma net loss per share(2)	2,204,062	2,652,250	2,381,562	4,199,978

	DECEMBER 31, 1995	DECEMBER 31, 1996	JUNE 30, 1997
BALANCE SHEET DATA:			
Cash and equivalents	$ 9,109	$1,167,458	$5,538,099
Working capital	8,355	1,161,603	5,428,225
Total assets	32,913	1,226,134	5,661,920
Shareholders' equity	22,813	1,213,279	5,552,046

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(1) For the six months ended June 30, 1997, includes $66,000 of compensation expense related to the January 2, 1997 issuance of Common Stock to Cree pursuant to a stock option agreement. See Note 10 of Notes to Financial Statements.

(2) The calculation of shares for all periods reflects a 2.13-for-1 stock split effected in September 1997 and the automatic conversion of the Series A Preferred Stock and Series B Preferred Stock to be effected upon completion of this Offering. See Notes 2 and 9 of Notes to Financial Statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

Since its organization in June 1995, the Company has devoted its resources to funding research and development of colorless lab-created moissanite gemstones, preliminary market research, qualifying potential retail jewelers and other potential customers for distribution arrangements and assembling a management team. As a development stage company, the Company is subject to all the risks inherent in establishing a new business, including the risk that full-scale operations may not occur.

The Company has not produced sales revenues to date and does not anticipate having product sales until at least the first half of 1998. The Company has been unprofitable since inception and anticipates that it will continue to incur increasingly significant expenses as it transitions from the development stage to full-scale production. Historic spending levels are not indicative of anticipated future spending levels because the Company is entering a period in which it will rapidly increase spending to refine its lab-created moissanite gemstone products, exploit its technology, introduce its products into the market, establish exclusive distribution channels, expand manufacturing capacity, optimize SiC crystal yields and market its moissanite/ diamond test instrument. For these reasons, the Company expects to continue operating at a loss through at least some or all of 1998. Moreover, there can be no assurance that the Company will ever achieve profitability or if profitability is achieved, that such profitability can be sustained. See "Risk Factors -- Lack of Operating History; Development Stage Company."

RESULTS OF OPERATIONS

Six Months ended June 30, 1997 compared with Six Months ended June 30, 1996. Research and development expenses for the six months ended June 30, 1997 increased by $384,456 over research and development expenses for the six months ended June 30, 1996. The increase was attributable to expanded colorless SiC crystal development efforts at Cree, internal development of prototype gemstone pre-forming and faceting operations, qualifying of vendors for production and development of production-quality prototypes of the moissanite/diamond test instrument.

Marketing and sales expenses for the six months ended June 30, 1997 increased by $38,594 over expenses for the six months ended June 30, 1996. The increase was due to the compensation expense of additional sales and marketing staff hired since the prior period and the development of preliminary advertising and marketing materials. Prior to May 1, 1996, the Company had no paid employees.

General and administrative expenses for the six months ended June 30, 1997 increased by $268,085 over general and administrative expenses for the six months ended June 30, 1996. The increase was primarily attributable to the compensation expense of additional staff hired since the prior period and occupancy expenses. The Company had no paid employees before May 1, 1996. Prior to February 4, 1997, the Company conducted its operations from the home of two of its founders and did not incur any lease or rent expenses during that time. During this period in 1997, the Company also recognized $66,000 of compensation expense related to the exercise of Cree's options to acquire 24,601 shares of Common Stock on January 2, 1997.

Interest income for the six months ended June 30, 1997 increased by $112,145 over interest income for the six months ended June 30, 1996. The increase generally reflected interest earned on cash and cash equivalents, consisting primarily of U.S. Treasury Bills and U.S. Treasury money market funds acquired by investing the proceeds from the Company's Series A Preferred Stock offering in August 1996 and its Series B Preferred Stock offering in January and February 1997.

Year ended December 31, 1996 compared with Seven-Month Period ended December 31, 1995. Research and development expenses for the year ended December 31, 1996 increased $229,995 over research and development expenses for the seven-month period ended December 31, 1995. The increased expenses reflected the commencement of the Company's external development of colorless SiC crystals through Cree

and increased activity in the development of prototype lab-created gemstones and a prototype moissanite/ diamond test instrument.

Marketing and sales expenses for the year ended December 31, 1996 increased by $36,706 over similar expenses for the seven-month period ended December 31, 1995. The increase was primarily due to the compensation expense of additional sales and marketing staff hired since the prior period. The Company had no paid employees before May 1, 1996.

General and administrative expenses for the year ended December 31, 1996 increased by $121,073 over general and administrative expenses for the seven-month period ended December 31, 1995. The increases were primarily due to the compensation expense of additional staff hired since the prior period and occupancy expenses. The Company had no paid employees before May 1, 1996. Prior to February 4, 1997, the Company's operations were conducted from the home of two of its founders; consequently, the Company did not incur any lease or rent expenses prior to that time.

Interest income was $35,173 for the year ended December 31, 1996. The Company had no interest income in the seven-month period ended December 31, 1995. The interest was earned on cash and equivalents, consisting primarily of U.S. Treasury Bills and U.S. Treasury money market funds acquired by investing the proceeds from the Company's sale of Common Stock in May 1996 and the Company's Series A Preferred Stock offering in August 1996.

LIQUIDITY AND CAPITAL RESOURCES

The Company has financed its operations since inception primarily through private equity sales totaling approximately $6.6 million. As of June 30, 1997, the Company had approximately $5.5 million of cash and equivalents. The Company's business strategy requires a significant expenditure of funds for an accelerated commercialization of colorless lab-created moissanite gemstones. These expenditures are presently projected to total approximately $13.9 million through the end of 1998. In addition, the Company intends to spend approximately $5.5 million on research and development activities during that period. Actual expenditures for accelerated commercialization and additional research and development efforts could vary materially from these estimates.

In connection with its planned commercial introduction of lab-created moissanite gemstones, the Company has placed its first commercial quantity order with Cree for a number of SiC crystals that the Company believes will require the acquisition of additional crystal growth systems. This order is contingent on Cree meeting certain development milestones for color range and the successful completion of this offering. See "Business -- Manufacturing -- Growth of SiC Crystals." Under the terms of the Exclusive Supply Agreement, Cree has the option of building the growth systems at its own cost or requiring the Company to purchase the growth systems from Cree. If the contingencies are satisfied and Cree requires the Company to purchase the growth systems, the Company will be obligated to spend approximately $1.0 million to fund the purchase of such growth systems. In addition, if Cree's development efforts and the Company's internal sales projections are met, the Company anticipates placing orders for a number of crystals in 1998 and following years that it believes will require additional capacity at Cree to meet the Company's SiC crystal requirements. If Cree requires the Company to purchase additional growth systems, the Company will be obligated to spend approximately $5.0 million to fund the purchase of such growth systems in 1998. The Company also intends to spend approximately $1.9 million to purchase other equipment, including certain automated and computerized equipment to slice and dice SiC crystals into preforms. See "Use of Proceeds" and "Business -- Manufacturing."

The Company plans to engage in substantial marketing activities to support the introduction of lab-created moissanite gemstones. Such activities may include advertising campaigns, cooperative advertising with retail jewelers and distributors and individualized jeweler training. The Company also intends to launch a direct mail campaign to support the introduction of its moissanite/diamond test instrument. The Company estimates that it will spend approximately $6.1 million for sales and marketing activities through 1998.

The actual amount and timing of the Company's future capital requirements will depend on many factors, including the extent of continued progress in its development programs, the magnitude of these programs, the costs involved in filing, prosecuting, enforcing and defending patent claims, the appearance of competing technological and market developments and the success of the Company's sales and marketing efforts. There can be no assurance that the Company's future capital requirements will not exceed the amounts projected by its current operating plan.

The Company has no committed external sources of capital. Based on its current operating plan, the Company anticipates that its existing capital resources, together with the proceeds of this offering and interest earned thereon, will be adequate to satisfy its capital requirements for at least the 12 months following this offering. There may be circumstances, however, particularly a delay in the introduction of the Company's proposed products or lower than anticipated sales, that might accelerate the use of the net proceeds of this offering and the Company's existing capital resources. The Company may be required to raise substantial additional funds in the future, through public or private sources or other relationships. No assurance can be given that additional financing will be available, or if available, that it will be available on terms acceptable to the Company. See "Risk Factors -- Need for Additional Capital."

DEFERRED COMPENSATION

Subsequent to June 30, 1997, the Company recognized deferred compensation expense of approximately $2.9 million related to stock options granted in July and August 1997. Upon completion of this offering, the stock options granted to certain officers and directors will vest on December 31, 1997. As a result, approximately $2.1 million of this deferred compensation expense will be recognized in the quarter ending December 31, 1997. The remaining deferred compensation expense, approximately $800,000, will be recognized over the three-year vesting period of the remaining options. See Note 10 of Notes to Financial Statements.

NET OPERATING LOSS CARRYFORWARD

As of December 31, 1996 the Company had a net operating loss ("NOL") carryforward of approximately $147,000, which expires in 2011. In accordance with Section 382 of the Internal Revenue Code of 1986, as amended, a change in equity ownership of greater than 50% of the Company within a three-year period results in an annual limitation on the Company's ability to utilize its NOL carryforwards that were created during tax periods prior to the change in ownership. As a result of the Company's private equity offerings to date and certain shareholder transactions, the utilization of the Company's NOL carryforwards has become limited.

NEWLY ISSUED ACCOUNTING PRONOUNCEMENT

In February 1997, Statement of Financial Accounting Standards No. 128, "Earnings Per Share," was issued. This statement establishes standards for computing and presenting earnings per share ("EPS") and applies to entities with publicly held common stock or potential common stock. This Statement simplifies the current standards for computing earnings per share, and makes them comparable to international EPS standards. This Statement is effective for financial statements issued for periods ending after December 15, 1997; earlier application is not permitted. This Statement requires restatement of all prior period EPS data presented. The implementation of this Statement will not have a material impact on the Company's financial statements.

BUSINESS

INTRODUCTION

The Company is finalizing the development of, and intends to begin marketing during the first half of 1998, colorless lab-created moissanite gemstones which it will sell as a substitute for diamond in the jewelry market. The physical properties of lab-created moissanite gemstones more closely match those of diamond than any other known gemstone material. The Company believes that its products are superior to other commercially available diamond substitutes and intends to position its gemstone products as the ideal substitute for diamond. The Company believes that its products will be attractive to working women who desire an affordable alternative to diamond and to middle and upper-income women who desire affordable "everyday" or "security" jewelry.

Moissanite, also known by its chemical name, silicon carbide ("SiC"), is a rare, naturally occurring mineral found primarily in meteorites. See "-- Moissanite." Moissanite and diamond are both carbon-based minerals; moissanite is composed of silicon and carbon while diamond is composed of carbon.

The Company's lab-created moissanite gemstones are made from crystals of SiC grown by Cree using patented and propriety technology. Cree has an exclusive license to the patent related to a process for growing large single crystals of SiC. To the Company's knowledge, there are no producers of SiC other than Cree that could supply lab-grown SiC crystals in colors, sizes or volumes suitable for use as a diamond substitute. The Company has certain exclusive licenses and supply rights with Cree for SiC materials to be used for gemstone applications. See "-- Dependence on Cree and Cree Technology." In addition, the Company has developed certain proprietary methods and processes for the production of gemstones from lab-grown SiC crystals and has patent applications pending for certain of these methods and processes. See "-- Intellectual Property of the Company." As a result, the Company believes that its lab-created moissanite gemstones are proprietary products and that there are technological barriers to prevent other competitors from developing or marketing lab-created moissanite gemstones at affordable prices.

The Company and Cree are continuing their efforts to develop a fully repeatable process to grow SiC crystals in colors, sizes and volumes desired for the commercialization of lab-created gemstones. If the development objectives are not fully accomplished, the Company believes it could market gemstones of less than 1/2 carat in diamond color grades that have already been grown by Cree, although at significantly lower average selling prices. Although the Company has not yet begun to sell its products, the Company has begun qualifying retail jewelry chains and high-volume independent retail jewelry stores in selected U.S. cities to become exclusive distributors for sales anticipated to begin in the first half of 1998. The Company is also evaluating alternatives for distribution channels in the Pacific Rim and anticipates sales of its products will also commence there in the first half of 1998.

There can be no assurance that the Company's development efforts will be successful, that the Company will be able to enter into distribution agreements with qualified retail jewelers on terms acceptable to the Company or that consumers will accept the Company's lab-created gemstones as a diamond substitute. See "Risk Factors," "-- Dependence on Cree and Cree Technology," "-- Product Distribution" and "-- Marketing and Sales."

INDUSTRY BACKGROUND

Overview. Gemstone materials can be grouped into three types: (i) natural gemstone, which is found in nature; (ii) synthetic gemstone, which has the same chemical composition and characteristics of natural gemstone but is created in a lab and (iii) simulated or substitute material, which is similar in appearance to the natural gemstone but does not have the same chemical composition. A gemstone substitute should have physical properties similar to those of the natural gemstone with which it compares and should be comparatively inexpensive. The Company intends to market its products as the ideal substitute for diamond.

Diamond Jewelry Market. In 1996, worldwide retail diamond jewelry sales were estimated to be in excess of $52 billion and diamond jewelry sales in the United States were estimated to be $17.9 billion. In

1996, approximately 29.5 million pieces of diamond jewelry were sold in the United States, of which approximately 22.8 million pieces used settings other than engagement rings.

The value of a diamond is determined by its carat size, cut, color and clarity. Carat size refers to the weight of a diamond with one carat being equivalent to 1/5 of a gram. The cut, or faceting of a rough diamond into a gemstone, reveals the natural fire, brilliance and color of the stone. Color refers to the amount of tint in a diamond. Clarity refers to the presence and severity of inclusions (impurities trapped in the diamond during its formation) and blemishes in a diamond.

The color grading scale, which is the standard generally accepted by the diamond industry for color using pregraded master color stones, measures the color of diamonds. The color grading scale consists of the letters "D" through "Z". "D" is the designation given to a diamond that is completely colorless, while a designation of "Z" is given to a colorless diamond that has a yellowish tint visible to the naked eye. Colored diamonds, such as canary diamonds, use a different grading scale. Retail jewelry stores most often sell diamonds within the "G" to "M" range. In 1996, the median color grade of all diamonds sold was within the range of "H" to "I".

The clarity grading scale, which is generally accepted by the diamond industry, is used to identify the severity of defects. The clarity grading scale is as follows: Flawless (a diamond that has no inclusions and only insignificant blemishes that are invisible at 10x magnification); Very Very Slightly Included; Very Slightly Included; Slightly Included; Imperfect-1; Imperfect-2; and Imperfect-3 (large and/or numerous inclusions that are clearly visible to the naked eye). Retail jewelry stores predominantly sell diamonds in the range of Very Slightly Included to Imperfect-1. The clarity grade with the highest number of diamonds sold in 1996 was Slightly Included.

The following table sets forth the matrix of wholesale prices for a one carat round brilliant cut diamond of varying colors and clarities:

PER CARAT DIAMOND WHOLESALE PRICING(1)

	COLOR		
CLARITY	G/H	I/J	K/L
Flawless	$7,450	$5,750	$4,750
Very, Very Slightly Included	6,775	5,375	4,525
Very Slightly Included	6,125	4,925	4,125
Slightly Included	4,717	4,017	3,417

(1) Based on the September 5, 1997 Rapaport Diamond Report.

Diamond Synthetics and Substitutes. Although the technology to produce synthetic diamonds has existed for over 40 years, synthetic diamonds have not been used in significant quantities in jewelry. In 1955, The General Electric Company ("GE") produced industrial-grade synthetic diamonds by subjecting graphite to extreme pressure and heat. In 1970, GE announced that it had produced colorless gemstone quality synthetic diamonds in carat weight. DeBeers, Sumitomo Corporation and certain Russian producers have also produced gemstone quality synthetic diamonds. However, the process for growing colorless gemstone quality synthetic diamonds is far more expensive and time-consuming than growing industrial-grade synthetic diamonds. The Company believes that it is not commercially feasible to grow colorless gemstone quality synthetic diamonds at the present time.

Treated diamonds, which are natural diamonds with imperfections or flaws that have been altered in some manner to enhance their appearance, are also sold in the jewelry industry. Diamonds with surface cracks may be filled with a colorless substance to present a uniform appearance. The appearance of diamonds containing inclusions, or foreign materials trapped in a diamond during its formation, may be improved through the use of laser technology. Treated diamonds are generally less expensive than diamonds of similar size, cut and color which have not been treated.

Industry experience has shown that certain diamond substitutes have achieved market acceptance with consumers. Synthetic cubic zirconia, which is often considered to be the first diamond substitute to possess physical characteristics reasonably similar to diamond, gained rapid acceptance among consumers after its introduction in 1976. The absence of any proprietary rights in the process for producing synthetic cubic zirconia allowed a number of producers to enter the market shortly after its introduction. As a result of these factors, the wholesale price of synthetic cubic zirconia decreased by 90% in the four years following its introduction.

Synthetic cubic zirconia initially was not well accepted by jewelers. Industry publications suggest that jewelers historically believed that sales of diamond simulants, such as synthetic cubic zirconia, might cause a decrease in diamond sales. Reports of diamond sales following the introduction of synthetic cubic zirconia fail to show, however, that synthetic cubic zirconia significantly depressed diamond sales. The Gemological Institute of America has stated that many jewelers have found that some purchasers of diamond simulants return to upgrade their jewelry to diamond.

Based on consumer acceptance of other diamond simulants, the Company believes that a market does exist for a realistic substitute for diamond in jewelry. The Company believes that its products are superior to other commercially available diamond simulants because the physical properties of lab-created moissanite gemstones more closely match those of diamond than any other known gemstone material. There can, however, be no assurance that consumers will accept the Company's products as a substitute for diamond in jewelry or that no other more realistic diamond substitutes will become available. See "Risk Factors -- Undeveloped Markets" and "-- Unproven Acceptance of the Company's Products."

BUSINESS STRATEGY

The Company has developed a business strategy for achieving commercial production and widespread market acceptance for its lab-created gemstones. The key components of this strategy include:

Exploit Proprietary Technology. The Company has undertaken a development program with Cree under which Cree is refining its patented core SiC technology in order to produce large lab-grown SiC crystals in the comparable diamond color grades "G" through "J" by a fully repeatable process. See "-- Dependence on Cree and Cree Technology."

Develop Market Recognition. The Company plans to position its gemstone products as the ideal substitute for diamond. The Company believes that lab-created gemstones will be attractive to working women who desire an affordable alternative to diamond and to middle and upper-income women who desire affordable "everyday" or "security" jewelry. See "-- Marketing and Sales."

Establish Exclusive Distribution Channels. The Company plans to enter into exclusive distribution agreements in 1998 with selected retail jewelry chains and high-volume independent retail jewelry stores located in certain U.S. cities and is exploring distribution options for the Pacific Rim. Exclusive distribution rights are intended to enable retailers to distinguish themselves from competitors in the highly competitive jewelry market, which the Company believes will encourage the retailers to focus on and promote the sale of the Company's gemstone products. See "-- Marketing and Sales."

Rapidly Expand Manufacturing Capacity. The Company is committed to rapidly expand the capacity at Cree for producing colorless SiC crystals for gemstones. Although the Company has certain rights under the Exclusive Supply Agreement with Cree to cause Cree to expand capacity as needed to meet the Company's orders for lab-grown SiC crystals, under certain circumstances, Cree's supply obligation may be limited. See "-- Dependence on Cree and Cree Technology" and "-- Manufacturing."

Optimize SiC Crystal Yield. After a fully repeatable process has been developed for producing SiC crystals in comparable diamond color grades, sizes and volumes desired for initial commercial production of the Company's colorless lab-created moissanite gemstones, Cree will seek to expand SiC crystal size while maintaining crystal color uniformity and volume. This development program is intended to optimize the productivity of the crystal growth process and minimize the per carat materials cost of the Company's colorless lab-created moissanite gemstones. See "-- Dependence on Cree and Cree Technology."

Provide Reliable Test Instruments. The Company believes that a practical, readily available method of distinguishing colorless lab-created moissanite gemstones from diamond will be needed by persons who are not trained gemologists to prevent fraud, which may aid in establishing market acceptance of the Company's gemstone products. Because the Company's tests indicate that neither visual inspection nor commonly used testing devices reliably distinguish colorless lab-created moissanite gemstones from diamond, the Company has begun to produce a test instrument that distinguishes colorless lab-created moissanite gemstones from diamonds in the colors and clarities most commonly sold by retail jewelers. See "-- Products."

During the balance of 1997 and the first half of 1998, the Company will continue to monitor closely Cree's program to develop a fully repeatable process for producing SiC crystals with uniform color in the comparable diamond color grades "G" through "J", with at least 50% in the comparable diamond color grades "G" to "H". There can be no assurance that this portion of the development will be accomplished during this time frame or at all. Once the targeted color grades and uniformity are consistently achieved, the Company will continue to closely monitor the on-going development program to increase crystal size while maintaining color grade and uniformity. See "-- Dependence on Cree and Cree Technology."

If Cree achieves the desired color grades, the Company anticipates placing production orders for SiC crystals with Cree during the balance of 1997 and the first half of 1998 that will require the expansion of Cree's manufacturing capacity through the addition of numerous crystal growth systems. Under the Exclusive Supply Agreement, Cree may elect to pay the cost of building the growth systems itself and build this cost into the price of SiC crystals sold to the Company or to require the Company to pay for the growth systems to be built by Cree and maintained at Cree's facilities. See "-- Dependence on Cree and Cree Technology" and "-- Manufacturing." Because Cree has not indicated which alternative it will elect, the Company has budgeted a portion of the proceeds of this offering to fund the acquisition of the crystal growth systems anticipated to be needed. See "Use of Proceeds," "Risk Factors" and "-- Manufacturing." The Company also anticipates making other equipment purchases of approximately $1.9 million for its own facility. See "Use of Proceeds." During this same time period, the Company will continue to assess whether additional vendors of faceting services are needed and to enter into contracts with vendors to provide such services as needed to meet demand.

During the remainder of 1997 and the first half of 1998, the Company will be developing its marketing program for introducing gemstone products for sale in the first half of 1998. See "-- Marketing and Sales." Through the balance of 1997, the Company's sales force will continue to implement its strategy for establishing product distribution channels. The Company currently anticipates that it will begin to offer exclusive distribution arrangements in early 1998. Assuming Cree has achieved production of SiC crystals in the comparable diamond color grades, sizes and volumes desired by the Company, the Company will continue to evaluate and select additional retailers or other distribution channels for its products during the remainder of 1998.

MOISSANITE

Moissanite is a rare, naturally occurring mineral which is found primarily in meteorites. The naturally occurring moissanite that has been found has generally been very small in size and dark green or black in color and is not a commercially viable gemstone material. Therefore, only lab-grown SiC crystals are expected to provide a meaningful source of moissanite for gemstones.

The Company believes that lab-created moissanite gemstones have numerous features that make them a superior substitute for diamond in jewelry and that will result in market demand for the Company's products. It is generally accepted that, in addition to carat size, the most important characteristics of a gemstone are its beauty and durability. The beauty of a colorless diamond is determined by the absence of color as well as the diamond's brilliance and "fire." The brilliance of a gemstone is measured by its refractive index or the extent to which it reflects light. The "fire" of a gemstone, or the breaking of light rays into the spectrum of colors, is measured by its dispersion. The gemstone's hardness also determines the extent to which brilliance and "fire" can be highlighted by cutting with sharp, highly polished facets. The durability of a gemstone is determined by the gem's hardness, or resistance to scratching, and its toughness, or resistance to chipping or cleaving.

Because of SiC's physical properties, lab-created moissanite gemstones compare favorably to diamond for beauty and durability. The unique atomic structure of SiC allows it to be grown in a wide variety of colors, including colors within the commercially desirable portion of the diamond grading scale. Colorless lab-created moissanite gemstones display a brilliance very similar to that of diamond, with a refractive index that is greater than diamond and closer to diamond than any other hard mineral. The dispersion of colorless lab-created moissanite gemstones is also higher than diamond. The hardness of lab-created moissanite gemstones is greater than all known gemstone materials except diamond. As a result, lab-created moissanite gemstones, like diamond, can be cut with sharp, highly polished facets that accentuate their brilliance and "fire."

An initial study indicates that the physical appearance of lab-created moissanite gemstones is quite similar to diamond. In 1996, the Company commissioned a market survey of 30 jewelry stores in the Midwest region of the United States. In the survey, personnel at 28 out of 30 jewelry stores mistakenly identified one of the Company's lab-created moissanite gemstones set in a pendant as diamond. This study represents only one survey, and there can be no assurance that other surveys would provide similar findings or that any commercial market will develop for the Company's products.

The Company believes that other physical properties of lab-created moissanite gemstones are similar to diamond and will aid in jewelers' acceptance of its products as a diamond substitute. Because the specific gravity, or density, of lab-created moissanite gemstones is very close to that of diamond, the size of a 1 carat lab-created moissanite gemstone is virtually indistinguishable from a 1 carat diamond by the naked eye. In addition, lab-created moissanite gemstones, like diamond, can withstand high temperatures. This property allows jewelers to make extensive repairs to the jewelry setting without removing the stone and to use the same methods that are used to repair diamond jewelry.

The Company believes that the physical properties of lab-created moissanite gemstones make it a more attractive substitute for diamond than synthetic cubic zirconia. Because it has a lower refractive index than diamond, synthetic cubic zirconia is relatively easy to distinguish from diamond in most applications. The difference is noticeable in larger size round brilliant cut gemstones and particularly in gemstones cut with certain facet arrangements, such as emerald or baguette cut gemstones. In addition, as a result of their relative softness, synthetic cubic zirconia gemstones show signs of wear over time. Substantial degradation of the facets, which does not occur to the same degree in diamond or lab-created moissanite gemstones, results in a marked reduction in brilliance.

The following table compares the physical properties of lab-created moissanite gemstones with other gemstone materials:

GEMSTONE MATERIAL COMPARISON(1)

GEMSTONE MATERIAL	HARDNESS (MOHS SCALE)(2)	TOUGHNESS	REFRACTIVE INDEX	DISPERSION	SPECIFIC GRAVITY
Diamond.....	10	Good*	2.42	.044	3.52
Lab-Created Moissanite(3).....	9.25-9.50	Excellent	2.65-2.69	.090-.104	3.14-3.21
Sapphire & Ruby.....	9	Excellent	1.76-1.78	.018	3.90-4.00
Synthetic Cubic Zirconia.....	8.0-8.5	Good	2.09-2.18	.060	5.60-6.06
Emerald.....	7.5	Poor to Good	1.56-1.60	.014	2.69-2.75

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* In cleavage direction, otherwise excellent.

(1) Sources: GEMOLOGICAL INSTITUTE OF AMERICA, GEM REFERENCE GUIDE FOR THE GIA COLORED STONES, GEM IDENTIFICATION AND COLORED STONE GRADING COURSES 32-35, 65-82, 87-90 (1995); CORNELIUS S. HURLBURT, JR. & ROBERT C. KAMMERLING, GEMOLOGY 320-324 (2d ed. 1991); KIRK-OTHMER ENCYCLOPEDIA OF CHEMICAL TECHNOLOGY 891-906 (4th ed. 1994); INSTITUTION OF ELECTRICAL ENGINEERS, PROPERTIES OF SILICON CARBIDE 3 (Gary L. Harris, ed., 1995); ROBERT WEBSTER, GEMS: THEIR SOURCES, DESCRIPTIONS AND IDENTIFICATION 889-940 (5th ed. 1994); W. VON MUENCH, "SILICON CARBIDE" IN LANDOLT-BOEMSTEIN NUMERICAL DATA AND FUN-

CTIONAL RELATIONSHIPS IN SCIENCE AND TECHNOLOGY, NEW SERIES, GROUP III, VOL. 17C, PP. 403-416 AND 585-592 (M. Schultz and H. Weiss, eds., 1984).

(2) The Mohs Scale is approximately logarithmic and quantitative comparisons of different gemstone materials cannot be made directly using the Mohs Scale. Lab-created moissanite gemstones are approximately one-third as hard as diamond and synthetic cubic zirconia is approximately one-sixth as hard as diamond. Lab-created moissanite gemstones are approximately twice as hard as synthetic cubic zirconia.

(3) The physical properties of lab-created moissanite gemstones set forth in the preceding table utilized materials from SiC crystals produced by parties other than the Company or Cree. These crystals had various sizes, colors and atomic structures that the Company believes made them unsuitable for use as a diamond substitute. The Company has conducted tests on the hardness, toughness and refractive index of samples of its lab-created gemstones, and the results of these tests are consistent with the results reported in this table. Because Cree and the Company have not yet developed a fully repeatable process for producing gemstone quality SiC crystals in the comparable diamond color grade range of "G" through "J", the specific properties of the lab-created moissanite gemstones that will eventually be commercialized are not now known. However, the Company believes that the physical properties of its lab-created moissanite gemstones will fall within the ranges of the lab-created moissanite shown in this table.

PRODUCTS

The Company expects to sell lab-created moissanite gemstones of 1/2 to 1 carat primarily in the comparable diamond color grade range of "G" through "J" and in the comparable diamond clarity grade range of Flawless through Slightly Included. Cree has grown pilot samples of SiC crystals in these colors and clarities and has undertaken a significant development program, funded by the Company, to develop a fully repeatable process to grow SiC crystals in the desired color, size and volume. If Cree is not successful in its development efforts, the Company intends to manufacture, from SiC crystals grown by Cree using its existing processes, and sell lab-created moissanite gemstones primarily in colors lower than its target color grade range and primarily in sizes smaller than 1/2 carat but at significantly lower average selling prices. The development efforts for such smaller, less expensive stones has been completed, and no significant barriers exist to prevent the Company from manufacturing and selling such stones, if necessary. There can be no assurance that Cree will successfully complete its planned development efforts or that a market will develop for lab-created gemstones of any color or size.

The Company currently intends to sell only loose lab-created gemstones rather than finished jewelry products. See "-- Distribution, Marketing and Sales." Initially, the Company plans to market round brilliant cut stones, which are frequently used in rings, earrings, pendants and bracelets. Over time, the Company may elect to expand its product lines by offering additional cuts or colored lab-created gemstones. To date, Cree has produced pilot samples of gemstone quality SiC crystals in green, blue and amber.

The Company has not yet determined the price at which it will market its products. As the Company seeks to establish distribution channels, it is conducting preliminary market research in its target markets. The Company intends to determine the price of its lab-created gemstones after assessing the response from its potential customers. There can be no assurance that the Company will be able to sell its products at the prices ultimately established by the Company or at any other prices that would be profitable to the Company.

Gemstone test instruments most commonly used by jewelry experts rely on thermal properties to distinguish diamond from other gemstones or diamond simulants such as synthetic cubic zirconia. Because the thermal properties of lab-created moissanite gemstones are relatively close to those of diamond, such instruments have not, to date, been able to reliably differentiate between diamond and lab-created moissanite gemstones. Although gemologists trained in the physical properties of lab-created moissanite gemstones may find a number of ways to distinguish lab-created moissanite from diamond, the Company believes there will be a need to introduce a readily available moissanite/diamond test instrument concurrent with the introduction of lab-created moissanite gemstones to help prevent fraud. The availability of this type of test instrument also may aid market acceptance of its lab-created gemstones.

The Company anticipates introducing its moissanite/diamond test instrument for sale during the first half of 1998. This instrument, which distinguishes moissanite gemstones from diamonds in the colors and clarities most commonly sold by retail jewelers, would be used in conjunction with existing thermal test instruments. A patent application by the Company is pending for this moissanite/diamond test instrument. There can be no assurance that a market will develop for the Company's test instrument or that other readily available means will not be developed which can effectively distinguish lab-created moissanite gemstones from diamond.

DEPENDENCE ON CREE AND CREE TECHNOLOGY

Cree, the Company's source for development and supply of lab-grown SiC crystals, has developed or licensed numerous patented processes for the growth of SiC crystals. The technology was initially developed for SiC uses in semiconductors. The founders of the Company recognized the potential use of SiC crystal for lab-grown gemstones, and the Company has obtained the exclusive right to purchase SiC crystals from Cree for gemstones and gemological instrumentation. The Company believes that Cree is the only producer of SiC crystals in sizes suitable for commercial production of gemstones. In addition, Cree is the only producer of SiC known by the Company to be developing colorless SiC crystals suitable for use as a diamond substitute.

Cree has significant proprietary rights related to its processes for growing SiC crystals. Cree has an exclusive license on the patent for a process of growing large single crystals of SiC. This patent expires in years ranging from 2006 to 2011, depending on the country in which issued. In addition, Cree has other patents relating to aspects of its SiC crystal growth process. To further protect its proprietary SiC crystal growth process, Cree internally produces, with proprietary confidential technology, the crystal growth systems used in its SiC crystal production. In addition, Cree has a pending patent application for a process of growing colorless SiC crystals. The Company has a royalty-free, perpetual license for the use in gemstone applications of the technology covered by this pending patent application.

The Company's success and ability to compete is heavily dependent upon Cree's proprietary technology. However, there can be no assurance that Cree will be able to protect its proprietary technology from disclosure or that others will not develop technologies that are similar or superior to its technology. See "Risk Factors -- Dependence on Intellectual Property."

On June 6, 1997, the Company entered into the Exclusive Supply Agreement and a Development Agreement (the "Development Agreement") with Cree. Under the Development Agreement and the Exclusive Supply Agreement, the Company has concentrated both its development expenditures and its source of supply for SiC crystals with Cree. As a result, the business of the Company will be highly dependent on Cree's performance under these agreements. The processes and other technology developed by Cree under the Development Agreement are expected to have application in Cree's development of SiC technology generally, will be owned by Cree and will be available to Cree for all uses other than gemstone applications. In addition, the payment terms under the Exclusive Supply Agreement provide margins and certain financial incentives to Cree that the Company believes provide appropriate business and economic incentives for Cree to perform its obligations under the Development Agreement and the Exclusive Supply Agreement.

Under the Development Agreement, Cree is developing a fully "repeatable process" for producing SiC crystals in comparable diamond color grades "G" through "J", with at least 50% in the "G" to "H" range. To date, Cree has repeatedly produced crystals of consistent, uniform quality in the comparable diamond color grades "L" through "N" and has produced samples in the comparable diamond color grades "G" through "K". If Cree has not developed a fully "repeatable process" by January 1, 1998, during the 10-day period ending on January 10, 1998, the Company may elect to reduce its funding obligations under the Development Agreement by 50% or terminate the Development Agreement. The Development Agreement also establishes additional milestones for crystal production in future years, and the Company has the right to terminate the Agreement if those milestones are not met by Cree. The Development Agreement also provides for a five-year focused development effort by Cree to increase crystal size while maintaining color grade and uniformity. Provided the target specifications for crystal size and color grade are met, over the five-year period of the Development Agreement the Company could be obligated to fund approximately $12 million of development work. See "Use of Proceeds."

Under the Exclusive Supply Agreement, Cree has agreed not to sell moissanite crystals for gemstone uses to anyone other than the Company. The Company has agreed to purchase from Cree at least 50%, by dollar volume, of the Company's requirements for SiC material for the production of gemstones in each calendar quarter. Cree is obligated to supply this amount of material to the Company. Although the Company is obligated to purchase only 50% of its requirements from Cree, the Company does not believe there are any other alternative sources of supply for SiC crystals suitable for gemstones. Therefore, the Company expects to be dependent on Cree as its sole source of supply of SiC crystals. The price for SiC crystals is set at Cree's loaded manufacturing cost plus a margin, which margin may increase if the price of crystals declines below a specified amount.

Cree will have to build additional crystal growth systems in order to meet the Company's anticipated SiC crystal requirements. Under the Exclusive Supply Agreement, Cree may elect to have the Company purchase the additional growth systems that will be needed or to fund the costs on its own and recoup its costs by incorporating the costs of the systems into the cost of the SiC crystals purchased by the Company. If the Company funds the costs of the crystal growth systems, Cree must supply the Company with 100% of the output from these systems. If Cree elects to fund the cost of these additional growth systems on its own, there can be no assurance that Cree will supply the Company with all of the output from these crystal growth systems or fill all of the Company's orders. Any delay or reduction in the availability of SiC crystals could delay or limit the Company's ability to deliver and sell its lab-created gemstones, which would have a material adverse effect on the Company.

The Exclusive Supply Agreement also restricts the Company from entering into numerous types of arrangements with identified parties. See "-- Distribution, Marketing and Sales" and "Description of Capital Stock -- Certain Anti-Takeover Provisions." The Exclusive Supply Agreement has an initial term of ten years, which may be extended for an additional ten years by either party if the Company orders in any 36-month period SiC crystals with an aggregate purchase price in excess of $1.0 million. The Company expects to meet this order threshold and to extend the term of the Agreement.

Cree is also the sole supplier of a component of the Company's moissanite/diamond test instrument that is proprietary to Cree. If Cree were to fail to deliver this component, as required, the Company would not be able to manufacture its test instrument. A lack or shortage of test instruments could impact market acceptance of the Company's lab-created moissanite gemstones.

The President of the Company and one of the founders of the Company are the brothers of the Chief Executive Officer of Cree. After this offering, Cree and certain of its officers and directors will own approximately 3.9% of the outstanding Common Stock. See "Certain Transactions."

INTELLECTUAL PROPERTY OF THE COMPANY

The Company has applied for a number of patents related to the production of lab-created moissanite gemstones. The Company has pending patent applications for lab-created moissanite gemstones and its moissanite/diamond test instrument. Although the Company intends to vigorously prosecute all its patent applications, there can be no assurance that such actions will be successful, that any patents will be issued, that such patents, if issued, will not be challenged, invalidated or circumvented or that such patents, if issued, will have any competitive or commercial value.

The Company's success and ability to compete successfully is heavily dependent upon its proprietary technology. In addition to its pending patents, the Company relies on trade secret law and employee, consultant and customer confidentiality agreements to protect certain aspects of its technology. There can be no assurance that the Company will be able to protect its proprietary technology from disclosure or that others will not develop technologies that are similar or superior to its technology. See "Risk Factors -- Dependence on Intellectual Property."

While the Company has not received any claims that its products or processes infringe on the proprietary rights of third parties, there can be no assurance that third parties will not assert such claims against the Company with respect to its existing and future products. In the event of litigation to determine the validity of

any third party's claims, such litigation could result in significant expense to the Company and divert the efforts of the Company's technical and management personnel, whether or not such litigation is determined in favor of the Company. In the event of an adverse result of any such litigation, the Company could be required to expend significant resources to develop non-infringing technology or to obtain licenses to, and pay royalties on the use of, the technology which is the subject of the litigation. There can be no assurance that the Company would be successful in such development or that any such license would be available on commercially reasonable terms.

MANUFACTURING

The production of lab-created moissanite gemstones includes (i) growing SiC crystals, (ii) cutting crystals into preforms that will yield gemstones of an approximate carat size, (iii) faceting preforms into gemstones and (iv) inspecting, sorting and grading faceted gemstones. The processes for SiC crystal growth are under continuing development by Cree, and the Company is engaged in pilot production of lab-created moissanite gemstones at its own facilities as part of its product development efforts.

Growth of SiC Crystals. The Company intends to source all of its SiC crystals from Cree under the Exclusive Supply Agreement for the foreseeable future. See "-- Dependence on Cree and Cree Technology."

In connection with the anticipated market introduction of its lab-created gemstones in the first half of 1998, the Company has placed a contingent order with Cree for a number of SiC crystals that the Company believes will exceed the capacity of the crystal growth systems now in use. The order is contingent on Cree meeting the milestones under the Development Agreement for color range and on the Company's successful completion of this offering. Cree has not yet informed the Company whether Cree will purchase some or all of the additional crystal growth systems or require the Company to do so. If Cree's development milestones are met, the Company would also place orders for a number of crystals in the remainder of 1998 and following years that it believes would require the use of a significant number of additional crystal growth systems. There can be no assurance that Cree will meet its development milestones or that the Company will be able to sell lab-created moissanite gemstones in accordance with its objectives.

In an effort to have adequate quantities of its lab-created gemstones available to meet anticipated market demand, the Company expects to place orders with Cree for SiC crystals in advance of actual demand for the product. As a result, the Company may spend significant amounts of its capital to acquire additional crystal growth systems or purchase SiC crystals at a time when there is no existing demand to justify such expenditures. If the Company underestimates demand, the Company may be unable to rapidly increase its production of lab-created moissanite gemstones to satisfy the demand as a result of the several months that may elapse between the Company placing an order for crystals and the time that additional growth systems needed could begin producing crystals.

Preforms. The Company divides all SiC crystals through slicing and dicing processes into preforms in carat sizes suitable for faceting into predetermined calibrated-size gemstones. The Company plans to acquire readily available automated and computerized equipment used in the semiconductor industry to slice and dice crystals into preforms. The Company believes that this equipment will enable it to maximize, with minimal additional investment or employee training, the number of preforms obtained from each SiC crystal.

Faceting Gemstones. The faceting of preforms is a critical stage in obtaining quality gemstones. The techniques and skills used in faceting lab-created moissanite gemstones differ somewhat from those used in faceting diamonds. The Company intends to outsource all faceting of gemstones for commercial production and will continue internal faceting for research and development. The Company has entered into an agreement with John M. Bachman, Inc. ("JMB") under which an affiliate of JMB will facet lab-created moissanite preforms. Pursuant to this agreement, the Company has advanced certain funds to JMB to expand production capability at its affiliate. The Company has committed to supply certain minimum quantities of preforms to JMB, and JMB has agreed to have such quantities faceted to mutually agreed specifications at agreed upon prices. The agreement renews annually unless sooner terminated by either party upon no less than 60 days notice prior to the end of the then applicable term or due to breaches of the agreement or the occurrence of certain other events. Under this agreement, JMB has agreed to grant, and to cause its affiliates to grant, to the

Company a perpetual, non-exclusive, royalty-free license to use any inventions or proprietary information developed by or for JMB or its affiliates that is useful in the faceting of lab-created moissanite gemstones.

The Company has identified two additional suppliers of faceting services, has qualified their faceting skills on a sample basis and intends to assess these other vendors' production capabilities over the next year. There is, however, no assurance that these vendors will be suitable for reliable supply arrangements or that the Company will be able to enter into agreements with these additional vendors or with other reliable, quality faceting providers on terms acceptable to the Company. Even if these agreements can be reached, the Company intends during the early stages of commercialization of its products to source faceting services primarily from JMB and will be dependent on JMB's ability to provide an adequate quantity of quality faceted lab-created moissanite gemstones. The Company has not begun placing commercial production orders with JMB, and therefore is unable to assess, with certainty, whether JMB will be able to produce faceted lab-created moissanite gemstones to the Company's quality specifications and within the Company's quantity and time requirements.

Inspection, Sorting and Grading. Faceted lab-created moissanite gemstones are returned to the Company for inspection, sorting and grading. During this stage, specially trained personnel individually examine and grade each faceted lab-created moissanite gemstone for color, cut and clarity to ensure that it meets the Company's quality control standards. This phase of manufacturing is relatively labor-intensive and requires skills not readily available in the general work force. There can be no assurance that the Company will be able to hire or retain sufficient numbers of appropriately skilled personnel for this phase of manufacturing.

Test Instrument. The Company has contracted with an unaffiliated third party for the assembly of the moissanite/diamond test instrument from components produced by third parties. The Company believes that, other than with respect to the chip described below, the components and assembly functions would be readily available from a wide variety of other suppliers. The test instrument relies upon a proprietary semiconductor chip that the Company obtains from Cree under a letter agreement dated February 12, 1996 which expires in 2016 (the "Instrument Agreement"). The Instrument Agreement obligates the Company to purchase all of the chips used in the test instrument from Cree and gives the Company the exclusive right to purchase those chips from Cree. The Company will pay Cree a royalty of 2 1/2% of net sales of all test instruments incorporating the Cree chip.

DISTRIBUTION, MARKETING AND SALES

The Company plans to introduce 1/2 to 1 carat round brilliant lab-created moissanite gemstones for sale in certain large cities in the United States and Pacific Rim in the first-half of 1998. The Company has targeted the United States and the Pacific Rim because it believes that these markets represent a significant portion of the worldwide jewelry market and are markets that are relatively accepting of diamond substitutes. In connection with the planned product introduction, the Company has begun pre-qualifying selected retail jewelry chains and high-volume independent retail jewelry stores in targeted U.S. cities as exclusive distributors and is exploring distribution options in the Pacific Rim. The Company is currently evaluating the most appropriate structure for the exclusive distribution agreements and may, in certain circumstances, enter into other types of distribution agreements. The final selection of retailers and the nature and scope of the exclusive arrangements will be based on the responses received by the Company. The Company currently anticipates that it will begin to offer exclusive distribution arrangements in early 1998.

The Company believes that marketing loose stones will allow retail jewelers to individually select the most appropriate jewelry settings for their individual market areas. The sale of round brilliant cut stones also provides the jeweler with a wide range of uses for the stones in rings, earrings, pendants and bracelets. However, consumer perception and acceptance of the Company's products will be directly impacted by the quality, design and workmanship of the settings chosen by the retailers, and the Company will have no control over these individual decisions.

The Company believes that exclusive distribution agreements will provide retailers with an opportunity to earn a profit margin that compares favorably to other jewelry products and will allow the retailer to distinguish its product line from other jewelers in the highly competitive retail jewelry market. The Company also believes

that the profit margins associated with its products will create incentives for these retailers to maximize their sales and promotions efforts resulting in additional consumer demand for the Company's lab-created gemstones. As the Company's supply of lab-created moissanite gemstones increases, the Company plans to increase the number of markets in which its products are available and the number of retailers handling its products. After the introduction of lab-created moissanite gemstones in its target markets, the Company's sales staff will divide its time between providing sales support to its existing network of retailers and entering into new target markets and new distribution arrangements.

The Company plans to market its moissanite/diamond test instrument directly to jewelers, gemologists and pawnbrokers. Distribution of the test instrument will be supported by direct mailings and advertisements in trade publications. The Company may retain non-exclusive distributors to distribute the test instrument in some markets or enter into other distribution agreements as it deems appropriate.

The Exclusive Supply Agreement prohibits the Company, without Cree's consent, from entering into exclusive marketing or distribution agreements with DeBeers or any party that Cree reasonably believes is affiliated with DeBeers; the Central Selling Organization (the international cartel of diamond producers); any party whose primary business is the development, manufacture, marketing or sale of diamond gemstones; or any non-gemstone and non-jewelry industry competitor of Cree. These provisions may limit the avenues of distribution potentially available to the Company and could prevent the Company from entering into certain potentially profitable transactions.

The Company intends to develop a comprehensive marketing strategy to support the introduction of its products in its target markets. The Company's marketing efforts are expected to highlight the similarities of lab-created moissanite gemstones and diamond and contrast their relative prices. The Company expects to develop advertising campaigns for the jewelry trade and for the consumer because the Company believes that a successful introduction of its lab-created gemstones is dependent upon having a network of retailers committed to aggressively market the Company's products. The Company's marketing strategy is expected to include cooperative advertising with jewelers or other distributors, point of purchase displays, jeweler or distributor training in selling lab-created moissanite gemstones and providing other marketing support services. In addition, the Company's corporate communications manager is responsible for developing media interest in and generating positive media reports on lab-created moissanite gemstones.

COMPETITION

Competition in the market for gemstones is intense. The Company's lab-created moissanite gemstones compete with natural and treated diamonds and existing synthetic gemstones such as synthetic cubic zirconia presently in commercial distribution. The Company may also face competition from additional gemstones such as synthetic diamonds, synthetic diamond films and other sources of synthetic moissanite not presently available in colors, sizes and volumes suitable for use as gemstones. Most of the suppliers of diamonds and existing synthetic gemstones, as well as the potential suppliers of other synthetic gemstones, have substantially greater financial, technical, manufacturing and marketing resources and greater access to distribution channels than the Company.

The worldwide market for uncut diamonds is significantly consolidated through the Central Selling Organization, a cartel led by DeBeers. The cartel has a major impact on the worldwide supply and pricing of diamonds at both the wholesale and retail levels. Although the Company believes that its gemstones will appeal primarily to the consumer who would not otherwise purchase comparable diamond jewelry, diamond producers may undertake additional marketing or other activities designed to protect the diamond jewelry market against sales erosion from consumer acceptance of lab-created moissanite gemstones.

Synthetic diamond in gemstones or film form may also become available in the marketplace as an alternative to the Company's gemstones. Synthetic diamonds are regularly produced for industrial applications, and the primary producers of these synthetic diamonds are DeBeers, Sumitomo and GE. There are also a number of Russian producers of synthetic diamonds for industrial uses. The Company believes that gemstone grade synthetic diamonds presently cannot be produced at prices competitive with those expected to be offered for the Company's colorless lab-created moissanite gemstones. There could, however, be

technological advances that would enable competitively priced synthetic diamonds of comparable grade to be offered.

Currently, synthetic diamond films can be grown at commercially viable prices in thicknesses that can be applied to other surfaces. The films, however, adhere well to only a few minerals such as diamond, silicon and SiC (moissanite). If the technology to attach a synthetic diamond film to other colorless minerals is improved, the resulting film-covered gemstone could compete with moissanite as a substitute for diamond.

The Company's products will face competition from synthetic cubic zirconia, the principal existing diamond simulant. Two of the largest producers of synthetic cubic zirconia gemstones are D. Swarovski & Co. and Golay Buchel. In addition, there are a significant number of other producers of synthetic cubic zirconia jewelry. Three of the largest retailers of synthetic cubic zirconia jewelry in the United States are QVC, Home Shopping Network and Wal-Mart. Some of the major retailers of synthetic cubic zirconia, including QVC, have captive manufacturing divisions that produce synthetic cubic zirconia jewelry. These producers and sellers may see their markets being eroded by the introduction of the Company's lab-created moissanite gemstones. The Company believes that price is the primary basis upon which these products will compete with its lab-created moissanite gemstones.

Although the Company believes that its products have a proprietary position, it could face competition from other companies who develop competing SiC technologies. Some of these technologies could be spawned by SiC used for other industrial applications. Manufacturers of industrial SiC products include The Carborundum Corporation (abrasive uses) and Cree, Siemens AG, ABB and Northrup Grumman Corporation (semiconductor uses). The Company believes that Cree is presently the only supplier of SiC crystals in colors, sizes and volumes suitable for gemstone applications and believes that the patents owned or pending by Cree or the Company provide substantial technological and cost barriers to other companies' development of colorless lab-created moissanite gemstones. It is possible, however, that these or other producers of SiC could develop, by other processes, SiC crystals suitable for gemstone applications and, if developed, these SiC crystals could be used by others to produce lab-created moissanite gemstones.

The Company intends to compete primarily on the basis that the unique qualities of its lab-created moissanite gemstones provide a substitute for diamond that is superior to existing substitutes at a significant cost advantage to diamond. Its ability to compete successfully is dependent on its ability to: (i) achieve jeweler and consumer acceptance of its products; (ii) obtain quantities of lab-grown SiC crystals in acceptable color and quality from Cree; (iii) obtain reliable and high quality faceting services from third parties; (iv) respond to market entries of other gemstone materials with technological or cost improvements; and (v) meet consumer demand for its lab-created moissanite gemstones. There can be no assurance that the Company will be able to obtain the materials and services needed to deliver its products or to otherwise be able to compete successfully in the marketplace.

GOVERNMENT REGULATION

The Company's products will be subject to regulation by the FTC. The FTC has issued regulations and guidelines governing the marketing of diamond simulants and substitutes that require diamond simulants and substitutes to be clearly identified as such in any promotional or marketing materials. While the Company intends to comply fully with all FTC regulations, there can be no assurance that the FTC or a competitor will not challenge the Company's promotional or marketing activities. Such a challenge could result in significant expense to the Company and divert the efforts of the Company's management and marketing personnel, whether or not such challenge is resolved in favor of the Company. If the Company's actions were found to be in violation of FTC regulations, the Company could be forced to suspend marketing and sales of its products and could incur significant expenses in developing new marketing strategies and materials that would not violate FTC regulations. There can be no assurance that the Company would be successful in developing new marketing strategies and materials that would comply with FTC regulations or that such strategies, once developed, would allow the Company to market its products profitably.

FACILITIES

The Company leases approximately 12,700 square feet of mixed use space (general office, light manufacturing and laboratory) in the Research Triangle Park area of North Carolina from an unaffiliated third party. The Company believes that comparable mixed use space could be obtained from other parties on terms substantially the same as the Company's current lease. This space is considered by management to be sufficient for the Company's foreseeable needs over the next 12 to 24 months.

EMPLOYEES

At September 29, 1997, the Company had 24 full-time employees, two part-time employees, three temporary employees and two independent contractors. The Company believes that its future prospects will depend, in part, on its ability to obtain additional management, scientific and technical personnel. Competition for such personnel is intense, and the number of persons with relevant experience is limited. None of the Company's employees is represented by a labor union. The Company believes that its employee relations are good.

MANAGEMENT

DIRECTORS, EXECUTIVE OFFICERS AND KEY EMPLOYEES

The directors, executive officers, nominees for director and key employees of the Company are as follows:

DIRECTORS AND EXECUTIVE OFFICERS	AGE	POSITION
Jeff N. Hunter	40	President and Chairman of the Board
Mark W. Hahn	35	Chief Financial Officer, Treasurer and Secretary
Martin J. DeRoy	50	Vice President of Marketing
Thomas G. Coleman	37	Director of Technology
Kurt Nassau	70	Director
Howard Rubin	72	Director
Frederick A. Russ	53	Director
Kurt Leutzinger	46	Director Nominee
David B. Stewart	34	Director Nominee
Ollin B. Sykes	46	Director Nominee
KEY EMPLOYEES		
Renee McCullen	38	Director of Sales
Earl R. Hines	60	Director of Manufacturing

JEFF N. HUNTER, one of the founders of the Company, has served as the Company's President and Chairman of the Board since June 1996 and as a director since the Company's inception in June 1995. Mr. Hunter served as Treasurer and Secretary of the Company from June 1995 to June 1996. From July 1980 to May 1996, he was employed in various capacities with North Carolina State University, including as Director of Business, Finance and Research Administration for the College of Engineering. Mr. Hunter received his Master of Science degree in management science from North Carolina State University.

MARK W. HAHN has served as the Chief Financial Officer of the Company since October 1996 and as Treasurer and Secretary since August 1997. From January 1984 to October 1996, Mr. Hahn was employed with Ernst & Young LLP, including as Senior Manager in the Entrepreneurial Services Group. He earned his Bachelor of Business Administration degree with concentrations in accounting and finance from the University of Wisconsin in Milwaukee and is a Certified Public Accountant.

MARTIN J. DEROY has served as Vice President of Marketing since September 1997. From October 1990 to September 1997, Mr. DeRoy was employed as Marketing Director of Friedman's Inc., a retail jewelry chain with approximately 375 stores. He earned a Bachelor of Science degree in business administration, with a major in advertising and public relations and a minor in marketing and merchandise, at Youngstown State University.

THOMAS G. COLEMAN has served as Director of Technology of the Company since March 1997. From August 1996 to March 1997, Mr. Coleman provided technical consulting services to the Company. Mr. Coleman co-founded Cree and was employed by Cree as a senior process development engineer from December 1987 to July 1995. He earned an electronic technology degree from Patterson Technical College.

KURT NASSAU has served as a director of the Company since August 1996 and has provided consulting services to the Company since April 1997. Since August 1990, Dr. Nassau has served as the President of Nassau Consultants where he specializes in advising companies on gemology and color. Dr. Nassau is a former Distinguished Research Scientist with AT&T Bell Labs and is the author of 16 patents and 4 books on gemology and the science of color. Dr. Nassau earned his Ph.D. in physical chemistry at the University of Pittsburgh and is a former 20-year member of the Board of Governors of the Gemological Institute of America.

HOWARD RUBIN became a director of the Company in November 1996 and a consultant to the Company in February 1997. Since 1992, he has served as President of GemDialogue Systems, Inc., a consulting

company which provides jewelry appraisal and gemological training services to jewelers and business process improvement services to jewelry manufacturers. Mr. Rubin received a graduate gemology degree from the Gemological Society of America in 1959.

FREDERICK A. RUSS has served as a director of the Company since November 1996. Dr. Russ has served as Dean of the College of Business Administration at the University of Cincinnati since September 1994. From July 1989 to September 1994, he was Marketing Department Head and Professor of Marketing at the University of Cincinnati. Dr. Russ served on the Board of Directors of Cree from 1988 to 1992. He earned his Ph.D. in industrial administration at Carnegie-Mellon University.

KURT LEUTZINGER has been nominated and has consented to serve as a director of the Company. It is anticipated that Mr. Leutzinger will be elected a director of the Company at a special shareholders meeting in October 1997 (the "Special Meeting"). Since July 1997, Mr. Leutzinger has been employed as Vice President of Finance and Chief Financial Officer of Abgenix, Inc., a company engaged in the business of antibody therapeutics. From June 1987 to July 1997, he was Vice President and Portfolio Manager for GE Investment Corporation ("GEIC"), a wholly owned investment management subsidiary of General Electric Company. Mr. Leutzinger earned a Master of Business Administration degree in finance from New York University.

DAVID B. STEWART has been nominated and has consented to serve as a director of the Company. It is anticipated that Mr. Stewart will be elected a director of the Company at the Special Meeting. Since November 1992, Mr. Stewart has held various positions at GEIC and currently is an Investment Manager in its Private Equity Group. He earned his Bachelor of Arts degree in economics from the University of New Hampshire.

OLLIN B. SYKES has been nominated and has consented to serve as a director of the Company. It is anticipated that Mr. Sykes will be elected a director of the Company at the Special Meeting. Since December 1984, he has served as the president of Sykes & Company, P.A., a regional accounting firm specializing in accounting, tax and financial advisory services. Mr. Sykes earned his Bachelor of Science degree in accounting at Mars Hill College and is a Certified Public Accountant and a Certified Management Accountant.

RENEE MCCULLEN has served as Director of Sales of the Company since August 1997. From May 1983 to September 1996, she was employed in various capacities with Art Carved Class Rings, a company engaged in the wholesale jewelry business, most recently as Regional Vice President and Regional Sales Manager. Ms. McCullen earned a Bachelor of Science degree in business administration, with a concentration in marketing, at East Carolina University.

EARL R. HINES has served as Director of Manufacturing of the Company since March 1997. From April 1996 to March 1997, Mr. Hines was a lapidary consultant to the Company. From March 1990 to March 1997, Mr. Hines owned and operated GemCrafters of Raleigh, a business that focused on cutting colored gemstones and repairing and appraising jewelry. Mr. Hines retired from IBM in 1990 with more than 30 years of service, including as Manufacturing Systems Manager.

The Company, C. Eric Hunter, a founder and beneficial owner of 17.8% of the Common Stock outstanding after this offering, General Electric Pension Trust ("GEPT") and certain other shareholders of the Company are party to a shareholders agreement (the "Shareholders Agreement"). Under the Shareholders Agreement, as long as GEPT owns shares of Common Stock or Series B Preferred Stock, Mr. Hunter and the other shareholders who are parties to the Shareholders Agreement have agreed to vote all of their shares of Common Stock in favor of the election of one individual designated by GEPT as a director. The Shareholders Agreement further provides that, after the consummation of this offering and so long as GEPT owns shares of Common Stock, the Company will (i) nominate and recommend for election as a director one individual designated by GEPT who shall be reasonably acceptable to the Company, (ii) if a GEPT nominee is not a director, provide GEPT's designee with a copy of any information distributed to the Board and allow that designee to attend and participate, but not vote, in all meetings of the Board and (iii) not increase the size of the Board without GEPT's consent, which will not be unreasonably withheld. GEPT has consented to an

increase in the size of the Board to seven directors. Mr. Stewart has been nominated as a director pursuant to the Shareholders Agreement for election to the Board at the Special Meeting. The Shareholders Agreement will terminate on the earlier of (i) March 28, 2007 or (ii) the date on which GEPT no longer owns any shares of Common Stock or Series B Preferred Stock.

Directors are elected annually to serve for one-year terms and until their successors are duly elected and qualified. Executive officers of the Company are appointed annually by the Board of Directors and serve until their successors are elected and qualified. Mr. Sykes is a second cousin once removed of Jeff N. Hunter. Otherwise, there are no family relationships among any of the directors or officers of the Company.

BOARD COMMITTEES

The Board of Directors presently has a standing Executive Committee and intends to appoint at a meeting in October 1997 two additional standing committees: a Compensation Committee and a Finance and Audit Committee. The Executive Committee is authorized to act on behalf of the Board during the intervals between meetings of the full board subject to certain statutory restrictions. Jeff N. Hunter and Kurt Nassau compose the Executive Committee. The Compensation Committee will recommend to the Board the compensation of the officers and salaried employees of the Company and, upon delegation of such authority from the Board, will administer the Company's stock option plans. See "-- Stock Option Plans." The Finance and Audit Committee will be responsible for reviewing and evaluating the Company's financing plans, reviewing the scope and results of audits and other services provided by the Company's independent accountants and determining the adequacy of the Company's internal controls and other financial reporting matters. Each committee has or will have at least two non-employee directors.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

To date, the Board of Directors has made all determinations with respect to executive officer compensation. No interlocking relationships exist between the Company's Board of Directors and the board of directors or compensation committee of any other company, nor has any such interlocking relationship existed in the past. Dr. Nassau and Mr. Rubin each have a consulting agreement with the Company. See "-- Compensation of Directors." Dr. Nassau has purchased and holds securities of the Company. See "Certain Transactions" and "Principal Shareholders."

COMPENSATION OF DIRECTORS

The Company does not presently pay cash fees to its directors but does reimburse all non-employee directors for expenses incurred in their capacity as directors. The Company has granted to each non-employee director and director nominee or, in the case of the GEPT nominee, to GEPT options to purchase an aggregate of 30,560 shares of Common Stock. Options to purchase 25,560 shares were granted under the 1996 Option Plan (the "1996 Directors Options") and options to purchase 5,000 shares were granted under the 1997 Omnibus Plan, subject to shareholder approval of the 1997 Omnibus Plan and the consummation of this offering (the "1997 Directors Options").

The 1996 Directors Options become exercisable in three equal, annual installments beginning on the first anniversary of the date of grant and expiring on the tenth anniversary of the date of grant, although some of these options will vest in full on December 31, 1997 if this offering is completed prior to that date. The 1996 Directors Options were granted at the prices and on the dates described below. In July 1996, Dr. Nassau was granted an option to purchase 17,040 shares at an exercise price of approximately $1.88 per share. In September 1996, Mr. Rubin was granted an option to purchase 17,040 shares at an exercise price of approximately $2.70 per share. In October 1996, Dr. Russ was granted an option to purchase 17,040 shares at an exercise price of approximately $2.70 per share. In April 1997, GEPT was granted an option to purchase 17,040 shares at an exercise price of approximately $3.45 per share. In July 1997, GEPT, Dr. Nassau, Mr. Rubin and Dr. Russ were each granted an option to purchase 8,520 shares at an exercise price of approximately $4.81 per share and Messrs. Leutzinger and Sykes were each granted an option to purchase 25,560 shares at an exercise price of approximately $4.81 per share. The options granted in July 1997 to GEPT

and the non-employee directors will become exercisable in full on December 31, 1997 if this offering is completed prior to that date. See "-- Stock Option Plans -- 1996 Option Plan."

The 1997 Directors Options were all granted in September 1997 at an exercise price equal to the initial public offering price of the shares of Common Stock offered hereby. Fifteen percent of each of the 1997 Directors Options vest on the date of the consummation of this offering. The remaining 85% of each of the 1997 Directors Options vests in the event the Company achieves certain specified sales, earnings or margin criteria prior to December 31, 2001. Each of the 1997 Directors Options expires on the tenth anniversary of the date of grant. See "-- Stock Option Plans -- 1997 Omnibus Plan."

In February 1997, the Company entered into a letter agreement with GemDialogue Systems, Inc., a corporation owned by Mr. Rubin ("GSI"), pursuant to which Mr. Rubin provides consulting services to the Company on staff training in gemological and jewelry trade skills, market research and other matters. Under the letter agreement, the Company pays GSI a monthly retainer of $1,000 and Mr. Rubin is obligated to provide two days of consulting per month. GSI is also entitled to be reimbursed for any expenses incurred in connection with Mr. Rubin's consulting activities. The Company will pay GSI $500 per day for any consulting services in excess of two days per month. If the Company does not require two days of consulting time in any given month, the excess time accumulates, and the Company has the option of waiving the monthly retainer until the accumulated time has been used or extending the term of the letter agreement without charge until the accumulated time is used. The letter agreement has an initial term of one year. At September 22, 1997, the Company had paid GSI a total of $7,000 (excluding expense reimbursements) and there were no accumulated days of unused consulting time. In September 1997, as additional consideration for consulting services, the Company issued Mr. Rubin an option to purchase 15,000 shares of Common Stock pursuant to the 1997 Omnibus Plan with substantially the same terms as the 1997 Directors Options.

The Company entered into a letter agreement with Dr. Nassau effective April 1997 pursuant to which Dr. Nassau provides consulting services to the Company on gemstone color, gemological science and other matters. The terms of the letter agreement with Dr. Nassau are substantially the same as the terms of the letter agreement with GSI. At September 22, 1997, the Company had paid Dr. Nassau a total of $4,750 (excluding expense reimbursements) and there were no accumulated days of unused consulting time. In September 1997, as additional consideration for his consulting services, the Company issued Dr. Nassau an option to purchase 15,000 shares of Common Stock pursuant to the 1997 Omnibus Plan with substantially the same terms as the 1997 Directors Options.

Dr. Nassau is also assisting the Company in the development of certain of its intellectual property and inventions and, in May 1997, executed an agreement with the Company whereby he agreed to assign to the Company all intellectual property rights concerning the development, manufacture, production, design or marketing of any consumer or industrial applications for SiC created by him. The agreement also provides that, for a one year period beginning on the termination of his service as a director of the Company, Dr. Nassau will not serve as an officer, director, engineer, designer or manager of any entity that engages in the business of developing, manufacturing, producing, designing or marketing SiC material as gemstones or gemological testing instruments. The Company granted Dr. Nassau an option to purchase 25,560 shares of Common Stock at an exercise price of approximately $3.45 per share in consideration of this agreement. Dr. Nassau's option becomes exercisable in three equal, annual installments beginning on the first anniversary of the date of grant and expires on the tenth anniversary of the date of grant.

In July 1997, the Company entered into a consulting agreement with Ollin B. Sykes, a director nominee of the Company, pursuant to which Mr. Sykes may provide finance and business development services to the Company at fees mutually agreed upon by Mr. Sykes and the Company. Mr. Sykes is also entitled to be reimbursed for any expenses incurred in connection with his consulting services. The consulting agreement has an initial term of five years. Mr. Sykes has performed certain consulting services for the Company without charge and, consequently, the Company has paid no cash consulting fees to Mr. Sykes. In connection with the execution of this consulting agreement, the Company granted Mr. Sykes an option to purchase 17,040 shares of Common Stock at an exercise price of approximately $4.81 per share. When issued, Mr. Sykes' option was scheduled to vest in three equal, annual installments beginning on the first anniversary of the date of grant. In

September 1997 the Company made Mr. Sykes' option exercisable in full on December 31, 1997 if this offering is completed prior to that date. Mr. Sykes' option expires on the tenth anniversary of the date of grant. In September 1997, as additional consideration for his consulting services, the Company granted Mr. Sykes an option to purchase 23,000 shares of Common Stock pursuant to the 1997 Omnibus Plan with substantially the same terms as the 1997 Directors Options.

In September 1997, the Company issued Dr. Russ an option to purchase 5,000 shares of Common Stock pursuant to the 1997 Omnibus Plan with substantially the same terms as the 1997 Directors Options. The option was issued in consideration of the sales, marketing and strategic consulting services that Dr. Russ has performed on behalf of the Company without compensation.

EXECUTIVE COMPENSATION

The following table sets forth certain information regarding compensation paid during the Company's fiscal year ended December 31, 1996 to each individual who served as chief executive officer of the Company during that fiscal year. No executive officer of the Company received salary and bonus in excess of $100,000 in 1996.

SUMMARY COMPENSATION TABLE

			LONG TERM COMPENSATION AWARDS
		ANNUAL	SECURITIES UNDERLYING
NAME AND PRINCIPAL POSITION	FISCAL YEAR	COMPENSATION SALARY	OPTIONS/SARS (NO. OF SHARES)
Jeff N. Hunter..... President and Chairman of the Board	1996	$26,833	51,120
Paula K. Berardinelli(1)..... Former President and former Chairman of the Board	1996	$25,733	12,780

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(1) Dr. Berardinelli began a one-year unpaid leave of absence on May 1, 1997. Dr. Berardinelli served as President and Chairman of the Board of the Company from June 1995 to May 1996 and as Vice President of Sales and Marketing from June 1996 to April 1997. Dr. Berardinelli currently has a consulting agreement with the Company and is entitled to return to a position comparable to her prior position as Vice President of Sales and Marketing at the conclusion of her leave of absence. Dr. Berardinelli is the wife of Jeff N. Hunter, President and Chairman of the Board.

EMPLOYMENT AGREEMENTS

The Company has entered into employment agreements with Jeff N. Hunter, President and Chairman of the Board, Mark W. Hahn, Chief Financial Officer, Treasurer and Secretary, Martin J. DeRoy, Vice President of Marketing, Thomas G. Coleman, Director of Technology, Renee McCullen, Director of Sales, and Earl R. Hines, Director of Manufacturing.

Under the agreement with Mr. Hunter, which expires May 31, 2000, Mr. Hunter is entitled to receive a base salary of $110,000 per year and to participate in the Company's incentive compensation plan. If the Company terminates Mr. Hunter's employment without cause, Mr. Hunter is entitled to receive, for the remaining term of his employment agreement, annual compensation equal to the highest annual compensation (including all cash bonuses and other cash-based benefits) received by him during the immediately preceding three calendar years (the "Termination Consideration"), and the Company will take such action as may be required to vest any unvested benefits under any employee stock-based or benefit plan. If the Company experiences a change of control and Mr. Hunter voluntarily terminates his employment following a reduction in his responsibilities, pay or position, or if his employment is terminated following such change in control, the Company is obligated to pay Mr. Hunter a lump sum equal to approximately three times his Termination Consideration and to continue his benefits for a period of two years, and any unvested benefits under any

employee benefit plan will immediately vest and become exercisable. Upon the termination of his employment with the Company, Mr. Hunter is prohibited from competing with the Company or attempting to solicit the Company's customers or employees for a period of one year.

Mr. Hahn's employment agreement, which expires July 29, 2002, entitles Mr. Hahn to receive a base salary of $95,000 per year, which base salary shall increase to $122,000 per year upon the consummation of this offering, and to participate in the Company's incentive compensation plan. Mr. Hahn has rights substantially the same as those granted to Mr. Hunter in the event his employment is terminated without cause or in the event of a change in control. Upon the termination of his employment with the Company, Mr. Hahn is prohibited from competing with the Company or attempting to solicit the Company's customers or employees for a period of one year.

By action of the Board of Directors, in the event of a change in control of the Company, all stock options granted pursuant to the 1996 Option Plan will immediately vest and become exercisable. As a result, the options granted to Mr. Hunter and Mr. Hahn under the 1996 Option Plan pursuant to their respective employment agreements or otherwise will vest and become immediately exercisable upon any change in control of the Company.

The Company has adopted an annual incentive compensation plan (the "Annual Plan") whereby eligible employees are entitled to receive a cash bonus based on the Company's performance in 1998. Each eligible employee is assigned a target bonus equal to 20% to 70% of such employee's base salary. If the Company's net revenues and pre-tax income meet or exceed the Company's targeted performance level, each eligible employee will receive 100% of his or her target bonus. The Annual Plan provides for increasing cash bonuses if the Company's net revenues and pre-tax income exceed specified amounts. If pre-tax income is positive, but below the targeted level, the employee's target bonus shall be reduced on a linear basis. No bonuses will be earned or paid if the Company does not achieve positive pre-tax income.

OPTION GRANTS TO CERTAIN EXECUTIVE OFFICERS

The following table sets forth for each of the persons named in the Summary Compensation Table certain information concerning stock options granted during the year ended December 31, 1996.

	INDIVIDUAL GRANTS				POTENTIAL REALIZABLE VALUE AT ASSUMED ANNUAL RATES OF STOCK PRICE APPRECIATION FOR OPTION TERM(3)	
NAME	NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED	PERCENT OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN FISCAL 1996	EXERCISE PRICE PER SHARE	EXPIRATION DATE	5%	10%
Jeff N. Hunter.....	51,120(1)	48%	$1.88	5/31/06	$60,374	$152,999
Paula K. Berardinelli.....	12,780(2)	12%	$1.88	5/31/06	$15,093	$ 38,250

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(1) The option vests and becomes exercisable in three equal installments on each of the first three anniversaries of the date of grant (June 1, 1996) and expires to the extent not exercised on May 31, 2006.
(2) The option vested and became exercisable on April 30, 1997 and expires to the extent not exercised on May 31, 2006.
(3) The potential realizable value is calculated based on the term of the option at its time of grant (10 years) and is calculated by assuming that the stock price on the date of grant as determined by the Board of Directors appreciates at the indicated annual rate compounded annually for the entire term of the option and that the option is exercised and sold on the last day of its term for the appreciated price. The 5% and 10% assumed rates of appreciation are derived from the rules of the Securities and Exchange Commission and do not represent the Company's estimate or projection of the future Common Stock price.

In July 1997, the Board of Directors granted the following options pursuant to the 1996 Option Plan: Jeff N. Hunter -- 51,120 shares; and Paula K. Berardinelli -- 12,780 shares each at an exercise price of approximately $4.81. When issued, Mr. Hunter's option was scheduled to vest and become exercisable in three equal, annual installments beginning on the first anniversary of the date of grant, but in September 1997, the

Company made Mr. Hunter's option exercisable in full on December 31, 1997 if this offering is completed prior to that date. Dr. Berardinelli's option vests and becomes exercisable upon the completion of this offering. These options expire on the tenth anniversary of the date of grant. See "-- Stock Option Plans -- 1996 Option Plan."

In September 1997, subject to shareholder approval of the 1997 Omnibus Plan and the completion of this offering, the Board of Directors granted to Mr. Hunter an option to purchase 70,000 shares of Common Stock pursuant to the 1997 Omnibus Plan at an exercise price equal to the initial public offering price of the shares of Common Stock offered hereby. Fifteen percent of the option vests and becomes exercisable on the completion of this offering. The remaining 85% of the option vests in the event that the Company achieves certain specified sales, earnings or profit margin goals prior to December 31, 2001. The option expires on the tenth anniversary of the date of grant. See "-- Stock Option Plans -- 1997 Omnibus Plan."

STOCK OPTION PLANS

1996 Option Plan

The 1996 Stock Option Plan of C3, Inc., as subsequently amended (the "1996 Option Plan"), was originally adopted by the Board of Directors and approved by the shareholders of the Company effective as of June 1, 1996. The 1996 Option Plan provides for the grant of options to purchase up to 777,450 shares of Common Stock, subject to adjustment upon the occurrence of certain events affecting the Company's capitalization, to the Company's key employees, officers, directors and independent contractors. The Company currently has no plans to award additional options under the 1996 Option Plan.

The 1996 Option Plan is administered by the Board of Directors, which determines, subject to the provisions of the 1996 Option Plan, to whom and at what time options may be granted, the per share exercise price, the duration of each option, the number of shares subject to each option, the rate and manner of exercise and the timing and form of payment. The Board of Directors has determined that, in the event of a change in control of the Company, all stock options granted pursuant to the 1996 Option Plan will immediately vest and become exercisable.

Under the 1996 Option Plan, no option granted to an optionee who was an employee of the Company at the time of grant may be exercised unless the optionee (i) is, at the time of exercise, an employee of the Company and has been an employee continuously since the date the option was granted or (ii) was, within 90 days prior to the date of exercise, an employee of the Company and, prior to the optionee's termination as an employee, had been an employee continuously since the date the option was granted. The employment relationship of an employee is treated as continuing intact for any period that the optionee is on military or sick leave or other bona fide leave of absence, provided that the period of such leave does not exceed 90 days, or, if longer, as long as the optionee's right to reemployment is guaranteed either by statute or by contract. The employment relationship of an optionee shall also be treated as continuing intact while the optionee is not in active service because of "disability" as defined in the 1996 Option Plan. If the employment of an optionee is terminated because of a "disability" or death, the option may be exercised to the extent exercisable on the date of the optionee's termination of employment (the "Termination Date") for a period ending on the earlier of (i) the first anniversary of the optionee's Termination Date or (ii) the expiration of the option period. The Board of Directors may, in its discretion, accelerate the date for exercising all or any part of an option which was not otherwise exercisable on the Termination Date. In the event of the optionee's death, the option will be exercisable by those person or persons who acquired the right to exercise the option by will or by the laws of intestate succession.

Options granted to a non-employee director of the Company may be exercised only if the optionee (i) is, at the time of exercise, a director of the Company and has been a director continuously since the date the option was granted or (ii) was, within 90 days prior to the date of exercise, a director of the Company and, prior to the optionee's termination as a director, had been a director continuously since the date the option was granted. If membership on the Board of Directors is terminated because of death, the option may be exercised to the extent exercisable on the date of the optionee's death for a period ending on the earlier of (i) the first

anniversary of the optionee's death or (ii) the expiration of the option period. In the event of the optionee's death, the option will 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.

At September 29, 1997, the Company had granted pursuant to the 1996 Option Plan options to purchase 348,681 shares of Common Stock to employees (including certain officers, see "-- Option Grants to Certain Executive Officers" and "Principal Shareholders"), options to purchase 117,150 shares of Common Stock to non-employee consultants and options to purchase 195,960 shares of Common Stock to non-employee directors and director nominees (see "-- Compensation of Directors" and "Principal Stockholders"). All of such options remain outstanding. The exercise prices of options granted under the 1996 Option Plan range from approximately $1.88 to approximately $7.63 per share, with a weighted average of $3.95 per share. At September 29, 1997, none of these options has been exercised. In addition, the Company has issued options (the "Consultant Options") to purchase an additional 37,275 shares of Common Stock to certain independent consultants in connection with the provision of services to the Company. All of these options are currently exercisable at an exercise price of approximately $1.88 and expire between May 25, 2001 and June 6, 2001.

1997 Omnibus Plan

In September 1997, the Board of Directors adopted the 1997 Omnibus Stock Plan of C3, Inc. (the "1997 Omnibus Plan") and recommended its approval to the Company's shareholders. The 1997 Omnibus Plan is subject to approval by the shareholders of the Company, which approval must occur, if at all, within 12 months of the adoption of the plan by the Board of Directors. Awards granted prior to shareholder approval are conditioned upon and shall be effective only upon approval of the 1997 Omnibus Plan by the shareholders of the Company on or before such date.

The 1997 Omnibus Plan authorizes the Company to grant stock options, stock appreciation rights and restricted awards (collectively, "awards") to selected employees, independent contractors and directors of the Company and related corporations in order to promote a closer identification of their interests with those of the Company and its shareholders. Initially, a maximum of 477,979 shares of Common Stock may be delivered pursuant to awards granted under the 1997 Omnibus Plan, and the Board of Directors has reserved that number of shares for this purpose. The maximum number of shares of Common Stock for which awards may be granted under the 1997 Omnibus Plan may be increased from time to time to a number of shares equal to (i) 20% of the shares of Common Stock outstanding as of that time less (ii) the number of shares of Common Stock subject to outstanding options under the 1996 Option Plan. The number of shares reserved for issuance under the 1997 Omnibus Plan may also be adjusted upon certain events affecting the Company's capitalization.

The 1997 Omnibus Plan is presently administered by the Board of Directors, but upon appointment of the Compensation Committee the Board of Directors intends to authorize that committee to administer the 1997 Omnibus Plan. The Compensation Committee will have authority to take any action with respect to the plan and to determine all matters relating to awards, including selection of individuals to be granted awards, the types of awards, the number of shares of Common Stock subject to an award, and the terms, conditions, restrictions and limitations of an award. The Compensation Committee may delegate to the Company's chief executive officer the authority to grant awards. The 1997 Omnibus Plan may be amended or terminated at any time by the Board of Directors, subject to the following: (i) no amendment or termination may adversely affect the rights of an award recipient with respect to an outstanding award without the recipient's consent; and (ii) shareholder approval is required of any amendment that would increase the number of shares issuable under the 1997 Omnibus Plan (except to the extent of adjustments, as discussed above), or materially change the requirements for eligibility, unless such approval is not required under applicable law or rules.

Stock appreciation rights ("SARs") may be granted with respect to all or a portion of the shares of Common Stock subject to a related option or may be granted separately. Upon exercise of an SAR, a participant is entitled to receive from the Company consideration equal to the excess of the fair market value of a share of Common Stock on the date of exercise over the SAR price (subject to certain plan limitations).

The consideration may be paid in cash, shares of Common Stock (valued at fair market value on the date of the SAR exercise), or a combination of cash and shares of Common Stock.

Restricted awards may also be granted as the Compensation Committee may determine. A restricted award may consist of a restricted stock award or a restricted unit, or both. Restricted awards are payable in cash or whole shares of Common Stock (including restricted stock), or partly in cash and partly in whole shares of Common Stock, in the discretion of the Compensation Committee.

The 1997 Omnibus Plan also provides that, upon a change of control of the Company (as defined in the 1997 Omnibus Plan), all options and SARs outstanding as of the date of the change of control shall become fully exercisable, any restrictions applicable to any restricted awards shall be deemed to have expired, and restricted awards shall become fully vested and payable to the fullest extent of the original award. In the event of a merger, share exchange, or other business combination affecting the Company in which the Board of Directors or the surviving or acquiring corporation takes actions which, in the opinion of the Compensation Committee, are equitable or appropriate to protect the rights and interest of participants under the plan, the Compensation Committee may determine that any or all awards shall not vest or become exercisable on an accelerated basis.

At September 29, 1997, the Board of Directors had granted, subject to shareholder approval of the 1997 Omnibus Plan and the completion of this offering, options to purchase 196,000 shares of Common Stock to employees (including certain officers, see "-- Option Grants to Certain Executive Officers"), options to purchase 26,000 shares of Common Stock to non-employee consultants and options to purchase 88,000 shares of Common Stock to non-employee directors (see "-- Compensation of Directors"). All these options remain outstanding. The exercise price of these options will be equal to the initial public offering price of the shares of Common Stock offered hereby.

PRINCIPAL SHAREHOLDERS

The following table sets forth information with respect to the beneficial ownership of Common Stock as of September 29, 1997, and as adjusted to reflect the sale of shares of Common Stock offered hereby, by (i) each person known by the Company to own beneficially five percent or more of the Company's outstanding shares of Common Stock; (ii) each director and director nominee of the Company; (iii) the executive officers named in the Summary Compensation Table; and (iv) all current directors, director nominees and executive officers as a group. Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission (the "Commission"). In computing the number of shares beneficially owned by a person and the percentage ownership of that person, shares of Common Stock subject to options or warrants held by that person that are currently exercisable or that are or may become exercisable within 60 days of the date of this table are deemed outstanding. Such shares, however, are not deemed outstanding for the purposes of computing the percentage ownership of any other person. Except as indicated in the footnotes to this table and pursuant to applicable community property laws, each shareholder named in the table has sole voting and investment power with respect to the shares set forth opposite such shareholder's name.

NAME(1)	COMMON STOCK BENEFICIALLY OWNED	PERCENTAGE OF CLASS PRIOR TO OFFERING	PERCENTAGE OF CLASS AFTER OFFERING
C. Eric Hunter(2)	1,054,627	26.8%	17.8%
General Electric Pension Trust(3)	578,512	14.7%	9.7%
Jeff N. Hunter(4)	197,940	5.0%	3.3%
Paula K. Berardinelli(5)	195,960	4.9%	3.3%
Ollin B. Sykes(6)	81,412	2.1%	1.4%
Kurt Nassau(7)	12,407	*	*
Howard Rubin(8)	8,680	*	*
Frederick A. Russ(9)	7,180	*	*
Kurt Leutzinger(10)	750	*	*
Directors, Director Nominees and Executive Officers as a Group (9 persons)(11)	524,984	12.6%	8.5%

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* Indicates less than one percent

(1) Unless otherwise indicated, the address of each person is 3800 Gateway Boulevard, Suite 310 Morrisville, NC 27560.

(2) Includes 23,430 shares of Common Stock held jointly by Mr. Hunter and his wife, Jocelyn Hunter. Mr. Hunter has shared voting and investment power over such shares. Mr. Hunter, one of the founders of the Company, was one of the founders of Cree and was formerly the President and Chief Executive Officer of Cree. Mr. Hunter's mailing address is 3104 Hillsborough Street, Box 189, Raleigh, North Carolina 27607.

(3) Includes 750 shares of Common Stock issuable upon exercise of options granted under the 1997 Omnibus Plan. The address of General Electric Pension Trust is 3003 Summer Street, Stamford, Connecticut 06904.

(4) Includes (i) 170,400 shares of Common Stock held jointly by Mr. Hunter and his wife, Paula K. Berardinelli, over which Mr. Hunter has shared voting and investment power and (ii) 27,540 shares of Common Stock issuable upon exercise of options granted under the 1996 Option Plan and 1997 Omnibus Plan. See "Management -- Stock Option Plans." Does not include 25,560 shares of Common Stock issuable to Dr. Berardinelli upon exercise of options granted under the 1996 Option Plan. Mr. Hunter disclaims beneficial ownership of such shares.

(5) Includes (i) 170,400 shares of Common Stock held jointly by Dr. Berardinelli and her husband, Jeff N. Hunter, over which Dr. Berardinelli has shared voting and investment power and (ii) 25,560 shares of Common Stock issuable upon exercise of options granted under the 1996 Option Plan. See "Management -- Stock Option Plans -- 1996 Option Plan." Does not include 27,540 shares of Common Stock issuable upon exercise of options granted to Mr. Hunter under the 1996 Option Plan and 1997 Omnibus Plan. Dr. Berardinelli disclaims beneficial ownership of such shares.

(6) Includes (i) 14,910 shares of Common Stock held by the Sykes & Co., P.A. Profit Sharing Plan & Trust and (ii) 4,200 shares of Common Stock issuable upon exercise of options granted under the 1997 Omnibus Plan. See "Management -- Compensation of Directors" and "-- Stock Option Plans -- 1997 Omnibus Plan."

(7) Includes (i) 3,727 shares of Common Stock held jointly by Dr. Nassau and his wife, Julia Nassau, over which Dr. Nassau has shared voting and investment power and (ii) 8,680 shares of Common Stock issuable upon exercise of options granted under the 1996 Option Plan and 1997 Omnibus Plan. See "Management -- Compensation of Directors" and "-- Stock Option Plans."

(8) Includes 8,680 shares of Common Stock issuable upon exercise of options granted under the 1996 Option Plan and 1997 Omnibus Plan. See "Management -- Compensation of Directors" and "-- Stock Option Plans."

(9) Includes 7,180 shares of Common Stock issuable upon exercise of options granted under the 1996 Option Plan and 1997 Omnibus Plan. See "Management -- Compensation of Directors" and "-- Stock Option Plans."

(10) Includes 750 shares of Common Stock issuable upon exercise of options granted under the 1997 Omnibus Plan. See "Management -- Compensation of Directors" and "-- Stock Option Plans -- 1997 Omnibus Plan."

(11) Includes (i) 174,127 shares of Common Stock over which certain directors, director nominees and executive officers have shared voting and investment power and (ii) 229,980 shares of Common Stock issuable upon exercise of options granted under the 1996 Option Plan and 1997 Omnibus Plan. See "Management -- Compensation of Directors" and "-- Stock Option Plans."

CERTAIN TRANSACTIONS

PRIVATE PLACEMENT TRANSACTIONS

Since the incorporation of the Company in June 1995, the Company has issued, in private placement transactions, shares of stock as follows (in each case, before giving effect to the 2.13-for-1 stock split): 250,000 shares of Common Stock at $4.00 per share in cash; 105,000 shares of Series A Preferred Stock at $5.75 per share in cash; and 682,500 shares of Series B Preferred Stock at $7.35 per share in cash. Each outstanding share of Common Stock will be split into 2.13 shares of Common Stock immediately prior to the consummation of this offering, and the outstanding shares of Series A Preferred Stock and Series B Preferred Stock will automatically be converted into an aggregate of 1,677,375 shares of Common Stock upon the consummation of this offering. The holders of shares of Series B Preferred Stock are entitled to certain registration rights with respect to the Common Stock issued or issuable upon conversion thereof. See "Description of Capital Stock -- Registration Rights." The following table sets forth the number of shares of Common Stock, Series A Preferred Stock and Series B Preferred Stock purchased by the Company's directors, executive officers and five percent shareholders and their respective affiliates and the number of shares of Common Stock issuable, giving effect to the stock split and the conversion of the Series A Preferred Stock and Series B Preferred Stock:

INVESTOR	COMMON STOCK(1)	SERIES A PREFERRED STOCK(1)	SERIES B PREFERRED STOCK(1)	COMMON STOCK AFTER SPLIT AND CONVERSION(1)
General Electric Pension Trust(2).....	--	--	271,250	577,762
Ollin B. Sykes(3).....	10,000	--	26,250	77,212
F. Neal Hunter(4).....	26,000	7,000	--	70,290
Thomas G. Coleman(5).....	10,000	5,250	5,250	43,665
C. Eric Hunter(6).....	7,500	3,500	1,750	27,157
William J. Sykes, Jr.(7).....	--		8,750	18,637
Mark Harrill(8).....	5,000	--	1,750	14,377
Monica R. Hunter(9).....	5,000	--	--	10,650
Robert Angel(10).....	2,500	--	--	5,325
Annabel C. Harrill(11).....	2,500	--	--	5,325
Kurt Nassau(12).....	--	--	1,750	3,727

See footnotes on following page.

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(1) Each share of outstanding Common Stock was split into 2.13 shares of Common Stock in September 1997 and each share of outstanding Series A Preferred Stock and Series B Preferred Stock will be automatically converted into 2.13 shares of Common Stock contemporaneously with the consummation of this offering. Only the last column gives effect to these transactions.
(2) David B. Stewart, who is a director nominee of the Company, is an investment manager at General Electric Investment Company which is the investment advisor to GEPT.
(3) Includes 7,000 shares of Series B Preferred Stock owned by Sykes & Company, P.A. Profit Sharing Plan and Trust of which Mr. Sykes is sole trustee.
(4) Mr. Hunter is the President, CEO and a director of Cree and the brother of Jeff N. Hunter, who is President and Chairman of the Board of the Company, and C. Eric Hunter, who is the beneficial owner of 17.8% of the Company's Common Stock, giving effect to this offering.
(5) Mr. Coleman is the Director of Technology of the Company.
(6) Includes 7,500 shares of Common Stock and 3,500 shares of Series A Preferred Stock owned jointly by Mr. Hunter and his wife, Jocelyn Hunter. Mr. Hunter is the brother of Jeff N. Hunter.
(7) Includes 8,750 shares of Series B Preferred Stock owned jointly by Mr. Sykes and his wife, Joyce M. Sykes. Mr. Sykes is the brother of Ollin B. Sykes, a director nominee of the Company.
(8) Includes (i) 5,000 shares of Common Stock owned jointly by Mr. Harrill and his wife, Melissa W. Harrill and (ii) 1,750 shares of Series B Preferred Stock owned by Foscoe Realty and Development Corporation, Inc., of which Mr. Harrill is the sole shareholder. Mr. Harrill is the step-brother of Jeff N. Hunter and C. Eric Hunter.
(9) Dr. Hunter was, at the time of purchase, a sister-in-law of Jeff N. Hunter and C. Eric Hunter.
(10) Mr. Angel is the brother-in-law of Jeff N. Hunter and C. Eric Hunter.
(11) Includes 2,500 shares of Common Stock owned jointly by Mrs. Harrill and her husband, James Edward Harrill. Mrs. Harrill is the mother of Jeff N. Hunter and C. Eric Hunter.
(12) Includes 1,750 shares of Series B Preferred Stock owned jointly by Dr. Nassau, who is a director, and his wife, Julia Nassau.

TRANSACTIONS WITH CREE

The Company is heavily dependent on Cree and Cree's technology. See "Business -- Dependence on Cree and Cree Technology." Jeff N. Hunter, one of the founders of the Company, President and Chairman of the Board, and C. Eric Hunter, one of the founders of the Company and the beneficial owner of 17.8% of the Common Stock outstanding after this offering, are the brothers of F. Neal Hunter, the Chief Executive Officer of Cree. C. Eric Hunter was one of the founders of Cree and was the President and Chief Executive Officer of Cree prior to the time of any transactions between the Company and Cree. In May 1995, Mr. Hunter entered into a consulting and noncompetition agreement with Cree effective from July 1995 through July 1998 under which Cree is entitled to request Mr. Hunter to provide consulting services. Mr. Hunter has agreed that during the term of the agreement, he will not, among other activities, provide services to, or have certain interests or positions in, businesses engaged in the production of SiC substrates, the distribution of SiC substrates not produced or purchased from Cree, or research and development in SiC substrates. Cree and certain of its officers and directors will own approximately 3.9% of the Common Stock outstanding after this offering. GEPT, which is the beneficial owner of 9.7% of the Common Stock after giving effect to the automatic conversion of the 1997 Series B Preferred Stock and this offering, currently is also the beneficial owner of approximately 10.4% of the outstanding common stock of Cree.

Exclusive Supply Agreement

On June 6, 1997, the Company and Cree entered into the Exclusive Supply Agreement. See "Business -- Dependence on Cree and Cree Technology" for a more detailed description of the terms of the Exclusive Supply Agreement. Under the provisions of the Exclusive Supply Agreement, the Company has agreed to purchase from Cree at least 50%, by dollar volume, of the Company's requirements for SiC crystals for the production of gemstones in each calendar quarter. Cree is obligated to supply this amount of materials to the Company, and Cree has agreed not to sell SiC crystals to anyone other than the Company for gemstone use.

The price for SiC crystals is equal to Cree's loaded manufacturing cost plus a margin, which margin may increase if the price of crystals falls below a specified amount.

Under the Exclusive Supply Agreement, Cree may elect to have the Company purchase the additional growth systems that will be required to meet the Company's anticipated demand for SiC crystals or Cree may fund the costs of these systems on its own and recoup its costs by incorporating the costs of the systems into the cost of the SiC crystals purchased by the Company. If Cree elects to have the Company purchase the additional crystal growth systems, such systems must remain at Cree's facilities and ownership of such systems will transfer to Cree when the Company has fully depreciated their cost.

The Exclusive Supply Agreement also prohibits the Company from entering into certain types of arrangements with certain specified parties. See "Description of Capital Stock -- Certain Anti-Takeover Provisions." The Exclusive Supply Agreement has an initial term of ten years, which may be extended for an additional ten years by either party if the Company orders in any 36-month period SiC crystals with an aggregate purchase price in excess of $1 million. The Company expects to meet this threshold and extend the term of the Agreement.

Development Agreement

The Company is concentrating all of its development efforts with Cree under the Development Agreement. For a full description of the Development Agreement, see "Business -- Dependence on Cree and Cree Technology." If Cree is successful in meeting the development milestones set forth in the Development Agreement, the Company will be obligated to pay Cree approximately $12 million over the five year term of the Development Agreement. In addition, if Cree meets certain development milestones by January 1, 1998, the Company will pay Cree a $200,000 bonus.

Other Cree Transactions

In June 1995, the Company granted to Cree the right to purchase one percent of the outstanding Common Stock of the Company for an aggregate consideration of $500. The Company retained the right to waive the consideration and issue the stock at any time during the option period. In January 1997, the Company issued 24,601 shares of Common Stock to Cree in satisfaction of these obligations. See Note 5 of Notes to Financial Statements.

In January 1996, the Company and Cree entered into a letter agreement under which the Company agreed to assist Cree in prosecuting its patent application for a particular process of producing colorless SiC crystals, and Cree granted the Company an irrevocable nonexclusive royalty-free license to use that process in connection with the manufacture, use and sale of lab-created moissanite gemstones. Under this agreement, the Company is obligated to reimburse Cree for all legal expenses incurred by Cree in preparing, filing, prosecuting and maintaining any patents issued in connection with that process for producing colorless SiC crystals.

Under a February 1996 letter agreement, the Company has agreed to purchase all of its requirements for the semiconductor chip component of its moissanite/diamond test instrument from Cree, and Cree granted the Company the exclusive right to purchase such chips for use in gemstone analysis and verification equipment. The Company is obligated to purchase all of its requirements for such chips from Cree at prices that may not exceed Cree's then current list price for such chips and to pay Cree a royalty of 2 1/2% of net sales of all test instruments incorporating the Cree chip. The letter agreement has a term of twenty years.

In February 1997, the Company subleased approximately 3,000 square feet of mixed use space from Real Color Displays, Inc., a wholly owned subsidiary of Cree. The lease agreement had an initial term ending in January 1998 and provided for annual lease payments of $24,000 and a one-time payment of $6,000 for leasehold improvements. The Company intends to terminate this arrangement in October 1997.

OTHER TRANSACTIONS

In connection with the formation of the Company on June 28, 1995, the Company issued 1,465,440 shares of Common Stock to C. Eric Hunter, a founder of the Company and brother of Jeff N. Hunter, for an aggregate consideration of $50,000. On June 28, 1995, the Company also issued to Jeff N. Hunter, a founder of the Company, President and Chairman of the Board and Paula K. Berardinelli, a founder of the Company, former President and Chairman of the Board and wife of Jeff N. Hunter, as joint tenants with rights of survivorship, 170,400 shares of Common Stock in consideration of services to be performed by them as officers of the Company. See Note 3 of Notes to Financial Statements.

In connection with the financing of the Company during its start-up phase, the Company borrowed funds and issued promissory notes to certain founders to evidence such borrowings. In November 1995, the Company issued a note in the principal amount of $10,000 to C. Eric Hunter. In January 1996, the Company issued a note in the principal amount of $3,000 to Jeff N. Hunter and Paula K. Berardinelli. In February 1996, the Company issued a promissory note in the principal amount of $50,000 to C. Eric Hunter. All of these notes, which were unsecured and bore interest at the rate of seven percent per annum, have been paid in full. See Note 8 of Notes to Financial Statements.

In August 1996, the Company entered into a consulting agreement with Thomas G. Coleman, now the Director of Technology and an executive officer of the Company, pursuant to which Mr. Coleman provided consulting services related to the dicing of SiC crystals into lab-created moissanite gemstones for fees to be mutually agreed upon plus expenses. The consulting agreement was terminated in March 1997 when Mr. Coleman became an employee of the Company. During the term of the agreement, the Company did not make any payments to Mr. Coleman. As additional consideration for the consulting services to be performed by Mr. Coleman, the Company granted Mr. Coleman an option to purchase 31,950 shares of Common Stock at an exercise price of aproximately $2.70. Mr. Coleman's option was originally scheduled to vest and become exercisable in three equal installments on each of the first three anniversaries of the date of grant. The Company subsequently made these options exercisable in full upon the consummation of this offering. Mr. Coleman's options expire on the tenth anniversary of the date of grant.

In May 1997, the Company entered into a consulting agreement with Paula K. Berardinelli pursuant to which Dr. Berardinelli may provide marketing, sales, management, organizational and other services to the Company for fees to be mutually agreed upon plus expenses. From June 1996 to May 1997, Dr. Berardinelli served as Vice President of Sales and Marketing of the Company, and the consulting agreement was entered into in connection with Dr. Berardinelli commencing a one-year unpaid leave of absence. If Dr. Berardinelli elects to return to the Company, she will be entitled to a position comparable to her prior position as Vice President of Sales and Marketing. To date, the Company has not requested that Dr. Berardinelli perform consulting services under the agreement and, consequently, has paid no fees to Dr. Berardinelli. Dr. Berardinelli is the wife of Jeff N. Hunter, the President and Chairman of the Board of the Company.

In September 1997, the Company entered into a consulting agreement with C. Eric Hunter pursuant to which Mr. Hunter will assist the Company in filing, prosecuting and maintaining certain patents relating to the Company's technology. The Company is obligated to pay Mr. Hunter a monthly consulting fee of $1,800, and the first such payment is due in November 1997. The consulting agreement has an initial term of two years.

The Company has entered into employment agreements with certain of its executive officers and consulting agreements with certain of its directors and director nominees. The Company has also granted options to purchase Common Stock under the 1996 Option Plan and 1997 Omnibus Plan to certain executive officers, directors and director nominees. See "Management -- Employment Agreements," "-- Director Compensation" and "-- Stock Option Plans."

DESCRIPTION OF CAPITAL STOCK

Upon completion of this offering, the authorized capital stock of the Company will consist of 50,000,000 shares of Common Stock, no par value, and 10,000,000 shares of Preferred Stock, no par value (the "Preferred Stock"), of which 5,938,476 shares of Common Stock and no shares of Preferred Stock will be issued and outstanding. All outstanding shares of Common Stock are, and the shares of Common Stock offered hereby will be, when issued, duly authorized, validly issued, fully paid and nonassessable shares of Common Stock of the Company.

COMMON STOCK

The holders of Common Stock are entitled to one vote per share on all matters on which the holders of Common Stock are entitled to vote and do not have cumulative voting rights in the election of directors. Holders of Common Stock are entitled to receive dividends when, as and if declared by the Company's Board of Directors out of funds legally available therefor. In the event of the liquidation, dissolution or winding up of the Company, holders of Common Stock will be entitled to share ratably in the assets, if any, available for distribution after payment of all creditors and the liquidation preferences on any outstanding shares of Preferred Stock. Holders of Common Stock have no preemptive rights to subscribe for any additional securities of any class which the Company may issue, nor any conversion, redemption or sinking fund rights. The rights and privileges of holders of Common Stock are subject to the preferences of any shares of Preferred Stock that the Company may issue in the future.

NEW PREFERRED STOCK

The Company may issue shares of Preferred Stock in one or more series as may be determined by the Company's Board of Directors, who may establish, from time to time, the number of shares to be included in each series, may fix the designation, powers, preferences and rights of the shares of each such series and any qualifications, limitations or restrictions thereof, and may increase or decrease the number of shares of any such series without any further vote or action by the shareholders. Any Preferred Stock so issued by the Board of Directors may rank senior to the Common Stock with respect to the payment of dividends or amounts upon liquidation, dissolution or winding up of the Company, or both. In addition, any such shares of Preferred Stock may have class or series voting rights. Moreover, under certain circumstances, the issuance of Preferred Stock or the existence of the unissued Preferred Stock may tend to discourage or render more difficult a merger or other change in control of the Company. See "Risk Factors -- Anti-Takeover and Certain Other Provisions."

SERIES A PREFERRED STOCK AND SERIES B PREFERRED STOCK

At September 29, 1997, the Company has issued and outstanding 105,000 shares of Series A Preferred Stock and 682,500 shares of Series B Preferred Stock. The Company intends to amend its articles of incorporation prior to the completion of this offering to provide that contemporaneously with the effective date of this offering, the outstanding shares of Series A Preferred Stock and Series B Preferred Stock will be converted automatically into an aggregate of 1,677,375 shares of Common Stock pursuant to their terms, and thereafter no shares of the Series A Preferred Stock or the Series B Preferred Stock will be outstanding. No dividends have been or will be declared or paid on the Series A Preferred Stock or Series B Preferred Stock.

CERTAIN ANTI-TAKEOVER PROVISIONS

Articles of Incorporation and Bylaws

A number of provisions of the Company's articles of incorporation and bylaws deal with matters of corporate governance and the rights of shareholders. Certain of these provisions may be deemed to have an anti-takeover effect and may delay or prevent takeover attempts not first approved by the Board of Directors (including takeovers that certain shareholders may deem to be in their best interests). These provisions also could delay or frustrate the removal of incumbent directors or the assumption of control by shareholders. The Company believes that these provisions are appropriate to protect the interests of the Company and all of its shareholders.

Certain Business Combinations. The Company's articles of incorporation require that any business combination, as defined in the articles, to be entered into by the Company with a person or entity beneficially owning 10% or more of the Company's outstanding voting shares (an "Interested Shareholder") be approved by the affirmative vote of the holders of at least two-thirds of the outstanding voting shares, including a majority of the outstanding voting shares held by persons other than such Interested Shareholder and its affiliates, or, alternatively, by two-thirds of certain members of the Board of Directors not affiliated with such Interested Shareholder, unless all of the holders of the Common Stock receive in the business combination an amount of consideration per share equal to or greater than the highest price paid by the Interested Shareholder in acquiring any of its holdings of Common Stock and the transaction meets certain other minimum price requirements. The business combinations that are subject to these provisions include a merger or share exchange with an Interested Shareholder, sales to an Interested Shareholder of assets of the Company having a value of $5.0 million or more and the issuances or transfers to an Interested Shareholder by the Company or any of its subsidiaries of equity securities of the Company or such subsidiary having a value of $5.0 million or more. These provisions will make a takeover of the Company more difficult and may have the effect of diminishing the possibility of certain types of "front-end loaded" acquisitions of the Company or other unsolicited attempts to acquire the Company.

Advance Notice Requirements for Shareholder Proposals and Director Nominations. The Company's bylaws provide that a special meeting of shareholders may be called only by the Board of Directors and certain designated officers of the Company. Special meetings may not be called by the shareholders. The Company's bylaws establish advance notice procedures for shareholder proposals and the nomination, other than by or under the direction of the Board of Directors or a committee thereof, of candidates for election as directors. These procedures provide that the notice of shareholder proposals and shareholder nominations for the election of directors be in writing, contain certain specified information and be received by the Secretary of the Company (i) in the case of an annual meeting that is called for a date that is within 30 days before or after the anniversary date of the immediately preceding annual meeting of shareholders, not less than 60 days nor more than 90 days prior to such anniversary date, and (ii) in the case of an annual meeting that is called for a date that is not within 30 days before or after the anniversary date of the immediately preceding annual meeting or, in the case of a special meeting of shareholders, not later than the close of business on the tenth day following the day on which notice of the date of the meeting was mailed or public disclosure of the date of the meeting was made, whichever occurs first. These provisions may preclude some shareholders from bringing matters before the shareholders at any annual or special meeting, including making nominations for directors.

Amendment of Articles and Bylaws. Subject to the North Carolina Business Corporation Act, the Company's articles of incorporation may be amended by the affirmative vote of a majority of the outstanding shares entitled to vote thereon. Notwithstanding the foregoing, at a time that one or more Interested Shareholders exist, the amendment or repeal of certain provisions of the articles relating to the shares which the Company shall have authority to issue, the approval of certain business combinations as described above and certain other matters require the affirmative vote of the holders of two-thirds of the Company's voting securities, unless approved by two-thirds of the certain members of the Board of Directors not affiliated with the Interested Shareholder, other than securities held by an Interested Shareholder. The articles further provide that at a time that one or more Interested Shareholders exist, certain provisions of the bylaws relating to the size and composition of the Board of Directors and meetings of shareholders may be amended by the shareholders, only by the affirmative vote of the holders of two-thirds of the outstanding shares of voting securities, unless approved by two-thirds of the certain members of the Board of Directors not affiliated with the Interested Shareholder. Moreover, the articles provide that the Board of Directors may repeal, amend or adopt any bylaw adopted, amended or repealed by the shareholders. These provisions will make it more difficult for shareholders to amend the articles or bylaws.

Exclusive Supply Agreement

The terms of the Exclusive Supply Agreement prohibit the Company from entering into exclusive marketing or distribution agreements with DeBeers or its affiliates or the Central Selling Organization, which is the international diamond cartel, or any party whose primary business is the development, manufacture,

marketing or sale of diamond gemstones or any non-gemstone and non-jewelry industry competitor of Cree (collectively, the "Prohibited Parties"). The agreement also prohibits the Company from entering into certain merger, acquisition, asset sale or similar transactions with a Prohibited Party. The Exclusive Supply Agreement may prevent the Company from entering into certain potentially profitable transactions with the Prohibited Parties and may limit the price that third parties might be willing to pay for some or all of the shares of the Company's Common Stock.

ANTI-TAKEOVER LEGISLATION

Pursuant to the Company's articles of incorporation, the Company has elected not to be governed by the North Carolina Control Share Act, which restricts the right of certain shareholders who acquire specified amounts of Common Stock from voting those shares without certain approval by other shareholders of the Company, and the North Carolina Shareholder Protection Act, which imposes certain requirements for approval of transactions between the Company and a shareholder beneficially owning in excess of 20% of the Common Stock.

REGISTRATION RIGHTS

The Company has entered into an agreement under which the current holders of Series B Preferred Stock (the "Investor Holders") are entitled to certain rights as described below with respect to the registration under the Securities Act of 1933, as amended (the "Securities Act"), of the sale of up to 1,453,725 shares of Common Stock which will be issued upon the conversion of the Series B Preferred Stock (the "Registrable Securities"). Subject to certain exceptions, if the Company proposes to register the sale of any Common Stock for its own account or the account of others, the Investor Holders are entitled to notice of such registration and to include the Registrable Securities therein at the Company's expense. The Company has obtained waivers of the foregoing rights from the Investor Holders in connection with this offering. After March 18, 1998, Investor Holders owning at least 40% of the Registrable Securities may require the Company to file a registration statement at the Company's expense with respect to the Registrable Securities held by the Investor Holders, and the Company must use its diligent best efforts to effect such registration. The Investor Holders may not require the Company to file more than two registration statements pursuant to their demand registration rights. The foregoing registration rights are subject to certain conditions and limitations, including (i) the right of the Company not to effect a requested registration during the 90 days following this offering, (ii) the right of the Company not to effect a requested registration during the 180 days following a request for such registration if the Board of Directors determines that such registration would be seriously detrimental to the Company and (iii) the right of the underwriters of an offering to limit the number of Registrable Securities in the offering, unless other holders of the Company's securities are permitted to include their securities in such offering. Certain of the Investor Holders are subject to additional limitations with respect to the exercise of registration rights under certain contractual provisions agreed to with the Representative in connection with this offering. See "Underwriting."

TRANSFER AGENT AND REGISTRAR

The Transfer Agent and Registrar for the Company's Common Stock is First Union National Bank. Its address is 230 South Tryon Street, Charlotte, NC 28288-1179, and its telephone number at this location is 704-383-5406.

LISTING

The Company has applied for inclusion of the Common Stock on the Nasdaq National Market under the symbol "CTHR."

SHARES ELIGIBLE FOR FUTURE SALE

Prior to this offering, there has been no market for the Common Stock. Future sales of substantial amounts of Common Stock in the public market could adversely affect market prices prevailing from time to time. Furthermore, because only a limited number of shares will be available for sale shortly after this offering as a result of certain contractual and legal restrictions on resale as described below, sales of substantial amounts of Common Stock in the public market after the restrictions lapse could adversely affect the prevailing market price and the ability of the Company to raise equity capital in the future.

Upon completion of this offering, the Company will have outstanding an aggregate of 5,938,476 shares of Common Stock, assuming no exercise of the Over-allotment Option and no exercise of outstanding options to purchase Common Stock. Of these shares, the 2,000,000 shares sold in this offering will be freely tradeable without restriction or further registration under the Securities Act (except for any shares purchased by "affiliates," as that term is defined in Rule 144 under the Securities Act ("Affiliate")). Of the remaining shares of Common Stock, the Company believes that 1,927,393 shares (the "Affiliate Shares") will be held by Affiliates and 2,011,083 shares (the "Nonaffiliate Shares") will be held by nonaffiliates of the Company. All of such shares of Common Stock are "restricted securities" as that term is defined in Rule 144 under the Securities Act ("Restricted Shares"). Restricted Shares may be sold in the public market only if registered or if they qualify for an exemption from registration under Rules 144 (including Rule 144(k)) or 701 promulgated under the Securities Act, which rules are summarized below or if another exemption from registration is available. Pursuant to the provisions of Rules 144 (including Rule 144(k)) and 701, the Company believes Restricted Shares will be available for sale in the public market during 1997 as follows: (i) no Restricted Shares will be eligible for immediate sale on the date of this Prospectus; (ii) 1,921,621 Nonaffiliate Shares will be eligible for sale 90 days after the effective date of this offering (the date on which these shares will be eligible for resale is assumed to be February 12, 1998); (iii) 1,927,393 Affiliate Shares will be eligible for sale upon expiration of lock-up agreements one year after the date of this Prospectus; and (iv) 89,462 Nonaffiliate Shares will become eligible for sale upon the expiration of their one-year holding periods between February 13, 1998 and March 7, 1998.

Beginning 90 days after the completion of this offering, the holders of 1,453,725 shares of Common Stock issued upon the automatic conversion of the Series B Preferred Stock, or their transferees, will be entitled to cause the Company to register their shares for sale and participate in any future registration of securities effected by the Company. See "Description of Capital Stock -- Registration Rights." Registration of such shares under the Securities Act would result in such shares becoming freely tradeable without restriction under the Securities Act (except for shares purchased by Affiliates) immediately upon the effectiveness of such registration.

In general, under Rule 144 as currently in effect, beginning 90 days after the date of this Prospectus, a person (or persons whose shares are aggregated) who has beneficially owned Restricted Shares for at least one year (including the holding period of any prior owner except an Affiliate) would be entitled to sell within any three-month period a number of shares that does not exceed the greater of: (i) one percent of the number of shares of Common Stock then outstanding (which will equal approximately 59,384 shares immediately after this offering); or (ii) the average weekly trading volume of the Common Stock on the Nasdaq National Market during the four calendar weeks preceding the filing of a notice on Form 144 with respect to such sale. Sales under Rule 144 are also subject to certain manner of sale provisions and notice requirements and to the availability of current public information about the Company. Under Rule 144(k), a person who is not deemed to have been an Affiliate of the Company at any time during the 90 days preceding a sale, and who has beneficially owned the shares proposed to be sold for at least two years (including the holding period of any prior owner except an Affiliate), is entitled to sell such shares without complying with the manner of sale, public information, volume limitation or notice provisions of Rule 144; therefore, unless otherwise restricted, "144(k) shares" may be sold immediately upon the completion of this offering. In general, under Rule 701 of the Securities Act as currently in effect, any employee, consultant or advisor of the Company who purchased shares from the Company in connection with a compensatory stock or option plan or other written compensation agreement is eligible to resell such shares 90 days after the effective date of this offering in

reliance on Rule 144, but without compliance with certain restrictions, including the holding period, contained in Rule 144.

All of the Common Shares held by the Company's officers, directors, director nominees and beneficial owners of more than five percent of the Company's Common Stock, aggregating 1,927,393 shares, are subject to lock-up agreements with the Underwriters and may not be sold or otherwise transferred until one year after the date of this Prospectus without the consent of Representative. The Representative may, in its sole discretion and at any time without notice, release all or any portion of the securities subject to these lock-up agreements.

The Company intends to file registration statements under the Securities Act covering shares of Common Stock reserved for issuance under the 1996 Option Plan and the 1997 Omnibus Plan. Based on the number of options outstanding under the 1996 Omnibus Plan and the number of shares reserved for issuance under the 1997 Omnibus Plan, such registration statements would cover approximately 1,139,770 shares. See "Management -- Stock Option Plans." Such registration statements are expected to be filed and become effective as soon as practicable after the effective date of this offering. Accordingly, shares registered under such registration statements will, subject to Rule 144 volume limitations applicable to Affiliates, be available for sale in the open market, unless such shares are subject to vesting restrictions with the Company or the lock-up agreements described above. At September 29, 1997, options to purchase 971,791 shares of Common Stock were issued and outstanding under the 1996 Option Plan and 1997 Omnibus Plan. See "Management -- Director Compensation" and "-- Stock Option Plans."

UNDERWRITING

The Underwriters named below, acting through Paulson Investment Company, Inc., the Representative, have agreed, severally and not jointly, subject to the terms and conditions contained in the Underwriting Agreement, to purchase the Common Stock offered hereby in the amounts set forth below:

UNDERWRITER	NUMBER OF SHARES
Paulson Investment Company, Inc.....	
Total.....	2,000,000

The Underwriting Agreement provides that the Underwriters are obligated to purchase all of the shares of the Common Stock offered hereby if any shares are purchased. The Company has been advised that the Underwriters propose to offer the Common Stock to the public initially at the offering price shown on the cover page of this Prospectus and to selected dealers, including Underwriters, at that price less a concession to be determined by the Representative. After the initial public offering of the Common Stock, the public offering price and other offering terms may be changed.

The Company has granted the Underwriters the Over-allotment Option, exercisable by the Representative during the 45-day period after the date of this Prospectus, to purchase up to 300,000 additional shares on the same terms as the Common Stock being purchased by the Underwriters from the Company. The Representative may exercise this option only to cover over-allotments in the sale of the Common Stock.

The Underwriters will purchase the Common Stock (including the shares subject to the Over- allotment Option) offered hereby at a discount equal to % of the public offering price, or $ per share. The Representative will also receive at the Closing a non-accountable expense allowance equal to 1% of the aggregate initial public offering price of the Common Stock sold in this offering of which $35,000 has already been paid. In the event the offering is not consummated, any non-accountable portion of the advanced payment will be returned to the Company.

The Company has agreed to issue the Representative's Warrants to the Representative. The Representative's Warrants will allow the Representative to purchase up to 200,000 shares of Common Stock. The Representative's Warrants are exercisable for a period of four years beginning one year from the date of this Prospectus, at a price of $ per share (120% of the initial public offering price of the shares) and are nontransferable for one year after the date of this Prospectus except (i) to any of the Underwriters or to individuals who are either an officer or a partner of an Underwriter or (ii) by will or the laws of descent and distribution. The holders of the Representative's Warrants will have, in that capacity, no voting, dividend or other shareholder rights. Any profits realized on the sale of the Common Stock issuable on exercise of the Representative's Warrants may be deemed to be additional underwriting compensation.

The sale of the shares issuable upon exercise of the Representative's Warrants could dilute the interests of the other holders of Common Stock, and the existence of the Representative's Warrants may make the raising of additional capital by the Company more difficult. At any time at which exercise of the Representative's Warrants might be expected, it is likely that the Company could raise additional capital on terms more favorable than the terms of the Representative's Warrants.

All officers, directors, director nominees and five percent shareholders of the Company, who own an aggregate of 1,927,393 shares of Common Stock, have agreed not to sell any Common Stock of the Company owned by such person, pursuant to Rule 144 under the Securities Act or otherwise, and the Company has agreed not to sell any Common Stock (other than shares issuable upon the exercise of options under the 1996

Option Plan or the 1997 Omnibus Plan), without the prior written consent of the Representative, for a period of one year after the date of this Prospectus.

In addition, the Company has agreed to indemnify the Underwriters against certain liabilities, including liabilities under the Securities Act, and to contribute in certain events to any liabilities incurred by the Underwriters in connection with the sale of the Common Stock.

At the request of the Company, the Underwriters have reserved approximately 100,000 of the shares of Common Stock offered by the Company hereby for sale at the initial public offering price to directors, director nominees, officers, employees and certain individuals associated with the Company, its directors, its director nominees, its officers or its employees. The number of shares of Common Stock available to the public will be reduced to the extent such persons purchase such reserved shares. Any reserved shares that are not so purchased will be offered by the Underwriters to the general public on the same basis as the other shares offered hereby.

The Representative has advised the Company that, pursuant to Regulation M under the Securities Act, certain persons participating in the offering may engage in transactions, including stabilizing bids, syndicate covering transactions or the imposition of penalty bids, which may have the effect of stabilizing or maintaining the market price of the Common Stock at a level above that which might otherwise prevail in the open market. A "stabilizing bid" is a bid for or the purchase of the Common Stock on behalf of the Underwriters for the purpose of fixing or maintaining the price of the Common Stock. A "syndicate covering transaction" is the bid for or the purchase of Common Stock on behalf of the Underwriters to reduce a short position incurred by the Underwriters in connection with the offering. A "penalty bid" is an arrangement permitting the Representative to reclaim the selling concession otherwise accruing to an Underwriter or syndicate member in connection with the offering if the Common Stock originally sold by such Underwriter or syndicate member is purchased by the Representative in a syndicate covering transaction and has therefore not been effectively placed by such Underwriter or syndicate member. The Representative has advised the Company that such transactions may be effected on the Nasdaq National Market or otherwise and, if commenced, may be discontinued at any time.

Prior to the offering, there has been no public market for the Common Stock. The price to the public for the Common Stock will be determined through negotiations between the Company and the Representative and will be based on, among other things, the Company's financial condition, the prospects of the Company and its industry in general, the management of the Company and the market prices of securities of companies engaged in business similar to those of the Company.

LEGAL MATTERS

The validity of the Common Stock offered hereby will be passed upon for the Company by Womble Carlyle Sandridge & Rice, PLLC, Research Triangle Park, North Carolina. One of the members of Womble Carlyle Sandridge & Rice, PLLC holds 10,650 shares of Common Stock, which were purchased from the Company in May 1996 in a private placement transaction. Certain legal matters in connection with this offering will be passed upon for the Underwriters by Grover T. Wickersham, P.C., Palo Alto, California.

EXPERTS

The financial statements as of December 31, 1996 and 1995 and for the year ended December 31, 1996, the seven-month period ended December 31, 1995, and the period from June 28, 1995 (date of inception) to December 31, 1996 included in this Prospectus have been audited by Deloitte & Touche LLP, independent auditors, as stated in their report appearing herein, and are included in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

ADDITIONAL INFORMATION

The Company has filed with the Commission a registration statement on Form S-1 (the "Registration Statement") (which term shall encompass all amendments, exhibits and schedules thereto) under the Securities Act with respect to the shares of Common Stock offered hereby. This Prospectus, which constitutes part of the Registration Statement, does not contain all the information set forth in the Registration Statement, certain parts of which are omitted in accordance with the rules and regulations of the Commission, and to which reference is hereby made. For further information with respect to the Company and the Common Stock, reference is hereby made to the Registration Statement. Statements made in this Prospectus as to the contents of any contract, agreement or other document referred to are not necessarily complete. With respect to each such contract, agreement or other document filed as an exhibit to the Registration Statement, reference is made to the exhibit for a more complete description of the matter involved, and each such statement shall be deemed qualified in its entirety by such reference. The Registration Statement can be inspected and copied at the Public Reference Section of the Commission at Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549, and at the Commission's regional offices at Seven World Trade Center, 13th Floor, New York, New York 10048, and Citicorp Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661-2511. Copies of the Registration Statement can be obtained from the Public Reference Section of the Commission at Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549, at prescribed rates. In addition, the Commission maintains a World Wide Web site on the Internet at http://www.sec.gov that contains reports, proxy and information statements and other documents filed electronically with the Commission, including the Registration Statement.

The Company intends to furnish its shareholders with annual reports containing financial statements audited by its independent public accountants and quarterly reports containing unaudited financial information for the first three quarters of each fiscal year.

C3, INC.

INDEX TO FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of
C3, Inc.
Research Triangle Park, North Carolina

We have audited the accompanying balance sheets of C3, Inc. (a development stage company) as of December 31, 1995 and 1996, and the related statements of operations, shareholders' equity, and cash flows for the seven-month period ended December 31, 1995, the year ended December 31, 1996, and the period from June 28, 1995 (date of inception) to December 31, 1996.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 1995 and 1996 and the results of its operations, and cash flows for the seven-month period ended December 31, 1995, the year ended December 31, 1996, and the period from June 28, 1995 (date of inception) to December 31, 1996 in conformity with generally accepted accounting principles.

Deloitte & Touche LLP

Raleigh, North Carolina
March 11, 1997, except for Note 9, as to which the date is September 25, 1997

C3, INC.
(A COMPANY IN THE DEVELOPMENT STAGE)

BALANCE SHEETS

	1995	1996	JUNE 30, 1997	PROFORMA JUNE 30, 1997
			(UNAUDITED)	(UNAUDITED)
ASSETS				
CURRENT ASSETS:				
Cash and equivalents	$ 9,109	$1,167,458	$ 5,538,099	$ 5,538,099
Prepaid and other assets	9,346	7,000		
Total current assets	18,455	1,174,458	5,538,099	5,538,099
EQUIPMENT, net of accumulated depreciation of $542 and $2,352 at December 31, 1995 and 1996, respectively	5,560	14,081	53,955	53,955
PATENT AND LICENSE RIGHTS, net of accumulated amortization of $256 and $2,064 at December 31, 1995 and 1996, respectively	8,898	37,595	69,866	69,866
TOTAL ASSETS	$ 32,913	$1,226,134	$ 5,661,920	$ 5,661,920
LIABILITIES AND SHAREHOLDERS' EQUITY				
CURRENT LIABILITIES:				
Notes payable (Note 8)	$ 10,100	$	$	$
Accounts payable		12,855	109,874	109,874
Total current liabilities	10,100	12,855	109,874	109,874
COMMITMENTS (Note 7)				
SHAREHOLDERS' EQUITY (Notes 3, 4, 5 and 9):				
1996 Series A preferred stock, no par value; 105,000 shares authorized, issued and outstanding at December 31, 1996 and June 30, 1997 (unaudited); none authorized or issued and outstanding on a pro forma basis at June 30, 1997 (unaudited)		593,271	593,271	
1997 Series B preferred stock, no par value; 682,500 shares authorized, issued and outstanding at June 30, 1997 (unaudited); none authorized or issued and outstanding on a pro forma basis at June 30, 1997 (unaudited)			4,981,376	
Common stock, no par value; 10 million shares authorized; 1,704,000 shares, 2,236,500 shares, 2,261,101 shares and 3,938,476 shares issued and outstanding at December 31, 1995 and 1996, June 30, 1997 (unaudited) and June 30, 1997 on a pro forma basis (unaudited), respectively	50,000	1,029,803	1,095,803	6,670,450
Deficit accumulated during the development stage	(27,187)	(409,795)	(1,118,404)	(1,118,404)
Total shareholders' equity	22,813	1,213,279	5,552,046	5,552,046
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 32,913	$1,226,134	$ 5,661,920	$ 5,661,920

See notes to financial statements.

C3, INC.
(A COMPANY IN THE DEVELOPMENT STAGE)

STATEMENTS OF OPERATIONS

	SEVEN-MONTH PERIOD ENDED DECEMBER 31, 1995	YEAR ENDED DECEMBER 31, 1996	CUMULATIVE FOR THE PERIOD JUNE 28, 1995 TO DECEMBER 31, 1996	SIX MONTHS ENDED JUNE 30,	
				1996	1997
				(UNAUDITED)	(UNAUDITED)
OPERATING EXPENSES:					
Marketing and sales	$ 10,313	$ 47,019	$ 57,332	$ 8,017	$ 46,611
General and administrative	10,024	131,097	141,121	48,069	316,154
Research and development	6,052	236,047	242,099	68,115	452,571
Depreciation and amortization	798	3,618	4,416	1,306	6,649
OPERATING LOSS	27,187	417,781	444,968	125,507	821,985
INTEREST INCOME, net		(35,173)	(35,173)	(1,231)	(113,376)
NET LOSS	$ 27,187	$ 382,608	$ 409,795	$ 124,276	$ 708,609
Pro forma net loss per share (Note 2)	$ 0.01	$ 0.14	$ 0.14	$ 0.05	$ 0.17
Pro forma weighted average common shares and equivalent common shares outstanding (Note 2)	2,204,062	2,652,250	2,898,212	2,381,562	4,199,978

See notes to financial statements.

C3, INC.
(A COMPANY IN THE DEVELOPMENT STAGE)

STATEMENTS OF SHAREHOLDERS' EQUITY

	1996 SERIES A PREFERRED STOCK		1997 SERIES A PREFERRED STOCK		COMMON STOCK		DEFICIT ACCUMULATED DURING THE DEVELOPMENT STAGE	TOTAL SHAREHOLDERS' EQUITY
	NUMBER OF SHARES	AMOUNT	NUMBER OF SHARES	AMOUNT	NUMBER OF SHARES	AMOUNT		
BALANCE, JUNE 28, 1995 (date of inception) --								
Issuance of common stock to founders for cash and consideration of services to be provided.....		$		$	1,704,000	$ 50,000	$	$ 50,000
Net loss.....							(27,187)	(27,187)
BALANCE, DECEMBER 31, 1995.....					1,704,000	50,000	(27,187)	22,813
Issuance of common stock, net of offering costs of $20,197.....					532,500	979,803		979,803
Issuance of 1996 Series A preferred stock, net of offering costs of $10,479.....	105,000	593,271						593,271
Net loss.....							(382,608)	(382,608)
BALANCE, DECEMBER 31, 1996.....	105,000	593,271			2,236,500	1,029,803	(409,795)	1,213,279
Exercise of stock option and recognition of compensation expense.....					24,601	66,000		66,000
Issuance of 1997 Series B preferred stock, net of offering costs of $34,999.....			682,500	4,981,376				4,981,376
Net loss.....							(708,609)	(708,609)
BALANCE, JUNE 30, 1997 (UNAUDITED).....	105,000	$593,271	682,500	$4,981,376	2,261,101	$1,095,803	$(1,118,404)	$5,552,046

See notes to financial statements.

C3, INC.
(A COMPANY IN THE DEVELOPMENT STAGE)

STATEMENTS OF CASH FLOWS

	SEVEN-MONTH PERIOD ENDED DECEMBER 31, 1995	YEAR ENDED DECEMBER 31, 1996	CUMULATIVE FOR THE PERIOD JUNE 28, 1995 TO DECEMBER 31, 1996	SIX MONTHS ENDED JUNE 30, 1996	SIX MONTHS ENDED JUNE 30, 1997
				(UNAUDITED)	
OPERATING ACTIVITIES:					
Net loss	$(27,187)	$ (382,608)	$ (409,795)	$(124,276)	$ (708,609)
Adjustments:					
Depreciation and amortization	798	3,618	4,416	1,306	6,648
Compensation expense related to stock option exercise					66,000
Changes in assets and liabilities:					
Prepaid and other assets	(9,346)	2,346	(7,000)	9,446	7,000
Accounts payable		12,855	12,855	(100)	97,019
Net cash used in operating activities	(35,735)	(363,789)	(399,524)	(113,624)	(531,942)
INVESTING ACTIVITIES:					
Purchase of equipment	(6,102)	(10,331)	(16,433)	(1,286)	(44,842)
Patent costs	(9,154)	(30,505)	(39,659)	(18,365)	(33,951)
Net cash used in investing activities	(15,256)	(40,836)	(56,092)	(19,651)	(78,793)
FINANCING ACTIVITIES:					
Proceeds from notes payable	10,100	53,000	63,100		
Repayment of notes payable		(63,100)	(63,100)	(10,000)	
Proceeds from common stock offerings, net of costs	50,000	979,803	1,029,803	1,000,002	
Proceeds from preferred stock offerings, net of costs		593,271	593,271		4,981,376
Net cash provided by financing activities	60,100	1,562,974	1,623,074	990,002	4,981,376
INCREASE IN CASH AND EQUIVALENTS	9,109	1,158,349	1,167,458	856,727	4,370,641
CASH AND EQUIVALENTS, BEGINNING OF PERIOD		9,109		9,109	1,167,458
CASH AND EQUIVALENTS, END OF PERIOD	$ 9,109	$1,167,458	$1,167,458	$ 865,836	$5,538,099

See notes to financial statements.

C3, INC.
(A COMPANY IN THE DEVELOPMENT STAGE)

NOTES TO FINANCIAL STATEMENTS
SEVEN-MONTH PERIOD ENDED DECEMBER 31, 1995 AND YEAR ENDED DECEMBER 31, 1996
AND PERIOD FROM JUNE 28, 1995 (DATE OF INCEPTION) TO DECEMBER 31, 1996
(INFORMATION FOR THE SIX MONTHS ENDED JUNE 30, 1997 IS UNAUDITED)

1. ORGANIZATION AND BASIS OF PRESENTATION

C3, Inc. ("C3" or the "Company"), was incorporated in North Carolina on June 28, 1995, and is engaged in the development and commercialization of silicon carbide ("moissanite") as a gemstone material. In addition to the development of synthetic moissanite gemstones (hereinafter referred to as "moissanite" or "moissanite gemstones"), the Company is working to develop a test instrument for manufacture and sale which will be able to distinguish moissanite gemstones from diamond.

C3 is a development stage company which has devoted substantially all of its efforts to research and product development and has not yet generated any revenues, nor is there any assurance of future revenues. The ability of the Company to successfully develop, manufacture and market its proprietary products is dependent upon many factors. Further, during the period required to develop these products, the Company may require additional funds which may not be available to it. Accordingly, there can be no assurance of the Company's future success.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and Equivalents -- The Company considers all money market accounts, debt instruments purchased with an original maturity of three months or less, and other highly liquid investments to be cash equivalents. At December 31, 1996 and June 30, 1997, cash equivalents consisted of money market accounts and U.S. Treasury bills.

Equipment -- Equipment consists primarily of computer hardware and research and development equipment. Equipment is recorded at cost and depreciated on the straight-line method based on estimated useful lives of five to six years.

Patents and License Rights -- The Company capitalizes costs associated with obtaining patents issued or pending for inventions and license rights related to the manufacture of moissanite gemstones and moissanite gemstone test instruments. Such costs are amortized over seventeen years.

Income Taxes -- From the date of inception (June 28, 1995) to December 31, 1995, the Company was treated as a C Corporation for federal and state income tax purposes. Effective January 1, 1996, the Company elected to change its tax status from a C Corporation to an S Corporation. On September 4, 1996, in connection with the closing of the 1996 Series A preferred stock offering, the Company's number of shareholders exceeded the maximum 35 shareholder limitation for S Corporations and, as a result, the Company's S Corporation status was automatically terminated. Losses of the Company for the period January 1, 1996 through September 4, 1996 (totaling $259,533) are included in the personal income tax returns of the common shareholders as of that date. The tax effect of losses for the period September 5, 1996 to December 31, 1996 (totaling $123,075) and the seven-month period ending December 31, 1995 are recorded under the provisions of Statement of Financial Accounting Standards No. 109 ("FAS 109"), Accounting for Income Taxes.

Research and Development -- All research and development costs are expensed when incurred.

Stock Compensation -- The Company's stock option plan is accounted for in accordance with Accounting Principles Board Opinion No. 25 ("APB 25"), Accounting for Stock Issued to Employees. In January 1996, the Company adopted the disclosure requirements of Statement of Financial Accounting Standards No. 123 ("FAS 123"), Accounting for Stock Based Compensation.

C3, INC.
(A COMPANY IN THE DEVELOPMENT STAGE)

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)
(INFORMATION FOR THE SIX MONTHS ENDED JUNE 30, 1997 IS UNAUDITED)

Use of Estimates -- The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Pro Forma Net Loss Per Share -- Pro forma net loss per share applicable to common shareholders is computed using the weighted average number of shares of common stock outstanding which gives effect to a 2.13-for-1 stock split effected in September 1997 (see Note 9 of Notes to Financial Statements) and the conversion of all outstanding shares of the Company's 1996 Series A and 1997 Series B preferred stock into common stock. Common and common equivalent shares from stock options issued by the Company at prices below the initial public offering price during the twelve-month period prior to the initial public offering have been included in the calculation as if they were outstanding for all periods presented (using the treasury stock method) even if anti-dilutive.

Interim Financial Information -- Interim financial information as of June 30, 1997 and for the six months ended June 30, 1997 and 1996 is unaudited. In the opinion of management, this interim financial data includes all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of such data. The operating results for any interim period are not necessarily indicative of the results that may be expected for any future periods.

Unaudited Pro Forma Balance Sheet at June 30, 1997 -- The Company's pro forma balance sheet as of June 30, 1997 gives effect to a 2.13-for-1 stock split effected in September 1997 and the automatic conversion of all outstanding 1996 Series A preferred stock and 1997 Series B preferred stock into an aggregate of 1,677,375 shares of common stock upon consummation of the Company's initial public offering.

Newly Issued Accounting Pronouncement -- In February 1997, Statement of Financial Accounting Standards No. 128, Earnings Per Share, was issued. This Statement establishes standards for computing and presenting earnings per share ("EPS") and applies to entities with publicly held common stock or potential common stock. This Statement simplifies the current standards for computing EPS, and makes them comparable to international EPS standards. This Statement is effective for financial statements issued for periods ending after December 15, 1997; earlier application is not permitted. This Statement requires restatement of all prior period EPS data presented. The implementation of this Statement will not have a material impact on the Company's financial statements.

3. COMMON STOCK

On June 28, 1995, the Company issued 1,465,440 shares of common stock, no par value, to a founder for an initial capital contribution of $50,000 and issued 238,560 shares to other founders for consideration of future services to be provided to the Company. On April 2, 1996 the Company declared an eight-for-one common stock split. The effect of this stock split is reflected as if it had occurred at the beginning of the earliest period presented.

In May 1996, the Company issued 532,500 shares of common stock with net proceeds of approximately $979,800 (net of offering costs of $20,197).

4. PREFERRED STOCK

The Company has authorized 5 million shares of preferred stock, no par value. The preferred stock may be issued from time to time in one or more series.

C3, INC.
(A COMPANY IN THE DEVELOPMENT STAGE)

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)
(INFORMATION FOR THE SIX MONTHS ENDED JUNE 30, 1997 IS UNAUDITED)

1996 Series A Preferred Stock -- The Board has designated 105,000 shares of its preferred stock as 1996 Series A preferred stock. In September 1996, the Company issued 105,000 shares of Series A preferred stock with net proceeds of approximately $593,000 (net of offering costs of $10,479).

1997 Series B Preferred Stock -- The Company has authorized 682,500 shares of its preferred stock as 1997 Series B preferred stock. On January 3, 1997, the Company offered a maximum of 195 units ("Units"), each consisting of 3,500 shares of its 1997 Series B preferred stock, no par value per share ("Preferred Stock"), at a price of $25,725 per Unit or $7.35 per share. The preferred stock may be purchased only by investors meeting the suitability standards prescribed by the Company. Effective March 7, 1997, the Company completed the offering of 682,500 shares of its 1997 Series B preferred stock with net proceeds of approximately $5 million.

Liquidation -- After payment of the Company's debts and obligations, any remaining assets are distributed to shareholders as follow: (i) $4.00 per share together with any accrued and unpaid dividends to holders of 1997 Series B preferred stock, (ii) $3.00 per share together with any accrued dividends to holders of 1996 Series A preferred stock, and (iii) any remaining assets are then distributed to all shareholders equally based on their relative percentage of total shares outstanding.

Voting -- Holders of 1996 Series A preferred stock and 1997 Series B preferred stock are not entitled to vote, except as otherwise required by the North Carolina Business Corporation Act (the "NCBCA"). The NCBCA generally provides voting rights to any shares of stock, otherwise nonvoting, in connection with amendments to the articles of incorporation affecting certain rights of the shares.

Conversion/Redemption -- Holders of 1996 Series A preferred stock and 1997 Series B preferred stock have the right, at their option at any time after the earlier of (i) July 31, 1998 (Series A) or January 1, 1997 (Series B) or (ii) the closing of the sale of common stock in an offering registered under the Securities Act of 1933 with net proceeds to the Company and/or any selling shareholders of $8 million or more, to convert any or all of their shares of preferred stock into shares of common stock at the conversion ratio of one share of common stock for each share of preferred stock. The conversion ratio is subject to adjustment upon the occurrence of certain events to protect against dilution. Each share of 1996 Series A preferred stock and 1997 Series B preferred stock will be automatically converted into common stock upon and at the effective time of any merger of the Company with any other entity, any share exchange of the common stock effected with any other entity or any sale of all or substantially all the assets of the Company.

The Company is not bound by any mandatory redemption, sinking fund or other similar provisions with respect to the 1996 Series A preferred stock or the 1997 Series B preferred stock. At any time at which the 1996 Series A preferred stock or the 1997 Series B preferred stock is convertible into common stock, the Company may redeem the 1996 Series A preferred stock or the 1997 Series B preferred stock, at the Company's sole discretion, in whole but not in part, upon not less than 30 days prior written notice at the cash price of $5.75 per share (Series A) or $7.35 per share (Series B) plus any accrued and unpaid dividends. After notice of redemption has been given but before the date stated for redemption, holders of 1996 Series A preferred stock or the 1997 Series B preferred stock would be able to convert the shares into common stock.

Dividends -- The Company does not anticipate the payment of dividends on its common or preferred stock in the near future and intends to retain any earnings indefinitely. If dividends are declared and paid on the common stock, the Company's bylaws require that dividends are to be declared and paid to holders of 1996 Series A and 1997 Series B preferred stock. Each share of 1996 Series A and 1997 Series B preferred stock shall be entitled to receive the same dividends that would have been payable upon such share if that share of preferred stock had been converted into common stock immediately prior to the declaration of such dividend on the common stock.

C3, INC.
(A COMPANY IN THE DEVELOPMENT STAGE)

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)
(INFORMATION FOR THE SIX MONTHS ENDED JUNE 30, 1997 IS UNAUDITED)

5. STOCK OPTION PLAN

The Company has adopted the 1996 Incentive Stock Option Plan ("Stock Plan") under which options to acquire 255,600 common shares, reduced by the number of options granted outside the Stock Plan, may be granted to key employees, directors and independent consultants. Under the Stock Plan, both incentive and nonqualified options may be granted under terms and conditions established by the board of directors. The exercise price for incentive options will be the fair market value of the related common stock on the date the option is granted. Options granted under the Stock Plan generally vest equally over a three-year period and have terms of 10 years.

During 1996 options to acquire 200,220 shares of common stock were granted under the Stock Plan with exercise prices ranging from $1.88-$2.70 per share (weighted average exercise price of $2.37 per share). At December 31, 1996 all of these options were outstanding and none were exercisable. Additionally, during 1996 the Company granted options to acquire 37,275 shares of common stock to certain consultants. These options are immediately exercisable, have a term of 5 years and an exercise price of $1.88 per share.

During 1995, the Company issued Cree Research, Inc. ("Cree"), a related company (see Note 7), an option to acquire 1% of the outstanding shares of common stock on the date of exercise at an exercise price of $500 at any time through July 1, 1997. However, the Company retained the right to waive the $500 option fee and issue the stock at any time during the option period. The Company issued 24,601 shares of common stock to Cree pursuant to this right on January 2, 1997. The Company has recorded compensation expense of approximately $66,000 in 1997 related to this transaction.

All stock options are granted at fair market value of the common stock at the grant date. Had compensation cost for the Stock Plan been determined consistent with FAS 123, the Company's pro forma net loss for 1996 would have been $404,375. The fair value of each option grant is estimated on the date of grant using the minimum value method with the following assumptions: dividend yield of 0.0%; risk-free interest rate of 6.0%; and a weighted average expected option term of 1.8 years.

During the six months ended June 30, 1997, options to acquire 140,154 shares of common stock were granted under the Stock Plan with exercise prices ranging from $3.45-$4.81 per share (weighted average exercise price of $3.82).

6. INCOME TAXES

At December 31, 1995 and 1996, the Company had deferred tax assets of $10,700 and $57,600, respectively, relating to federal net operating and state economic loss carryforwards. In accordance with FAS 109, a valuation allowance has been provided against these assets.

A reconciliation between anticipated income taxes, computed at the statutory federal income tax rate applied to pretax accounting income, and the income taxes included in the statements of operations for the seven-month period ended December 31, 1995 and the year ended December 31, 1996 follows:

	DECEMBER 31, 1995	DECEMBER 31, 1996
Anticipated income tax benefit at the statutory federal rate	$(9,250)	$(40,600)
State income tax benefit, net of federal tax effect	(1,450)	(6,300)
Increase in valuation allowance	10,700	46,900
Income tax (benefit) expense	$ --	$ --

At December 31, 1996, the Company has operating and economic loss carryforwards of approximately $147,000, expiring through 2011, which can be offset against future federal and state taxable income.

7. COMMITMENTS

Operating Lease -- On February 4, 1997, the Company entered into a lease agreement for office space with Real Color Displays, Inc. ("RCD"), a related party. The agreement specifies rent of $2,000 per month and a one-time payment of $6,000 for leasehold improvements. The lease expires January 31, 1998 and may be renewed at the Company's option for two additional one-year terms, with annual rent increases of $750 per annum. Future minimum lease payments under this agreement for 1997 and 1998 are $24,000 and $2,000, respectively.

Purchase Commitment -- In connection with an Exclusive Supply Agreement, the Company has committed to purchase a minimum of 50% (by dollar volume) of its requirements for SiC crystals from Cree, a related company. If the Company's orders require Cree to expand beyond specified production levels, the Company must commit to purchase certain minimum quantities. The Company is totally dependent on Cree to supply SiC crystals for its production process. If the Company is unable to obtain SiC crystals from Cree, its operations would be adversely affected.

During 1995 and 1996, the Company made purchases from Cree of approximately $13,500 and $189,600, respectively, for SiC materials and research and development costs.

8. RELATED PARTIES

During 1995 and 1996, a significant shareholder of the Company loaned an aggregate of $60,000 to the Company for working capital needs. In addition, during 1996 an officer and director loaned the Company $3,000. Amounts outstanding on these loans at December 31, 1995 totaled $10,100 and were paid in full during 1996.

9. COMMON STOCK SPLIT

On September 25, 1997, the Company effected a 2.13-for-1 stock split of its common stock. All shares of common stock, common stock options and per share amounts included in the accompanying financial statements have been retroactively adjusted to reflect the stock split.

10. SUBSEQUENT EVENTS (UNAUDITED)

On June 6, 1997, the Company entered into an Amended and Restated Exclusive Supply Agreement ("Amended Agreement") and a Development Agreement with Cree. The Amended Agreement has an initial term of ten years which may be extended for an additional ten years by either party if the Company orders in any 36-month period SiC crystals with an aggregate purchase price in excess of $1 million. The Company expects to meet this order threshold and to extend the term of the Amended Agreement. The Development Agreement provides for a five-year development effort by Cree to produce a fully repeatable process for producing SiC crystals meeting certain target specifications. If Cree is successful in meeting the development milestones set forth in the Development Agreement, the Company will be obligated to pay Cree approximately $12 million over the five-year term of the Development Agreement. In addition, if Cree meets certain development milestones by January 1, 1998, the Company will pay Cree a $200,000 bonus.

Subsequent to June 30, 1997, the Company recognized deferred compensation expense of approximately $2.9 million related to stock options granted in July and August 1997. Upon consummation of the Company's initial public offering, the stock options granted to certain officers and directors will vest on December 31,

1997. As a result, approximately $2.1 million of this deferred compensation expense will be recognized in the quarter ending December 31, 1997. The remaining deferred compensation expense, approximately $800,000, will be recognized over the three-year vesting period of the remaining options.

The Company has entered into agreements with certain directors pursuant to which such directors provide consulting services to the Company. Consideration paid for services provided to the Company through June 30, 1997 was insignificant.

Subsequent to December 31, 1996, the Board of Directors authorized, subject to shareholder approval, an increase in the number of shares for issuance under the Stock Plan to 777,450. During the period July 1, 1997 through August 20, 1997, options to acquire 321,417 shares of Common Stock were granted under the Stock Plan with exercise prices ranging from $4.81-$7.63 per share (weighted-average exercise price of $5.00). The Company currently has no plans to award additional options under the Stock Plan.

In September 1997, the Board of Directors adopted the 1997 Omnibus Stock Plan of C3, Inc. (the "1997 Omnibus Plan") and recommended its approval to the Company's shareholders. The 1997 Omnibus Plan is subject to approval by the shareholders of the Company, which approval must occur, if at all, within 12 months of the adoption of the plan by the Board of Directors. Awards granted prior to shareholder approval are conditioned upon and shall be effective only upon approval of the 1997 Omnibus Plan by the shareholders of the Company on or before such date. The Company has granted options to acquire 310,000 shares of Common Stock under the 1997 Omnibus Plan at an exercise price equal to the initial public offering price of Common Stock offered.

The 1997 Omnibus Plan authorizes the Company to grant stock options, stock appreciation rights and restricted awards (collectively, "awards") to selected employees, independent contractors and directors of the Company and related corporations in order to promote a closer identification of their interests with those of the Company and its shareholders. Initially, a maximum of 477,979 shares of common stock may be delivered pursuant to awards granted under the 1997 Omnibus Plan, and the Board of Directors has reserved that number of shares for this purpose. The maximum number of shares of Common Stock for which awards may be granted under the 1997 Omnibus Plan may be increased from time to time to a number of shares equal to (i) 20% of the shares of common stock outstanding as of that time less (ii) the number of shares of common stock subject to outstanding options under the Stock Plan. The number of shares reserved for issuance under the 1997 Omnibus Plan may also be adjusted upon certain events affecting the Company's capitalization.

DESCRIPTION OF INSIDE BACK COVER

This graphic has a white background, and in the upper one-half has a photograph of one of the Company's loose lab-created moissanite gemstones held by jeweler's tweezers. In the middle of the graphic appears the Company's trademark stylized moissanite gemstones logo. The logo consists of a black box in which the word "MOISSANITE" appears in large silver capital letters, traversed by an orange arc ending with a burst of light rays at the bottom right corner of the box. The logo also includes the word "GEMSTONES" appearing underneath the box in capital letters approximately one-third of the size of the letters used in "MOISSANITE." At the bottom of the page appear the words "CREATED BY" in capital letters approximately two-thirds of the size of the letters used in"GEMSTONES" and the Company's stylized name logo. The name logo consists of a large capital C, similarly sized 3, with a geometric shape of a diamond to the right of, and intersecting, the numeral "3". In the logo, the word "Inc." appears to the right of the geometric diamond shape.

NO DEALER, SALESPERSON OR ANY OTHER PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATION NOT CONTAINED IN THIS PROSPECTUS, AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATION MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE COMPANY OR ANY UNDERWRITER. THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER TO SELL OR A SOLICITATION OF ANY OFFER TO BUY ANY OF THE SECURITIES OFFERED HEREBY IN ANY JURISDICTION TO ANY PERSON TO WHOM IT IS UNLAWFUL TO MAKE SUCH OFFER IN SUCH JURISDICTION. NEITHER THE DELIVERY OF THIS PROSPECTUS NOR ANY SALE MADE HEREUNDER SHALL, UNDER ANY CIRCUMSTANCES, CREATE ANY IMPLICATION THAT THE INFORMATION CONTAINED HEREIN IS CORRECT AS OF ANY TIME SUBSEQUENT TO THE DATE HEREOF, OR THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE COMPANY SINCE SUCH DATE.

TABLE OF CONTENTS

Until , 1997 (25 days after the date of this Prospectus), all dealers effecting transactions in the Common Stock offered hereby, whether or not participating in this distribution, may be required to deliver a Prospectus. This is in addition to the obligation of dealers to deliver a Prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

2,000,000 SHARES

[LOGO]

C3, INC.

COMMON STOCK

PROSPECTUS

PAULSON INVESTMENT COMPANY, INC.

, 1997

PART II
INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 13. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION.

Other expenses of issuance and distribution payable by the Registrant are estimated as follows:

Securities and Exchange Commission registration fee.....	$ 11,546
National Association of Securities Dealers, Inc. filing fee.....	4,311
Nasdaq National Market Quotation Fee.....	50,000
Accounting fees and expenses.....	30,000
Legal fees and expenses.....	250,000
Printing and engraving.....	100,000
Fees of Transfer Agent and Registrar.....	5,000
State Blue Sky registration fees and expenses (including counsel fees).....	10,000
Representative's Non-Accountable Expense Allowance.....	270,000
Directors and Officers Insurance Premium.....	150,000
Miscellaneous expenses.....	19,143
Total.....	$900,000

ITEM 14. INDEMNIFICATION OF DIRECTORS AND OFFICERS.

Sections 55-8-50 through 55-8-58 of the North Carolina Business Corporation Act contains specific provisions relating to indemnification of directors and officers of North Carolina corporations. In general, such sections provide that (i) a corporation must indemnify a director or officer who is wholly successful in his defense of a proceeding to which he is a party because of his status as such, unless limited by the articles of incorporation, and (ii) a corporation may indemnify a director or officer if he is not wholly successful in such defense and it is determined as provided by statute that the director or officer meets a certain standard of conduct, but the corporation may not indemnify a director or officer if he is liable to the corporation or is adjudged liable on the basis that personal benefit was improperly received by him. A director or officer of a corporation who is a party to a proceeding may also apply to the courts for indemnification, and the court may order indemnification under certain circumstances set forth in the statute. A corporation may, in its articles of incorporation or bylaws or by contract or resolution, provide indemnification in addition to that provided by statute, subject to certain conditions.

The Registrant's bylaws provide for the indemnification of any director or officer of the Registrant against liabilities and litigation expenses arising out of his status as such, excluding (i) any liabilities or litigation expenses relating to activities which were at the time taken known or believed by such person to be clearly in conflict with the best interest of the Registrant and (ii) that portion of any liabilities or litigation expenses with respect to which such person is entitled to receive payment under any insurance policy.

The Registrant's articles of incorporation provide for the elimination of the personal liability of each director of the Registrant to the fullest extent permitted by law.

In connection with this offering, the Registrant intends to obtain directors' and officers' liability insurance, under which any controlling person, director or officer of the Registrant will be insured or indemnified against certain liabilities which he may incur in his capacity as such.

Under the underwriting agreement to be entered into by the Registrant, certain controlling persons, directors and officers of the Registrant may be entitled to indemnification by underwriters who participate in the distribution of securities covered by the Registration Statement against certain liabilities, including liabilities under the Securities Act.

ITEM 15. RECENT SALES OF UNREGISTERED SECURITIES.

(a) The Registrant was incorporated on June 28, 1995 under the laws of the State of North Carolina. Except as set forth below, no securities of the Registrant have been sold by the Registrant without registration under the Securities Act. Amounts of Common Stock have been adjusted to reflect an 8-for-1 stock split, effected on April 2, 1996, and a 2.13-for-1 stock split effected on September 25, 1997.

(b) On June 28, 1995, the Registrant issued 170,400 shares of Common Stock to Jeff N. Hunter, a founder, President and Chairman of the Board of the Company, and Paula K. Berardinelli, a founder of the Company, as joint tenants with rights of survivorship, in consideration of services to be performed by each of them on behalf of the Registrant in reliance on the exemption from registration provided by Section 4(2) and Rule 701 under the Securities Act of 1933, as amended (the "Securities Act"). On June 28, 1995, the Registrant also issued 1,465,440 shares of Common Stock to C. Eric Hunter, a founder of the Company believed to qualify as an "accredited investor" as defined in Rule 501(a) under the Securities Act, for an aggregate consideration of $50,000 in reliance on the exemption from registration provided by Section 4(2) of the Securities Act. Also on June 28, 1995, the Registrant issued to Cree an option covering a number of shares equal to one percent of the Common Stock outstanding on the date of exercise in exchange for certain intellectual property rights. Cree had the right to exercise the option upon payment of an aggregate exercise price of $500 and the Registrant retained the right to waive the payment of the exercise consideration and issue the stock at any time during the option period. This option was issued in reliance on the exemption from registration provided by Section 4(2) under the Securities Act.

(c) On June 30, 1995, the Registrant issued 68,160 shares of Common Stock to two individuals who were consultants to the Registrant in consideration of services to be performed by them on behalf of the Registrant. Such shares were issued in reliance on the exemption from registration provided by Section 4(2) and Rule 701 under the Securities Act.

(d) Between May 2 and May 24, 1996, the Registrant issued an aggregate of 532,500 shares of Common Stock to certain individual investors in exchange for an aggregate consideration of $1 million in reliance on the exemption from registration provided by Rule 505 under the Securities Act.

(e) Between May 25, 1996 and June 6, 1996, the Registrant issued options covering an aggregate of 37,275 shares of Common Stock to four individuals who were consultants to the Registrant for an aggregate consideration of $3 and in consideration of services performed or to be performed by them on behalf of the Registrant. Such options were issued in reliance on the exemption from registration provided by Section 4(2) and Rule 701 under the Securities Act.

(f) Between June 1, 1996 and August 18, 1997, the Registrant issued options covering an aggregate of 640,491 shares of Common Stock to certain employees, directors and consultants of the Registrant pursuant to the 1996 Option Plan and in consideration of services rendered and to be rendered to the Registrant. The options have exercise prices between approximately $1.88 per share and approximately $7.62 per share with a weighted average exercise price of $2.37 per share. The Registrant granted the options in reliance on the exemption from registration provided by Section 4(2) and Rule 701 under the Securities Act.

(g) Between August 5, 1996 and September 3, 1996, the Registrant issued an aggregate of 223,650 shares of 1996 Series A Preferred Stock to certain individual investors in exchange for an aggregate consideration of $603,750 in reliance on the exemption from registration provided by Rule 506 under the Securities Act.

(h) On January 2, 1997, the Registrant issued 24,601 shares of Common Stock to Cree in accordance with the terms of an option previously issued to Cree. Such shares were issued in reliance on the exemption from registration provided by Section 4(2) of the Securities Act.

(i) Between January 9, 1997 and March 17, 1997, the Registrant issued an aggregate of 1,453,725 shares of 1997 Series B Preferred Stock to certain individual and institutional investors in exchange for an aggregate consideration of $5,016,375 in reliance on the exemption from registration provided by Rule 506 under the Securities Act.

(j) In September 1997, the Registrant issued options covering 310,000 shares of Common Stock to certain employees, directors and consultants of the Registrant pursuant to the 1997 Omnibus Plan and in consideration of services rendered and to be rendered to the Registrant. The options have an exercise price equal to the initial public offering price of the shares of Common Stock being offered in this offering. The Registrant granted the options in reliance on the exemption from registration provided by Section 4(2) and Rule 701 under the Securities Act.

(k) At or prior to the consummation of this offering, the Registrant will issue, in reliance on the exemption from registration provided by Section 3(a)(9) of the Securities Act, 1,677,375 shares of Common Stock upon the automatic conversion of outstanding shares of 1996 Series A Preferred Stock and 1997 Series B Preferred Stock.

ITEM 16. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

(a) Exhibits

The following exhibits listed in accordance with the number assigned to each in the exhibit table of Item 601 of Regulation S-K are included in Part II of this Registration Statement.

EXHIBIT NUMBER		DESCRIPTION
1	--	Form of Underwriting Agreement
3.1	--	Amended and Restated Articles of Incorporation of C3, Inc.*
3.2	--	Amended and Restated Bylaws of C3, Inc.*
4.1	--	Specimen Certificate of Common Stock*
4.2	--	Form of Representative's Warrant
5	--	Opinion of Womble Carlyle Sandridge & Rice, PLLC*
10.1	--	Consulting Agreement, dated May 1, 1997, between Kurt Nassau and C3, Inc.
10.2	--	Letter Agreement, dated May 17, 1997, between Kurt Nassau and C3, Inc.
10.3	--	Letter Agreement, dated February 17, 1997, between Howard Rubin and C3, Inc.
10.4	--	Independent Contractor Agreement, dated May 1, 1997, between Paula K. Berardinelli and C3, Inc.
10.5	--	Independent Contractor Agreement, dated September 3, 1997, between C. Eric Hunter and C3, Inc.
10.6	--	Independent Contractor Agreement dated July 10, 1997 between Ollin B. Sykes and C3, Inc.
10.7	--	Employment Agreement, dated June 1, 1997, between Jeff N. Hunter and C3, Inc.
10.8	--	Employment Agreement, dated July 30, 1997, between Mark W. Hahn and C3, Inc.
10.9	--	Employment Agreement, dated September 15, 1997, between Martin J. DeRoy and C3, Inc.
10.10	--	Employment Agreement, dated March 1, 1997, between Thomas G. Coleman and C3, Inc.
10.11	--	Amended and Restated Exclusive Supply Agreement, dated June 6, 1997, between Cree Research, Inc. and C3, Inc.**
10.12	--	Development Agreement, dated as of June 6, 1997, between Cree Research, Inc. and C3, Inc.**
10.13	--	Letter Agreement, dated July 14, 1997, between Cree Research, Inc. and C3, Inc.**
10.14	--	Letter Agreement, dated January 31, 1996, between Cree Research, Inc. and C3, Inc.**
10.15	--	1996 Stock Option Plan of C3, Inc.
10.16	--	1997 Omnibus Stock Plan of C3, Inc.
10.17	--	Restricted Stock Agreement, dated June 30, 1995, between Jeff N. Hunter and Paula K. Berardinelli and C3, Inc.

EXHIBIT NUMBER		DESCRIPTION
10.18	--	Shareholders Agreement, dated March 18, 1997, between General Electric Pension Trust, C. Eric Hunter and C3, Inc.
10.19	--	Registrations Rights Agreement, dated March 18, 1997, between General Electric Pension Trust and C3, Inc.
10.20	--	Agreement, dated September 24, 1997, between John M. Bachman, Inc. and C3, Inc.**
10.21	--	Agreement, dated September 12, 1997, between QMD, Inc. and C3, Inc.**
23.1	--	Consent of Womble Carlyle Sandridge & Rice, PLLC (included in Exhibit 5)*
23.2	--	Consent of Deloitte & Touche LLP
23.3	--	Consent of Kurt Leutzinger
23.4	--	Consent of David B. Stewart
23.5	--	Consent of Ollin B. Sykes
24	--	Power of Attorney (included on the signature page of this Registration Statement)
27	--	Financial Data Schedule

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

(b) Financial Statement Schedules

All schedules are omitted because they are not required, they are not applicable or the information is already included in the financial statements or notes thereto.

ITEM 17. UNDERTAKINGS.

1. The undersigned registrant hereby undertakes that:

(a) For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in the form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(b) For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

2. The undersigned registrant hereby undertakes to provide to the underwriter at the closing specified in the underwriting agreements certificates in such denominations and registered in such names as required by the underwriter to permit prompt delivery to each purchaser.

3. Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question of whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Charlotte, State of North Carolina, on September 30, 1997.

C3, INC.

By: /s/ JEFF N. HUNTER
Jeff N. Hunter
President

POWER OF ATTORNEY

Each person whose signature appears below hereby constitutes and appoints Jeff N. Hunter and Mark W. Hahn, and each of them, the true and lawful attorneys-in-fact and agents of the undersigned, with full power of substitution and resubstitution, for and in the name, place and stead of the undersigned, in any and all capabilities, to sign any and all amendments (including post-effective amendments, exhibits thereto and other documents in connection therewith) to this Registration Statement and any subsequent registration statement filed by the registrant pursuant to Rule 462(b) of the Securities Act of 1933, as amended, which relates to this Registration Statement, and to file the same, with all exhibits thereto and all documents in connection therewith, with the Securities and Exchange Commission, and hereby grants to such attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done, as fully to all intents and purposes as the undersigned might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their or his substitute, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, this registration statement has been signed by the following persons on September 30, 1997 in the capacities indicated.

/s/ JEFF N. HUNTER Jeff N. Hunter President and Director (principal executive officer)	/s/ FREDERICK A. RUSS Frederick A. Russ Director
/s/ KURT NASSAU Kurt Nassau Director	/s/ MARK W. HAHN Mark W. Hahn Chief Financial Officer (principal financial and accounting officer)
/s/ HOWARD RUBIN Howard Rubin Director	

EXHIBIT 1

2,000,000 SHARES
OF COMMON STOCK

C3, INC.

UNDERWRITING AGREEMENT

_____, 1997

Paulson Investment Company, Inc.
As Representative of the
Several Underwriters
811 SW Front Avenue, Suite 200
Portland, Oregon 97204

Gentlemen:

C3, Inc., a North Carolina corporation (the "Company"), proposes to sell to the several underwriters (the "Underwriters") named in Schedule I hereto for whom you are acting as Representative (the "Representative") an aggregate of 2,000,000 shares (the "Firm Shares") of the Company's common stock, no par value ("Common Stock"). The respective amounts of the Firm Shares to be so purchased by the several Underwriters are set forth opposite their names in Schedule I hereto. The Company also proposes to grant to the Representative an option to purchase an aggregate up to 300,000 additional Shares, identical to the Firm Shares, (the "Option Shares") as set forth below. The offer and sale of the Firm Shares and the Option Shares pursuant to this Agreement is referred to as the "Offering."

As the Representative, you have advised the Company (a) that you are authorized to enter into this Agreement for yourself as the Representative and on behalf of the several Underwriters, and (b) that the several Underwriters are willing, acting severally and not jointly, to purchase the number of Firm Shares set forth opposite their respective names in Schedule I. The Firm Shares and the Option Shares (to the extent the aforementioned option is exercised) are herein collectively called the "Shares."

In consideration of the mutual agreements contained herein and of the interests of the parties in the transactions contemplated hereby, the parties hereto agree as follows:

1. Representations and Warranties of the Company.

The Company represents and warrants to each of the Underwriters as follows:

(a) A registration statement on Form S-1 (File No.333-_____) with respect to the Shares has been carefully prepared by the Company in conformity with the requirements of the Securities Act of 1933, as amended (the "Act"), and the Rules and Regulations (the "Rules and Regulations") of the Securities and Exchange Commission (the "Commission") thereunder and has been filed with the Commission. Copies of such registration statement, including any amendments thereto, the preliminary prospectuses (meeting the requirements of the Rules and Regulations) contained therein and the exhibits, financial statements and schedules, as finally amended and revised, have heretofore been delivered by the Company to you. Such registration statement, together with any registration statement filed by the Company pursuant to Rule 462(b) of the Act, herein referred to as the "Registration Statement," which shall be deemed to include all information omitted therefrom in reliance upon Rule 430A and contained in the Prospectus referred to below, has become effective under the Act and no post-effective amendment to the Registration Statement has been filed as of the date of this Agreement. "Prospectus" means (a) the form of prospectus first filed with the Commission pursuant to Rule 424(b) or (b) the last preliminary prospectus included in the Registration Statement filed prior to the time it becomes effective or filed pursuant to Rule 424(a) under the Act that is delivered by the Company to the Underwriters for delivery to purchasers of the Shares, together with the term sheet or abbreviated term sheet filed with the Commission pursuant to Rule 424(b)(7) under the Act. Each preliminary prospectus included in the Registration Statement prior to the time it becomes effective is herein referred to as a "Preliminary Prospectus."

(b) (i) The Company has been duly organized and is validly existing as a corporation in good standing under the laws of the State of North Carolina, with corporate power and authority to own or lease its properties and conduct its business as described in the Registration Statement. The Company is duly qualified to transact business in all jurisdictions in which the conduct of its business requires such qualification.

(ii) Each corporation all of the equity securities of which are directly or indirectly beneficially owned by the Company and the business of which is material to the Company's business (a "Subsidiary") has been duly incorporated and is validly existing as a corporation in good standing under the laws of its jurisdiction of incorporation, with corporate power and authority to own or lease its properties and conduct its business as described in the Registration Statement. Each Subsidiary is duly qualified to transact business as a foreign corporation in good standing in all other jurisdictions in which the conduct of its business requires such qualification. Except with respect to Subsidiaries described in the Prospectus, the Company does

not own and never has owned a controlling interest in any corporation or other business entity that has or ever has had any material assets, liabilities or operations.

(c) The outstanding shares of Common Stock of the Company and each Subsidiary have been duly authorized and validly issued and are fully paid and nonassessable and have been issued and sold by the Company in compliance in all material respects with applicable securities laws; the Shares have been duly authorized and when issued and paid for as contemplated herein will be validly issued, fully paid and nonassessable; and no preemptive rights of stockholders exist with respect to any security of the Company or any Subsidiary or the issue and sale thereof. Neither the filing of the Registration Statement nor the offering or sale of the Shares as contemplated by this Agreement gives rise to any rights, other than those which have been waived or satisfied, for or relating to the registration of any shares of Common Stock or other securities of the Company or any Subsidiary.

(d) The information set forth under the caption "Capitalization" in the Prospectus is true and correct. The Common Stock conforms to the description thereof contained in the Registration Statement. The form of certificate for the Common Stock conforms to the corporate law of the jurisdiction of the Company's incorporation.

(e) The Commission has not issued an order preventing or suspending the use of any Prospectus relating to the proposed offering of the Shares nor instituted proceedings for that purpose. The Registration Statement contains, and the Prospectus and any amendments or supplements thereto will contain, all statements which are required to be stated therein by, and will conform, to the requirements of the Act and the Rules and Regulations. The Registration Statement and any amendment thereto do not contain, and will not contain, any untrue statement of a material fact and do not omit, and will not omit, to state any material fact required to be stated therein or necessary to make the statements therein not misleading. The Prospectus and any amendments and supplements thereto do not contain, and will not contain, any untrue statement of material fact; and do not omit, and will not omit, to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; provided, however, that the Company makes no representations or warranties as to information contained in or omitted from the Registration Statement or the Prospectus, or any such amendment or supplement, in reliance upon, and in conformity with, written information furnished to the Company by or on behalf of any Underwriter through the Representative, specifically for use in the preparation thereof.

(f) The financial statements of the Company, together with related notes thereto as set forth in the Registration Statement, present fairly the financial position and the results of operations and cash flows of the Company and Subsidiaries, if any, at the indicated dates

and for the indicated periods. Such financial statements have been prepared in accordance with generally accepted principles of accounting, consistently applied throughout the periods involved, except as disclosed herein, and all adjustments necessary for a fair presentation of results for such periods have been made. The summary financial and statistical data of the Company included in the Registration Statement present fairly the information shown therein and such data have been compiled on a basis consistent with the financial statements presented therein and the books and records of the Company.

(g) Deloitte & Touch LLP, who have certified certain of the financial statements filed with the Commission as part of the Registration Statement, are independent public accountants as required by the Act and the Rules and Regulations.

(h) There is no action, suit, claim or proceeding pending or, to the knowledge of the Company, threatened against the Company or any Subsidiary, if any, before any court or administrative agency or otherwise which if determined adversely to the Company might result in any material adverse change in the earnings, business, management, properties, assets, rights, operations, condition (financial or otherwise) or prospects of the Company or any Subsidiary, if any, or to prevent the consummation of the transactions contemplated hereby, except as set forth in the Registration Statement.

(i) The Company and each Subsidiary, if any, has good and marketable title to all of the properties and assets reflected in the financial statements (or as described in the Registration Statement) hereinabove described, subject to no lien, mortgage, pledge, charge or encumbrance of any kind except those reflected in such financial statements (or as described in the Registration Statement) or which are not material in amount. The Company and each Subsidiary, if any, occupy its leased properties under valid and binding leases conforming in all material respects to the description thereof set forth in the Registration Statement.

(j) The Company and each Subsidiary, if any, has filed all Federal, State, local and foreign income tax returns which have been required to be filed and have paid all taxes indicated by said returns and all assessments received by it to the extent that such taxes have become due and are not being contested in good faith. All tax liabilities have been adequately provided for in the financial statements of the Company.

(k) Since the respective dates as of which information is given in the Registration Statement, as it may be amended or supplemented, there has not been any material adverse change or any development involving a prospective material adverse change in or affecting the earnings, business, management, properties, assets, rights, operations, condition (financial or otherwise), or prospects of the Company or any Subsidiary, if any, whether or not occurring in the ordinary course of business, and there has not been any material

transaction entered into or any material transaction that is probable of being entered into by the Company or any Subsidiary, if any, other than transactions in the ordinary course of business and changes and transactions described in the Registration Statement, as it may be amended or supplemented. The Company and each Subsidiary, if any, has no material contingent obligations which are not disclosed in the Company's financial statements included in the Registration Statement or elsewhere in the Prospectus.

(l) The Company and each Subsidiary, if any, are not, nor, with the giving of notice or lapse of time or both, will it be, in violation of or in default under its respective articles of incorporation or by-laws or under any agreement, lease, contract, indenture or other instrument or obligation to which it is a party or by which it, or any of its properties, is bound and which default is of material significance in respect of the condition, financial or otherwise of the Company or Subsidiary, if any, as the case may be, or the business, management, properties, assets, rights, operations, condition (financial or otherwise) or prospects of the Company or Subsidiary, if any, as the case may be. The execution and delivery of this Agreement and the consummation of the transactions herein contemplated and the fulfillment of the terms hereof will not conflict with or result in a breach of any of the terms or provisions of, or constitute a default under, any indenture, mortgage, deed of trust or other agreement or instrument to which the Company or its Subsidiary, if any, is a party, or of the articles of incorporation or bylaws of the Company or any Subsidiary, if any, or any order, rule or regulation applicable to the Company or any Subsidiary, if any, of any court or of any regulatory body or administrative agency or other governmental body having jurisdiction.

(m) Each approval, consent, order, authorization, designation, declaration or filing by or with any regulatory, administrative or other governmental body necessary in connection with the execution and delivery by the Company of this Agreement and the consummation of the transactions herein contemplated (except such additional steps as may be required by the Commission, the National Association of Securities Dealers, Inc. (the "NASD") or such additional steps as may be necessary to qualify the Shares for public offering by the Underwriters under state securities or Blue Sky laws) has been obtained or made and is in full force and effect.

(n) The Company or its Subsidiaries, if any, holds all material patents, patent rights trademarks, trade names, copyrights, trade secrets and licenses of any of the foregoing (collectively, "Intellectual Property Rights") that are necessary to the conduct of its businesses; there is no claim pending or, to the best knowledge of the Company or any Subsidiary, if any, threatened against the Company or any Subsidiary, if any, alleging any infringement of Intellectual Property Rights, or any violation of the terms of any license relating to Intellectual Property Rights, nor does the Company or any Subsidiary, if any, know of any basis for any such claim. The Company and each Subsidiary, if any, knows of

no material infringement by others of Intellectual Property Rights owned by or licensed to the Company or any Subsidiary. The Company or its Subsidiaries, if any, has obtained, is in compliance in all material respects with and maintains in full force and effect all material licenses, certificates, permits, orders or other, similar authorizations granted or issued by any governmental agency (collectively "Government Permits") required to conduct its business as it is presently conducted. All applications for additional Government Permits described in the Prospectus as having been made by the Company or its Subsidiaries, if any, have been properly and effectively made in accordance with the applicable laws and regulations with respect thereto and such applications constitute, in the best judgment of the Company's management, those reasonably required to have been made in order to carry out the Company's business plan as described in the Prospectus. No proceeding to revoke, limit or otherwise materially change any Government Permit has been commenced or, to the Company's best knowledge or that of its Subsidiaries, if any, is threatened against the Company or any Subsidiary, if any, with respect to materials supplied to the Company or its Subsidiaries, if any, and the Company has no reason to anticipate that any such proceeding will be commenced against the Company or any Subsidiary, if any. Except as disclosed or contemplated in the Prospectus, the Company and each Subsidiary, if any, has no reason to believe that any pending application for a Government Permit will be denied or limited in a manner inconsistent with the Company's business plan as described in the Prospectus.

(o) The Company and each Subsidiary, if any, is in all material respects in compliance with all applicable Environmental Laws. The Company and each Subsidiary, if any, has no knowledge of any past, present or, as anticipated by the Company or its Subsidiaries, if any, future events, conditions, activities, investigation, studies, plans or proposals that (i) would interfere with or prevent compliance with any Environmental Law by the Company or any Subsidiary, if any or (ii) could reasonably be expected to give rise to any common law or other liability, or otherwise form the basis of a claim, action, suit, proceeding, hearing or investigation, involving the Company or any Subsidiary, if any, and related in any way to Hazardous Substances or Environmental Laws. Except for the prudent and safe use and management of Hazardous Substances in the ordinary course of the Company's business, (i) no Hazardous Substance is or has been used, treated, stored, generated, manufactured or otherwise handled on or at any Facility and (ii) to the Company's best knowledge or that of its Subsidiaries, if any, no Hazardous Substance has otherwise come to be located in, on or under any Facility. No Hazardous Substances are stored at any Facility except in quantities necessary to satisfy the reasonably anticipated use or consumption by the Company and its Subsidiaries, if any. No litigation, claim, proceeding or governmental investigation is pending regarding any environmental matter for which the Company or any Subsidiary, if any, has been served or otherwise notified or, to the knowledge of the Company or any Subsidiary, if any, threatened or asserted against the Company or any Subsidiary, if any, or the officers or directors of the Company or of any Subsidiary, if any, in their capacities as such, or any Facility or the Company's business.

There are no orders, judgments or decrees of any court or of any governmental agency or instrumentality under any Environmental Law which specifically apply to the Company or any Subsidiary, if any, any Facility or any of the Company's operations. Neither the Company nor any Subsidiary, if any, has received from a governmental authority or other person (i) any notice that it is a potentially responsible person for any Contaminated site or (ii) any request for information about a site alleged to be Contaminated or regarding the disposal of Hazardous Substances. There is no litigation or proceeding against any other person by the Company or any Subsidiary, if any, regarding any environmental matter. The Company has disclosed in the Prospectus or made available to the Underwriters and their counsel true, complete and correct copies of any reports, studies, investigations, audits, analysis, tests or monitoring in the possession of or initiated by the Company or any Subsidiary, if any, pertaining to any environmental matter relating to the Company, any Subsidiary, if any, its past or present operations or any Facility.

For the purposes of the foregoing paragraph, "Environmental Laws" means any applicable federal, state or local statute, regulation, code, rule, ordinance, order, judgment, decree, injunction or common law pertaining in any way to the protection of human health or the environment, including without limitation, the Resource Conservation and Recovery Act, the Comprehensive Environmental Response, Compensation and Liability Act, the Toxic Substances Control Act, the Clean Air Act, the Federal Water Pollution Control Act and any similar or comparable state or local law; "Hazardous Substance" means any hazardous, toxic, radioactive or infectious substance, material or waste as defined, listed or regulated under any Environmental Law; "Contaminated" means the actual existence on or under any real property of Hazardous Substances, if the existence of such Hazardous Substances triggers a requirement to perform any investigatory, remedial, removal or other response action under any Environmental Laws or if such response action legally could be required by any governmental authority; "Facility" means any property currently owned, leased or occupied by the Company.

(p) Neither the Company or any Subsidiary, if any, nor to the Company's best knowledge or that of any Subsidiary, if any, any of its affiliates, has taken or intends to take, directly or indirectly, any action designed to cause or result in, or which has constituted or which might reasonably be expected to constitute, the stabilization or manipulation of the price of the shares of Common Stock to facilitate the sale or resale of the Shares.

(q) The Company is not an "investment company" within the meaning of such term under the Investment Company Act of 1940 and the rules and regulations of the Commission thereunder.

(r) The Company maintains a system of internal accounting controls sufficient to provide reasonable assurances that (i) transactions are executed in accordance with management's general or specific authorization; (ii) transactions are recorded as necessary

to permit preparation of financial statements in conformity with generally accepted accounting principles and to maintain accountability for assets; (iii) access to assets is permitted only in accordance with management's general or specific authorization; and (iv) the recorded accountability for assets is compared with existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

(s) The Company carries, or is covered by, insurance in such amounts and covering such risks as is adequate for the conduct of their respective businesses and the value of their respective properties and as is customary for companies engaged in similar industries.

(t) The Company is in compliance in all material respects with all presently applicable provisions of the Employee Retirement Income Security Act of 1974, as amended, including the regulations and published interpretations thereunder ("ERISA"); no "reportable event" (as defined in ERISA) has occurred with respect to any "pension plan" (as defined in ERISA) for which the Company would have any liability; the Company has not incurred and does not expect to incur liability under (i) Title IV of ERISA with respect to termination of, or withdrawal from, any "pension plan" or (ii) Section 412 or 4971 of the Internal Revenue Code of 1986, as amended, including the regulations and published interpretations thereunder (the "Code"); and each "pension plan" for which the Company would have any liability that is intended to be qualified under Section 401(a) of the Code is so qualified in all material respects and nothing has occurred, whether by action or by failure to act, which would cause the loss of such qualification.

(u) The Company and each Subsidiary, if any, is in material compliance with all laws, rules, regulations, orders of any court or administrative agency, operating licenses or other requirements imposed by any governmental body applicable to it, including, without limitation, all applicable laws, rules, regulations, licenses or other governmental standards applicable to the industries in which the Company and its Subsidiaries, if any, operates; and the conduct of the business of the Company and each Subsidiary, if any, as described in the Prospectus, will not cause the Company or any Subsidiary, if any, to be in violation of any such requirements.

(v) The Representative's Warrants (as defined in Paragraph (d) of Section 2 hereof) have been authorized for issuance to the Representative and will, when issued, possess rights, privileges, and characteristics as represented in the most recent form of Representative's Warrants filed as an exhibit to the Registration Statement; the securities to be issued upon exercise of the Representative's Warrants, when issued and delivered against payment therefor in accordance with the terms of the Representative's Warrants, will be duly and validly issued, fully paid, nonassessable and free of preemptive rights, and all corporate action required to be taken for the authorization and issuance of the Representative's

Warrants, and the securities to be issued upon their exercise, have been validly and sufficiently taken.

(w) Except as disclosed in the Prospectus, neither the Company or any Subsidiary, if any, nor any of its officers, directors or affiliates have caused any person, other than the Underwriters, to be entitled to reimbursement of any kind, including, without limitation, any compensation that would be includable as underwriter compensation under the NASD's Corporate Financing Rule with respect to the offering of the Shares, as a result of the consummation of such offering based on any activity of such person as a finder, agent, broker, investment adviser or other financial service provider.

2. Purchase, Sale and Delivery of the Shares.

(a) On the basis of the representations, warranties and covenants herein contained, and subject to the conditions herein set forth, the Company agrees to sell to the Underwriters and each Underwriter agrees, severally and not jointly, to purchase, at a price of $_____ per Share (representing a 6.2% discount from the initial public offering price of the Shares), the number of Firm Shares set forth opposite the name of each Underwriter in Schedule I hereof, subject to adjustments in accordance with Section 9 hereof.

(b) Payment for the Firm Shares to be sold hereunder is to be made in New York Clearing House funds and, at the option of the Representative, by certified or bank cashier's checks drawn to the order of the Company or bank wire to an account specified by the Company against either uncertificated delivery of the securities comprising the Firm Shares or of certificates therefor (which delivery, if certificated, shall take place in such location in New York, New York as may be specified by the Representative) to the Representative for the several accounts of the Underwriters. Such payment is to be made at the offices of the Representative, at the address set forth on the first page of this agreement, at 7:00 a.m., Pacific time, on the third business day after the date of this Agreement or at such other time and date not later than five business days thereafter as you and the Company shall agree upon, such time and date being herein referred to as the "Closing Date." (As used herein, "business day" means a day on which the New York Stock Exchange is open for trading and on which banks in New York are open for business and not permitted by law or executive order to be closed.) Except to the extent uncertificated securities comprising the Firm Shares are delivered at closing, the certificates for the securities comprising the Firm Shares will be delivered in such denominations and in such registrations as the Representative requests in writing not later than the second full business day prior to the Closing Date, and will be made available for inspection by the Representative at least one business day prior to the Closing Date.

(c) In addition, on the basis of the representations and warranties herein contained and subject to the terms and conditions herein set forth, the Company hereby grants an option to the Representative to purchase the Option Shares at the price per Share as set forth in the first paragraph of this Section 2. The option granted hereby may be exercised in whole or in part by giving written notice (i) at any time before the Closing Date and (ii) thereafter (on one or more occasions) within 45 days after the date of this Agreement, by the Representative to the Company setting forth the number of Option Shares as to which the Representative is exercising the option, the names and denominations in which the securities comprising the Option Shares are to be registered and the time and date at which certificates representing the securities comprising such Shares are to be delivered. The time and date at which certificates for the securities comprising the Option Shares are to be delivered shall be determined by the Representative but shall not be earlier than three nor later than 10 full business days after the exercise of such option, nor in any event prior to the Closing Date (such time and date being herein referred to as the "Option Closing Date"). If the date of exercise of the option is three or more days before the Closing Date, the notice of exercise shall set the Closing Date as the Option Closing Date. The option with respect to the Option Shares granted hereunder may be exercised only to cover over-allotments in the sale of the Firm Shares by the Underwriters. The Representative may cancel such option at any time prior to its expiration by giving written notice of such cancellation to the Company. To the extent, if any, that the option is exercised, payment for the Option Shares shall be made on the Option Closing Date in New York Clearing House funds and, at the option of the Representative, by certified or bank cashier's check drawn to the order of the Company for the Option Shares to be sold by the Company or bank wire to an account specified by the Company against delivery of certificates therefor at the offices of the Representative set forth on the first page of this Agreement.

(d) In addition to the sums payable to the Representative as provided elsewhere herein, the Representative shall be entitled to receive at the Closing, for itself alone and not as the Representative of the Underwriters, as additional compensation for its services, purchase warrants (the "Representative's Warrants") for the purchase of up to 200,000 Shares at a price of $_____ per Unit (120% of the initial public offering price of the Shares), upon the terms and subject to adjustment and conversion as described in the form of Representative's Warrants filed as an exhibit to the Registration Statement.

3. Offering by the Underwriters.

It is understood that the several Underwriters are to make a public offering of the Firm Shares as soon as the Representative deems it advisable to do so. The Firm Shares are to be initially offered to the public at the initial public offering price set forth in the Prospectus. The Representative may from time to time thereafter change the public offering price and other selling

terms. To the extent, if at all, that any Option Shares are purchased pursuant to Section 2 hereof, the Representative will offer them to the public on the foregoing terms.

It is also understood that the Underwriters have reserved an aggregate of Firm Shares for sale at the initial public offering price to directors, director nominees, officers, employees and certain individuals associated with the Company, its directors, director nominees, officers and employees. Any reserved Shares that are not so purchased will be offered by the Underwriters to the general public on the same basis as the balance of the Firm Shares.

It is further understood that you will act as the Representative for the Underwriters in the offering and sale of the Shares in accordance with an Agreement Among Underwriters entered into by you and the several other Underwriters.

4. Covenants of the Company.

The Company covenants and agrees with the several Underwriters that:

(a) The Company will (i) use its best efforts to cause the Registration Statement to become effective or, if the procedure in Rule 430A of the Rules and Regulations is followed, to prepare and timely file with the Commission under Rule 424(b) of the Rules and Regulations a Prospectus in a form approved by the Representative containing information previously omitted at the time of effectiveness of the Registration Statement in reliance on Rule 430A of the Rules and Regulations, and (ii) not file any amendment to the Registration Statement or supplement to the Prospectus of which the Representative shall not previously have been advised and furnished with a copy or to which the Representative shall have reasonably objected in writing or which is not in compliance with the Rules and Regulations.

(b) The Company will advise the Representative promptly (i) when the Registration Statement or any post-effective amendment thereto shall have become effective, (ii) of receipt of any comments from the Commission, (iii) of any request of the Commission for amendment of the Registration Statement or for supplement to the Prospectus or for any additional information, and (iv) of the issuance by the Commission of any stop order suspending the effectiveness of the Registration Statement or the use of the Prospectus or of the institution of any proceedings for that purpose. The Company will use its best efforts to prevent the issuance of any such stop order preventing or suspending the use of the Prospectus and to obtain as soon as possible the lifting thereof, if issued.

(c) The Company will cooperate with the Representative in endeavoring to qualify the Shares for sale under the securities laws of such jurisdictions as the Representative may reasonably have designated in writing and will make such applications, file such documents, and furnish such information as may be reasonably required for that

purpose, provided the Company shall not be required to qualify as a foreign corporation or to file a general consent to service of process in any jurisdiction where it is not now so qualified or required to file such a consent. The Company will, from time to time, prepare and file such statements, reports, and other documents, as are or may be required to continue such qualifications in effect for so long a period as the Representative may reasonably request for distribution of the Shares.

(d) The Company will deliver to, or upon the order of, the Representative, from time to time, as many copies of any Preliminary Prospectus as the Representative may reasonably request. The Company will deliver to, or upon the order of, the Representative during the period when delivery of a Prospectus is required under the Act, as many copies of the Prospectus in final form, or as thereafter amended or supplemented, as the Representative may reasonably request. The Company will deliver to the Representative at or before the Closing Date, two signed copies of the Registration Statement and all amendments thereto including all exhibits filed therewith, and will deliver to the Representative such number of copies of the Registration Statement (including such number of copies of the exhibits filed therewith that may reasonably be requested), and of all amendments thereto, as the Representative may reasonably request.

(e) The Company will comply with the Act and the Rules and Regulations, and the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the rules and regulations of the Commission thereunder, so as to permit the completion of the distribution of the Shares as contemplated in this Agreement and the Prospectus. If during the period in which a prospectus is required by law to be delivered by an Underwriter or dealer, any event shall occur as a result of which, in the judgment of the Company or in the reasonable opinion of the Underwriters, it becomes necessary to amend or supplement the Prospectus in order to make the statements therein, in the light of the circumstances existing at the time the Prospectus is delivered to a purchaser, not misleading, or, if it is necessary at any time to amend or supplement the Prospectus to comply with any law, the Company promptly will prepare and file with the Commission an appropriate amendment to the Registration Statement or supplement to the Prospectus so that the Prospectus as so amended or supplemented will not, in the light of the circumstances when it is so delivered, be misleading, or so that the Prospectus will comply with the law.

(f) The Company will make generally available to its security holders, as soon as it is practicable to do so, but in any event not later than 15 months after the effective date of the Registration Statement, an earnings statement (which need not be audited) in reasonable detail, covering a period of at least 12 consecutive months beginning after the effective date of the Registration Statement, which earnings statement shall satisfy the requirements of Section 11(a) of the Act and Rule 158 of the Rules and Regulations and will advise you in writing when such statement has been so made available.

(g) The Company will, for a period of five years from the Closing Date, deliver to the Representative copies of annual reports and copies of all other documents, reports and information furnished by the Company to its stockholders or filed with any securities exchange pursuant to the requirements of such exchange or with the Commission pursuant to the Act or the Exchange Act. The Company will deliver to the Representative similar reports with respect to significant subsidiaries, as that term is defined in the Rules and Regulations, which are not consolidated in the Company's financial statements.

(h) No offering, sale, short sale or other disposition of any shares of Common Stock of the Company or other securities convertible into or exchangeable or exercisable for shares of Common Stock or derivative of Common Stock (or agreement for such) will be made for a period of one year after the date of this Agreement, directly or indirectly, by the Company otherwise than hereunder or with the prior written consent of the Representative, other than pursuant to outstanding convertible securities, stock option and warrants or pursuant to employee benefit plans in effect as of the date hereof, in each case as disclosed in the Prospectus.

(i) The Company will use its best efforts to list, subject to notice of issuance, the Common Stock on The Nasdaq National Market.

(j) The Company has caused each officer and director and each person who owns, beneficially or of record, 5% or more of the outstanding shares of the Company's Common Stock (or securities convertible into or exercisable for Common Stock) outstanding immediately prior to this offering to furnish to you, on or prior to the date of this Agreement, a letter or letters, in form and substance satisfactory to the Underwriters ("Lockup Agreements"), pursuant to which each such person shall agree (A) not to offer to sell, sell, contract to sell, sell short or otherwise dispose of any shares of Common Stock or other capital stock of the Company, or any other securities convertible, exchangeable or exercisable for Common Stock or derivatives of Common Stock owned by such person, or request the registration for the offer or sale of any of the foregoing (or as to which such person has the right to direct the disposition of) for a period of one year after the date of this Agreement, directly or indirectly, except with the prior written consent of the Representative. The Lockup Agreements shall also provide that, after the expiration of the lockup period, each person shall give you prior notice with respect to any offers to sell, sales, contracts to sell, short sales or other dispositions of Common Stock pursuant to Rule 144 under the Act or any similar provisions enacted subsequent to the date of this Agreement for a period of two years from the date of this Agreement.

(k) The Company shall apply the net proceeds of its sale of the Shares as set forth in the Prospectus and shall file such reports with the Commission with respect to the sale of

the Shares and the application of the proceeds therefrom as may be required in accordance with Rule 463 under the Act.

(l) The Company shall not invest, or otherwise use the proceeds received by the Company from its sale of the Shares in such a manner as would require the Company or any of its Subsidiaries, if any, to register as an investment company under the Investment Company Act of 1940, as amended (the "1940 Act").

(m) The Company will maintain a transfer agent and, if necessary under the jurisdiction of incorporation of the Company, a registrar for the Common Stock.

(n) The Company will not take, directly or indirectly, any action designed to cause or result in, or that has constituted or might reasonably be expected to constitute, the stabilization or manipulation of the price of any securities of the Company.

5. Costs and Expenses.

(a) The Representative shall be entitled to receive from the Company, for itself alone and not as the Representative of the Underwriters, a nonaccountable expense allowance collectively equal to 1% of the aggregate public offering price of Shares sold to the Underwriters in connection with the Offering. The Representative shall be entitled to withhold this allowance on the Closing Date (less the $35,000 advance against such amount that has been previously paid by the Company) with respect to Shares delivered on the Closing Date and to require the Company to make payment of this allowance on the Option Closing Date with respect to Shares delivered on the Option Closing Date.

(b) In addition to the payment described in Paragraph (a) of this Section 5, the Company will pay all costs, expenses and fees incident to the performance of the obligations of the Company under this Agreement, including, without limiting the generality of the foregoing, the following: accounting fees of the Company; the fees and disbursements of counsel for the Company; the cost of electronic filing, printing and delivering to, or as requested by, the Underwriters copies of the Registration Statement, Preliminary Prospectuses, the Prospectus, this Agreement, the Underwriters' Selling Memorandum, the Underwriters' Invitation Letter, the Listing Application, the Blue Sky Survey and any supplements or amendments thereto; the filing fees of the Commission; the filing fees incident to securing any required review by the National Association of Securities Dealers, Inc. (the "NASD") of the terms of the sale of the Shares; the Listing Fee of The Nasdaq National Market; the reasonable costs of conducting a due diligence investigation of the principals of the Company by a firm acceptable to the Representative, and the expenses, including the fees and disbursements of counsel for the Underwriters, incurred in connection with the qualification of the Shares under state securities or Blue Sky laws. Any transfer

taxes imposed on the sale of the Shares to the several Underwriters will be paid by the Company. The Company agrees to pay all costs and expenses of the Underwriters, including the fees and disbursements of counsel for the Underwriters, incident to the offer and sale of directed shares of the Common Stock by the Underwriters to employees and persons having business relationships with the Company. The Company shall not, however, be required to pay for any of the Underwriters' expenses (other than those related to qualification under NASD regulation and state securities or Blue Sky laws) except that, if this Agreement shall not be consummated, then the Company shall reimburse the several Underwriters for reasonable accountable out-of-pocket expenses, including fees and disbursements of counsel, reasonably incurred in connection with investigating, marketing and proposing to market the Shares or in contemplation of performing their obligations hereunder (less the $35,000 advance that has been paid by the Company); but the Company shall not in any event be liable to any of the several Underwriters for damages on account of loss of anticipated profits from the sale by them of the Shares. In the event this Agreement is not consummated, any nonaccountable portion of the $35,000 advance shall be promptly returned to the Company.

6. Conditions of Obligations of the Underwriters.

The several obligations of the Underwriters to purchase the Firm Shares on the Closing Date and the Option Shares, if any, on the Option Closing Date are subject to the accuracy, as of the Closing Date or the Option Closing Date, as the case may be, of the representations and warranties of the Company contained herein, and to the performance by the Company of their covenants and obligations hereunder and to the following additional conditions:

(a) The Registration Statement and all post-effective amendments thereto shall have become effective and any and all filings required by Rule 424 and Rule 430A of the Rules and Regulations shall have been made, and any request of the Commission for additional information (to be included in the Registration Statement or otherwise) shall have been disclosed to the Representative and complied with to their reasonable satisfaction. No stop order suspending the effectiveness of the Registration Statement, as amended from time to time, shall have been issued and no proceedings for that purpose shall have been taken or, to the knowledge of the Company, shall be contemplated by the Commission and no injunction, restraining order, or order of any nature by a Federal or state court of competent jurisdiction shall have been issued as of the Closing Date which would prevent the issuance of the Shares.

(b) The Representative shall have received on the Closing Date or the Option Closing Date, as the case may be, the opinion of Womble Carlyle Sandridge & Rice, PLLC, counsel for the Company, dated the Closing Date or the Option Closing Date, as the case may be, addressed to the Underwriters (and stating that it may be relied upon by counsel to the Underwriters), substantially as follows:

(i) The Company and the Subsidiaries, if any, each has been duly organized and is validly existing as a corporation in good standing under the laws of its respective jurisdictions of incorporation, with corporate power and authority to own or lease its properties and conduct its business as described in the Registration Statement; each of the Company and the Subsidiaries, if any, is duly qualified to transact business in all jurisdictions in which the conduct of its business requires such qualification, or in which the failure to qualify would have a materially adverse effect upon the business of the Company and its Subsidiaries, if any.

(ii) The Company has authorized and outstanding capital stock as set forth under the caption "Capitalization" in the Prospectus; the outstanding shares of the Company's Common Stock have been duly authorized and validly issued and are fully paid and nonassessable; all issued and outstanding shares of the capital stock of the Company and the Subsidiaries, if any, and all other securities issued and sold or exchanged by the Company and its Subsidiaries, if any, have been issued and sold or exchanged in compliance in all material respects with applicable securities laws and regulations; all of the securities of the Company conform to the description thereof contained in the Prospectus; the certificate for the Common Stock, assuming it is in the form filed with the Commission, is in due and proper form; the shares of Common Stock to be sold by the Company pursuant to this Agreement, including shares of Common Stock to be sold as a part of the Option Shares, have been duly authorized and, upon issuance and delivery thereof as contemplated in this Agreement and the Registration Statement, will be validly issued, fully paid and nonassessable; no preemptive rights of stockholders exist with respect to any of the Common Stock of the Company or the issuance or sale thereof pursuant to any applicable statute or the provisions of the Company's charter documents or, to such counsel's best knowledge, pursuant to any contractual obligation. The Representative's Warrants have been authorized for issuance to the holders of the Representative's Warrants, and will, when issued, possess rights, privileges, and characteristics as represented in the most recent form of Representative's Warrants filed as an exhibit to the Registration Statement; the securities to be issued upon exercise of the Representative's Warrants, when issued and delivered against payment therefor in accordance with the terms of the Representative's Warrants, will be duly and validly issued, fully paid, nonassessable and free of preemptive rights, and all corporate action required to be taken for the authorization and issuance of the Representative's Warrants, and the securities to be issued upon their exercise, has been validly and sufficiently taken.

(iii) Except as described in or contemplated by the Prospectus, to the knowledge of such counsel, there are no outstanding securities of the Company convertible or exchangeable into or evidencing the right to purchase or subscribe for

any shares of capital stock of the Company and there are no outstanding or authorized options, warrants or rights of any character obligating the Company to issue any shares of its capital stock or any securities convertible or exchangeable into or evidencing the right to purchase or subscribe for any shares of such stock; and except as described in the Prospectus, to the knowledge of such counsel, no holder of any securities of the Company or any other person has the right, contractual or otherwise, which has not been satisfied or effectively waived, to cause the Company to sell or otherwise issue to them, or to permit them to underwrite the sale of, any of the Shares or the right to have any Common Stock or other securities of the Company included in the Registration Statement or the right, as a result of the filing of the Registration Statement, to require registration under the Act of any shares of Common Stock or other securities of the Company.

(iv) The Registration Statement has become effective under the Act and, to the best of the knowledge of such counsel, no stop order proceedings with respect thereto have been instituted or are pending or threatened under the Act.

(v) The Registration Statement, the Prospectus and each amendment or supplement thereto comply as to form in all material respects with the requirements of the Act and the applicable rules and regulations thereunder (except that such counsel need express no opinion as to the financial statements therein).

(vi) The statements under the captions "Business - Dependence on Cree and Cree Technology," "Business - Intellectual Property of the Company," "Description of Securities" and "Shares Eligible for Future Sale" in the Prospectus and in Item 14 of the Registration Statement, insofar as such statements constitute a summary of documents referred to therein or matters of law, fairly summarize in all material respects the information called for with respect to such documents and matters.

(vii) Such counsel does not know of any contracts or documents required to be filed as exhibits to the Registration Statement or described in the Registration Statement or the Prospectus which are not so filed or described as required, and such contracts and documents as are summarized in the Registration Statement or the Prospectus are fairly summarized in all material respects.

(viii) Such counsel knows of no material legal or governmental proceedings pending or threatened against the Company or any Subsidiary, if any, except as set forth in the Registration Statement.

(ix) To the best knowledge of such counsel, except as described in the Registration Statement or the Prospectus, the Company is not party to any agreement giving rise to any obligation by the Company to pay any third-party royalties or fees of any kind whatsoever with respect to any technology developed, employed, used or licensed by the Company.

(x) The execution and delivery of this Agreement and the consummation of the transactions herein contemplated do not and will not conflict with or result in a breach of any of the terms or provisions of, or constitute a default under, the articles of incorporation or bylaws of the Company or any Subsidiary, if any, or any agreement or instrument known to such counsel to which the Company or any Subsidiary, if any, is a party or by which the Company or any Subsidiary, if any, may be bound.

(xi) This Agreement has been duly authorized, executed and delivered by the Company; and the Representative's Warrants have been duly authorized, executed and delivered by the Company.

(xii) No approval, consent, order, authorization, designation, declaration or filing by or with any regulatory, administrative or other governmental body is necessary in connection with the execution and delivery of this Agreement and the consummation of the transactions herein contemplated (other than as may be required by the NASD or as required by state securities and Blue Sky laws as to which such counsel need express no opinion) except such as have been obtained or made, specifying the same.

(xiii) The Company is not, and will not become, as a result of the consummation of the transactions contemplated by this Agreement, and application of the net proceeds therefrom as described in the Prospectus, required to register as an investment company under the 1940 Act.

In rendering such opinion, such counsel may rely as to matters governed by the laws of any state other than North Carolina or Federal laws on local counsel in such jurisdictions, provided that in each case such counsel shall state that they believe that they and the Underwriters are justified in relying on such other counsel. In addition to the matters set forth above, the opinion of Womble Carlyle Sandridge & Rice, PLLC, shall also include a statement to the effect that nothing has come to the attention of such counsel that has caused them to believe that (i) the Registration Statement, at the time it became effective under the Act (but after giving effect to any modifications incorporated therein pursuant to Rule 430A under the Act) and as of the Closing Date or the Option Closing Date, as the case may be, contained an untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein not

misleading, and (ii) the Prospectus, or any supplement thereto, on the date it was filed pursuant to the Rules and Regulations and as of the Closing Date or the Option Closing Date, as the case may be, contained an untrue statement of a material fact or omitted to state a material fact necessary in order to make the statements, in the light of the circumstances under which they are made, not misleading (except that such counsel need express no view as to financial statements and statistical information therein).

(c) The Representative shall have received from counsel for the Company, an opinion dated the Closing Date or the Option Closing Date, as the case may be, (and stating that it may be relied upon by counsel to the Underwriters), regarding intellectual property matters in the form to be mutually agreed by the Company and the Representative.

(d) The Representative shall have received from Grover T. Wickersham, P.C., counsel for the Underwriters, an opinion dated the Closing Date or the Option Closing Date, as the case may be, substantially to the effect specified in subparagraphs (i), (iv) and (v) of Paragraph (b) of this Section 6. In rendering such opinion, Grover T. Wickersham, P.C. may rely as to all matters governed other than by the laws of the State of California or Federal laws on the opinion of counsel referred to in Paragraph (b) of this Section 6. In addition to the matters set forth above, such opinion shall also include a statement to the effect that nothing has come to the attention of such counsel that has caused them to believe that (i) the Registration Statement, or any amendment thereto, as of the time it became effective under the Act (but after giving effect to any modifications incorporated therein pursuant to Rule 430A under the Act) as of the Closing Date or the Option Closing Date, as the case may be, contained an untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein not misleading, and (ii) the Prospectus, or any supplement thereto, on the date it was filed pursuant to the Rules and Regulations and as of the Closing Date or the Option Closing Date, as the case may be,

contained an untrue statement of a material fact or omitted to state a material fact, necessary in order to make the statements, in the light of the circumstances under which they are made, not misleading (except that such counsel need express no view as to financial statements, schedules and statistical information therein). With respect to such statement, Grover T. Wickersham, P.C. may state that their belief is based upon the procedures set forth therein, but is without independent check and verification.

(e) The Representative shall have received at or prior to the Closing Date from Grover T. Wickersham, P.C. a memorandum or summary, in form and substance satisfactory to the Representative, with respect to the qualification for offering and sale by the Underwriters of the Shares under the state securities or Blue Sky laws of such jurisdictions as the Representative may reasonably have designated to the Company.

(f) The Representative, on behalf of the several Underwriters, shall have received, on each of the dates hereof, the Closing Date and the Option Closing Date, as the case may be, a letter dated the date hereof, the Closing Date or the Option Closing Date, as the case may be, in form and substance satisfactory to the Representative, of Deloitte & Touche LLP, confirming that they are independent public accountants within the meaning of the Act and the applicable published Rules and Regulations thereunder and stating that in their opinion the financial statements examined by them and included in the Registration Statement comply in form in all material respects with the applicable accounting requirements of the Act and the related published Rules and Regulations and containing such other statements and information as are ordinarily included in accountants' "comfort letters" to Underwriters with respect to the financial statements and certain financial and statistical information contained in the Registration Statement and Prospectus.

(g) The Representative shall have received on the Closing Date or the Option Closing Date, as the case may be, a certificate or certificates of the President and the Chief Financial Officer of the Company to the effect that, as of the Closing Date or the Option Closing Date, as the case may be, each of them severally represents as follows:

(i) The Registration Statement has become effective under the Act and no stop order suspending the effectiveness of the Registration Statement has been issued, and no proceedings for such purpose have been taken or are, to his or her knowledge, contemplated by the Commission;

(ii) The representations and warranties of the Company contained in Section 1 hereof are true and correct as of the Closing Date or the Option Closing Date, as the case may be;

(iii) All filings required to have been made pursuant to Rules 424 or 430A under the Act have been made;

(iv) He has carefully examined the Registration Statement and the Prospectus and, in his opinion, as of the effective date of the Registration Statement, the statements contained in the Registration Statement were true and correct, and such Registration Statement and Prospectus did not omit to state a material fact required to be stated therein or necessary in order to make the statements therein not misleading, and since the effective date of the Registration Statement, no event has occurred which should have been set forth in a supplement to or an amendment of the Prospectus which has not been so set forth in such supplement or amendment; and

(v) Since the respective dates as of which information is given in the Registration Statement and Prospectus, there has not been any material adverse change or any development involving a prospective material adverse change in or affecting the condition, financial or otherwise, of the Company or the earnings, business, management, properties, assets, rights, operations, condition (financial or otherwise) or prospects of the Company, whether or not arising in the ordinary course of business.

(h) The Company shall have furnished to the Representative such further certificates and documents confirming the representations and warranties, covenants and conditions contained herein and related matters as the Representative may reasonably have requested.

(i) The Common Stock has been approved for quotation upon notice of issuance on the Nasdaq National Market.

(j) The Lockup Agreements described in Section 4(j) are in full force and effect.

The opinions and certificates mentioned in this Agreement shall be deemed to be in compliance with the provisions hereof only if they are in all material respects satisfactory to the Representative and to Grover T. Wickersham, P.C., counsel for the Underwriters.

If any of the conditions hereinabove provided for in this Section 6 shall not have been fulfilled when and as required by this Agreement to be fulfilled, the obligations of the Underwriters hereunder may be terminated by the Representative by notifying the Company of such termination in writing or by telegram at or prior to the Closing Date or the Option Closing Date, as the case may be.

In such event, the Company and the Underwriters shall not be under any obligation to each other (except to the extent provided in Sections 5 and 8 hereof).

7. Conditions of the Obligations of the Company.

The obligations of the Company to sell and deliver the portion of the Shares required to be delivered as and when specified in this Agreement are subject to the conditions that at the Closing Date or the Option Closing Date, as the case may be, no stop order suspending the effectiveness of the Registration Statement shall have been issued and in effect or proceedings therefor initiated or threatened.

8. Indemnification.

(a) The Company agrees to indemnify and hold harmless each Underwriter and each person, if any, who controls any Underwriter within the meaning of the Act, against any losses, claims, damages or liabilities to which such Underwriter or any such controlling person may become subject under the Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions or proceedings in respect thereof) arise out of or are based upon (i) any untrue statement or alleged untrue statement of any material fact contained in the Registration Statement, any Preliminary Prospectus, the Prospectus or any amendment or supplement thereto, or (ii) the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading; and will reimburse each Underwriter and each such controlling person upon demand for any legal or other expenses reasonably incurred by such Underwriter or such controlling person in connection with investigating or defending any such loss, claim, damage or liability, action or proceeding or in responding to a subpoena or governmental inquiry related to the offering of the Shares, whether or not such Underwriter or controlling person is a party to any action or proceeding; provided, however, that the Company will not be liable in any such case to the extent that any such loss, claim, damage or liability arises out of or is based upon an untrue statement or alleged untrue statement, or omission or alleged omission made in the Registration Statement, any Preliminary Prospectus, the Prospectus, or such amendment or supplement, in reliance upon and in conformity with written information furnished to the Company by or through the Representative specifically for use in the preparation thereof. This indemnity agreement will be in addition to any liability which the Company may otherwise have.

(b) Each Underwriter severally and not jointly will indemnify and hold harmless the Company, each of its directors, each of its officers who have signed the Registration Statement and each person, if any, who controls the Company within the meaning of the Act, against any losses, claims, damages or liabilities to which the Company or any such director, officer or controlling person may become subject under the Act or otherwise, insofar as such

losses, claims, damages or liabilities (or actions or proceedings in respect thereof) arise out of or are based upon (i) any untrue statement or alleged untrue statement of any material fact contained in the Registration Statement, any Preliminary Prospectus, the Prospectus or any amendment or supplement thereto, or (ii) the omission or the alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances under which they were made; and will reimburse any legal or other expenses reasonably incurred by the Company or any such director, officer or controlling person in connection with investigating or defending any such loss, claim, damage, liability, action or proceeding; provided, however, that each Underwriter will be liable in each case to the extent, but only to the extent, that such untrue statement or alleged untrue statement or omission or alleged omission has been made in the Registration Statement, any Preliminary Prospectus, the Prospectus or such amendment or supplement, in reliance upon and in conformity with written information furnished to the Company by or through the Representative specifically for use in the preparation thereof. This indemnity agreement will be in addition to any liability which such Underwriter may otherwise have.

(c) In case any proceeding (including any governmental investigation) shall be instituted involving any person in respect of which indemnity may be sought pursuant to this Section 8, such person (the "indemnified party") shall promptly notify the person against whom such indemnity may be sought (the "indemnifying party") in writing. No indemnification provided for in Section 8(a) or (b) shall be available to any party who shall fail to give notice as provided in this Section 8(c) if the party to whom notice was not given was unaware of the proceeding to which such notice would have related and was materially prejudiced by the failure to give such notice, but the failure to give such notice shall not relieve the indemnifying party or parties from any liability which it or they may have to the indemnified party for contribution or otherwise than on account of the provisions of Section 8(a) or (b). In case any such proceeding shall be brought against any indemnified party and it shall notify the indemnifying party of the commencement thereof, the indemnifying party shall be entitled to participate therein and, to the extent that it shall wish, jointly with any other indemnifying party similarly notified, to assume the defense thereof, with counsel satisfactory to such indemnified party and shall pay as incurred the fees and disbursements of such counsel related to such proceeding. In any such proceeding, any indemnified party shall have the right to retain its own counsel at its own expense. Notwithstanding the foregoing, the indemnifying party shall pay as incurred (or within 30 days of presentation) the fees and expenses of the counsel retained by the indemnified party in the event (i) the indemnifying party and the indemnified party shall have mutually agreed to the retention of such counsel, (ii) the named parties to any such proceeding (including any impleaded parties) include both the indemnifying party and the indemnified party and representation of both parties by the same counsel would be inappropriate due to actual or potential differing interests between them or (iii) the indemnifying party shall have failed to assume

the defense and employ counsel acceptable to the indemnified party within a reasonable period of time after notice of commencement of the action. It is understood that the indemnifying party shall not, in connection with any proceeding or related proceedings in the same jurisdiction, be liable for the reasonable fees and expenses of more than one separate firm for all such indemnified parties. Such firm shall be designated in writing by you in the case of parties indemnified pursuant to Section 8(a) and by the Company in the case of parties indemnified pursuant to Section 8(b). The indemnifying party shall not be liable for any settlement of any proceeding effected without its written consent but if settled with such consent or if there be a final judgment for the plaintiff, the indemnifying party agrees to indemnify the indemnified party from and against any loss or liability by reason of such settlement or judgment. In addition, the indemnifying party will not, without the prior written consent of the indemnified party, settle or compromise or consent to the entry of any judgment in any pending or threatened claim, action or proceeding of which indemnification may be sought hereunder (whether or not any indemnified party is an actual or potential party to such claim, action or proceeding) unless such settlement, compromise or consent includes an unconditional release of each indemnified party from all liability arising out of such claim, action or proceeding.

(d) If the indemnification provided for in this Section 8 is unavailable to or insufficient to hold harmless an indemnified party under Section 8(a) or (b) above in respect of any losses, claims, damages or liabilities (or actions or proceedings in respect thereof) referred to therein, then each indemnifying party shall contribute to the amount paid or payable by such indemnified party as a result of such losses, claims, damages or liabilities (or actions or proceedings in respect thereof) in such proportion as is appropriate to reflect the relative benefits received by the Company on the one hand and the Underwriters on the other from the offering of the Shares. If, however, the allocation provided by the immediately preceding sentence is not permitted by applicable law then each indemnifying party shall contribute to such amount paid or payable by such indemnified party in such proportion as is appropriate to reflect not only such relative benefits but also the relative fault of the Company on the one hand and the Underwriters on the other in connection with the statements or omissions which resulted in such losses, claims, damages or liabilities, (or actions or proceedings in respect thereof), as well as any other relevant equitable considerations. The relative benefits received by the Company on the one hand and the Underwriters on the other shall be deemed to be in the same proportion as the total net proceeds from the offering (before deducting expenses) received by the Company bears to the total underwriting discounts and commissions received by the Underwriters, in each case as set forth in the table on the cover page of the Prospectus. The relative fault shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company on the one hand or the Underwriters on the other

and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission.

The Company and the Underwriters agree that it would not be just and equitable if contributions pursuant to this Section 8(d) were determined by pro rata allocation (even if the Underwriters were treated as one entity for such purpose) or by any other method of allocation which does not take account of the equitable considerations referred to above in this Section 8(d). The amount paid or payable by an indemnified party as a result of the losses, claims, damages or liabilities (or actions or proceedings in respect thereof) referred to above in this Section 8(d) shall be deemed to include any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending any such action or claim. Notwithstanding the provisions of this subsection (d), (i) no Underwriter shall be required to contribute any amount in excess of the underwriting discounts and commissions applicable to the Shares purchased by such Underwriter, and (ii) no person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. The Underwriters' obligations in this Section 8(d) to contribute are several in proportion to their respective underwriting obligations and not joint.

(e) In any proceeding relating to the Registration Statement, any Preliminary Prospectus, the Prospectus or any supplement or amendment thereto, each party against whom contribution may be sought under this Section 8 hereby consents to the jurisdiction of any court having jurisdiction over any other contributing party, agrees that process issuing from such court may be served upon him or it by any other contributing party and consents to the service of such process and agrees that any other contributing party may join him or it as an additional defendant in any such proceeding in which such other contributing party is a party.

(f) Any losses, claims, damages, liabilities or expenses for which an indemnified party is entitled to indemnification or contribution under this Section 8 shall be paid by the indemnifying party to the indemnified party as such losses, claims, damages, liabilities or expenses are incurred. The indemnity and contribution agreements contained in this Section 8 and the representations and warranties of the Company set forth in this Agreement shall remain operative and in full force and effect, regardless of (i) any investigation made by or on behalf of any Underwriter or any person controlling any Underwriter, the Company, its directors or officers or any persons controlling the Company, (ii) acceptance of any Shares and payment therefor hereunder, and (iii) any termination of this Agreement. A successor to any Underwriter, or to the Company, its directors or officers, or any person controlling the Company, shall be entitled to the benefits of the indemnity, contribution and reimbursement agreements contained in this Section 8.

9. Default by Underwriters.

If on the Closing Date or the Option Closing Date, as the case may be, any Underwriter shall fail to purchase and pay for the portion of the Shares which such Underwriter has agreed to purchase and pay for on such date (otherwise than by reason of any default on the part of the Company), you, as the Representative of the Underwriters, shall use your reasonable efforts to procure within 36 hours thereafter one or more of the other Underwriters, or any others, to purchase from the Company such amounts as may be agreed upon and upon the terms set forth herein, the Firm Shares or Option Shares, as the case may be, which the defaulting Underwriter or Underwriters failed to purchase. If during such 36 hours you, as such Representative, shall not have procured such other Underwriters, or any others, to purchase the Firm Shares or Option Shares, as the case may be, agreed to be purchased by the defaulting Underwriter or Underwriters, then (a) if the aggregate number of Shares with respect to which such default shall occur does not exceed 10% of the Firm Shares or Option Shares, as the case may be, covered hereby, the other Underwriters shall be obligated, severally, in proportion to the respective numbers of Firm Shares or Option Shares, as the case may be, which they are obligated to purchase hereunder, to purchase the Firm Shares or Option Shares, as the case may be, which such defaulting Underwriter or Underwriters failed to purchase, or (b) if the aggregate number of Firm Shares or Option Shares, as the case may be, with respect to which such default shall occur equals or exceeds 10% of the Firm Shares or Option Shares, as the case may be, covered hereby, the Company or you as the Representative of the Underwriters will have the right, by written notice given within the next 36-hour period to the parties to this Agreement, to terminate this Agreement without liability on the part of the non-defaulting Underwriters or of the Company except to the extent provided in Section 8 hereof. In the event of a default by any Underwriter or Underwriters, as set forth in this Section 9, the Closing Date or Option Closing Date, as the case may be, may be postponed for such period, not exceeding seven days, as you, as the Representative, may determine in order that the required changes in the Registration Statement or in the Prospectus or in any other documents or arrangements may be effected. The term "Underwriter" includes any person substituted for a defaulting Underwriter. Any action taken under this Section 9 shall not relieve any defaulting Underwriter from liability in respect of any default of such Underwriter under this Agreement.

10. Notices.

All communications hereunder shall be in writing and, except as otherwise provided herein, will be mailed, delivered, telecopied or telegraphed and confirmed as follows: if to the Underwriters, to Paulson Investment Company, Inc., 811 SW Front Avenue, Portland, Oregon 97204, Attention: Chester L.F. Paulson; with a copy to Grover T. Wickersham, P.C., 430 Cambridge Avenue, Suite 100, Palo Alto, California 94306, Attention: Debra K. Weiner; if to the Company, to C3, Inc., 3800 Gateway Boulevard, Suite 310, Morrisville, North Carolina 27560, Attention: Jeff N. Hunter; with a copy to Womble Carlyle Sandridge & Rice, PLLC, 2505 Meridian Parkway, Suite 300, Durham, North Carolina 27713, Attention: Deborah H. Hartzog.

11. Termination.

This Agreement may be terminated by you by notice to the Company as follows:

(a) at any time prior to the earlier of (i) the time the Shares are released by you for sale by notice to the Underwriters, or (ii) 11:30 a.m. on the first business day following the date of this Agreement;

(b) at any time prior to the Closing Date if any of the following has occurred: (i) since the respective dates as of which information is given in the Registration Statement and the Prospectus, any material adverse change or any development involving a prospective material adverse change in or affecting the condition, financial or otherwise, of the Company and its subsidiaries taken as a whole or the earnings, business, management, properties, assets, rights, operations, condition (financial or otherwise) or prospects of the Company and its subsidiaries taken as a whole, whether or not arising in the ordinary course of business, (ii) any outbreak or escalation of hostilities or declaration of war or national emergency or other national or international calamity or crisis or change in economic or political conditions if the effect of such outbreak, escalation, declaration, emergency, calamity, crisis or change on the financial markets of the United States would, in your reasonable judgment, make it impracticable to market the Shares or to enforce contracts for the sale of the Shares, (iii) the Dow Jones Industrial Average shall have fallen by 15 percent or more from its closing price on the day immediately preceding the date that the Registration Statement is declared effective by the Commission, (iv) suspension of trading in securities generally on the New York Stock Exchange or the American Stock Exchange or limitation on prices (other than limitations on hours or numbers of days of trading) for securities on either such Exchange, (v) the enactment, publication, decree or other promulgation of any statute, regulation, rule or order of any court or other governmental authority which in your opinion materially and adversely affects or may materially and adversely affect the business or operations of the Company, (vi) declaration of a banking moratorium by United States or New York State authorities, (vii) any downgrading in the rating of the Company's debt securities by any "nationally recognized statistical rating organization" (as defined for purposes of Rule 436(g) under the Exchange Act); (viii) the suspension of trading of the Common Stock by the Commission on the Nasdaq National Market or (ix) the taking of any action by any governmental body or agency in respect of its monetary or fiscal affairs which in your reasonable opinion has a material adverse effect on the securities markets in the United States; or

(c) as provided in Sections 6 and 9 of this Agreement.

12. Successors.

This Agreement has been and is made solely for the benefit of the Underwriters, the Company and their respective successors, executors, administrators, heirs and assigns, and the officers, directors and controlling persons referred to herein, and no other person will have any right or obligation hereunder. No purchaser of any of the Shares from any Underwriter shall be deemed a successor or assign merely because of such purchase.

13. Information Provided by Underwriters.

The Company and the Underwriters acknowledge and agree that the only information furnished or to be furnished by any Underwriter to the Company for inclusion in any Prospectus or the Registration Statement consists of the information set forth in the last paragraph on the front cover page (insofar as such information relates to the Underwriters), legends required by Item 502(d) of Regulation S-K under the Act and the information under the caption "Underwriting" in the Prospectus.

14. Miscellaneous.

The reimbursement, indemnification and contribution agreements contained in this Agreement and the representations, warranties and covenants in this Agreement shall remain in full force and effect regardless of (a) any termination of this Agreement, (b) any investigation made by or on behalf of any Underwriter or controlling person thereof, or by or on behalf of the Company or its directors or officers and (c) delivery of and payment for the Shares under this Agreement.

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.

This Agreement shall be governed by, and construed in accordance with, the laws of the State of Oregon. All disputes relating to this Underwriting Agreement shall be adjudicated before a court located in Multnomah County, Oregon to the exclusion of all other courts that might have jurisdiction.

If the foregoing letter is in accordance with your understanding of our agreement, please sign and return to us the enclosed duplicates hereof, whereupon it will become a binding agreement among the Company and the several Underwriters in accordance with its terms.

Very truly yours,

C3, INC.

By:

The foregoing Underwriting Agreement is hereby confirmed and accepted as of the date first above written.

PAULSON INVESTMENT COMPANY, INC.,
as Representative of the Several Underwriters
listed on Schedule I

By:

SCHEDULE I

SCHEDULE OF UNDERWRITERS

Underwriter	Number of Firm Shares to be Purchased
Paulson Investment Company, Inc.	
Total	2,000,000

EXHIBIT 4.2

THIS WARRANT HAS NOT BEEN REGISTERED
UNDER THE SECURITIES ACT OF 1933
AND IS NOT TRANSFERABLE
EXCEPT AS PROVIDED HEREIN

C3, INC.

PURCHASE WARRANTS

Issued to:

PAULSON INVESTMENT COMPANY, INC.

Exercisable to Purchase

200,000 Shares of Common Stock

of

C3, INC.

Void after _____, 2002

This is to certify that, for value received and subject to the terms and conditions set forth below, the Warrant holder (hereinafter defined) is entitled to purchase, and the Company promises and agrees to sell and issue to the Warrant holder, at any time on or after _____, 1998 and on or before _____, 2002, up to 200,000 shares of Common Stock (hereinafter defined) at the Exercise Price (hereinafter defined).

This Warrant Certificate is issued subject to the following terms and conditions:

1. Definitions of Certain Terms. Except as may be otherwise clearly required by the context, the following terms have the following meanings:

(a) "Act" means the Securities Act of 1933, as amended.

(b) "Closing Date" means the date on which the Offering is closed.

(c) "Commission" means the Securities and Exchange Commission.

(d) "Common Stock" means the common stock, no par value, of the Company.

(e) "Company" means C3, Inc., a North Carolina corporation.

(f) "Company's Expenses" means any and all expenses payable by the Company or the Warrantholder in connection with an offering described in Section 6 hereof, except Warrantholder's Expenses.

(g) "Effective Date" means the date on which the Registration Statement is declared effective by the Commission.

(h) "Exercise Price" means the price at which the Warrantholder may purchase one share of Common Stock (or Securities obtainable in lieu of one Share) upon exercise of Warrants as determined from time to time pursuant to the provisions hereof. The initial Exercise Price is $_____ per Share (120% of the initial public offering price of a Share).

(i) "Offering" means the public offering of shares of Common Stock made pursuant to the Registration Statement.

(j) "Participating Underwriter" means any underwriter participating in the sale of the Securities pursuant to a registration under Section 6 of this Warrant Certificate.

(k) "Registration Statement" means the Company's registration statement (File No.333-_____), as amended on the Closing Date.

(l) "Rules and Regulations" means the rules and regulations of the Commission adopted under the Act.

(m) "Securities" means the securities obtained or obtainable upon exercise of the Warrant or securities obtained or obtainable upon exercise, exchange, or conversion of such securities.

(n) "Share" means, as the context requires, either (i) one share of Common Stock which is one of the shares of Common Stock offered to the Public pursuant to the Registration Statement or (ii) an identical share of Common Stock for which the Warrant is initially exercisable.

(o) "Warrant Certificate" means a certificate evidencing the Warrant.

(p) "Warrantholder" means a record holder of the Warrant or Securities. The initial Warrantholder is Paulson Investment Company, Inc.

(q) "Warrantholder's Expenses" means the sum of (i) the aggregate amount of cash payments made to an underwriter, underwriting syndicate, or agent in connection with an offering described in Section 6 hereof multiplied by a fraction the numerator of which is the aggregate sales price of the Securities sold by such underwriter, underwriting syndicate, or agent in such offering on behalf of the Warrantholder and the denominator of which is the aggregate sales price of all of the securities sold by such underwriter, underwriting syndicate, or agent in such offering and (ii) all out-of-pocket expenses of the Warrantholder, except for the reasonable fees and disbursements of one firm retained as legal counsel on behalf of all of the Warrantholders that will be paid by the Company.

(r) "Warrant" means the warrant evidenced by this certificate, any similar certificate issued in connection with the Offering, or any certificate obtained upon transfer or partial exercise of the Warrant evidenced by any such certificate.

2. Exercise of Warrants. All or any part of the Warrant may be exercised commencing on the first anniversary of the Effective Date and ending at 5 p.m. Pacific Time on the fifth anniversary of the Effective Date by surrendering this Warrant Certificate, together with appropriate instructions, duly executed by the Warrantholder or by its duly authorized attorney, at the office of the Company, 3800 Gateway Boulevard, Suite 310, Morrisville, North Carolina 27560, or at such other office or agency as the Company may designate. Upon receipt of notice of exercise, the Company shall immediately instruct its transfer agent to prepare certificates for the Securities to be received by the Warrantholder upon completion of the Warrant exercise. When such certificates are prepared, the Company shall notify the Warrantholder and deliver such certificates to the Warrantholder or as per the Warrantholder's instructions immediately upon payment in full by the Warrantholder, in lawful money of the United States, of the Exercise Price payable with respect to the Securities being purchased. If the Warrantholder shall represent and warrant that all applicable registration and prospectus delivery requirements for their sale have been complied with upon sale of the Securities received upon exercise of the Warrant, such certificates shall not bear a legend with respect to the Securities Act of 1933.

If fewer than all the Securities purchasable under the Warrant are purchased, the Company will, upon such partial exercise, execute and deliver to the Warrantholder a new Warrant Certificate (dated the date hereof), in form and tenor similar to this Warrant Certificate, evidencing that portion of the Warrant not exercised. The Securities to be obtained on exercise of the Warrant will be deemed to have been issued, and any person exercising the Warrants will be deemed to have become a holder of record of those Securities, as of the date of the payment of the Exercise Price.

3. Adjustments in Certain Events. The number, class, and price of Securities for which this Warrant Certificate may be exercised are subject to adjustment from time to time upon the happening of certain events as follows:

(a) If the outstanding shares of the Company's Common Stock are divided into a greater number of shares or a dividend in stock is paid on the Common Stock, the number of shares of Common Stock for which the Warrant is then exercisable will be proportionately increased and the Exercise Price will be proportionately reduced; and, conversely, if the outstanding shares of Common Stock are combined into a smaller number of shares of Common Stock, the number of shares of Common Stock for which the Warrant is then exercisable will be proportionately reduced and the Exercise Price will be proportionately increased. The increases and reductions provided for in this subsection 3(a) will be made with the intent and, as nearly as practicable, the effect that neither the percentage of the total equity of the Company obtainable on exercise of the Warrants nor the price payable for such percentage upon such exercise will be affected by any event described in this subsection 3(a).

(b) In case of any change in the Common Stock through merger, consolidation, reclassification, reorganization, partial or complete liquidation, purchase of substantially all the assets of the Company, or other change in the capital structure of the Company, then, as a condition of such change, lawful and adequate provision will be made so that the holder of this Warrant Certificate will have the right thereafter to receive upon the exercise of the Warrant the kind and amount of shares of stock or other securities or property to which he would have been entitled if, immediately prior to such event, he had held the number of shares of Common Stock obtainable upon the exercise of the Warrant. In any such case, appropriate adjustment will be made in the application of the provisions set forth herein with respect to the rights and interest thereafter of the Warrantholder, to the end that the provisions set forth herein will thereafter be applicable, as nearly as reasonably may be, in relation to any shares of stock or other property thereafter deliverable upon the exercise of the Warrant. The Company will not permit any change in its capital structure to occur unless the issuer of the shares of stock or other securities to be received by the holder of this Warrant Certificate, if not the Company, agrees to be bound by and comply with the provisions of this Warrant Certificate.

(c) When any adjustment is required to be made in the number of shares of Common Stock, other securities, or the property purchasable upon exercise of the Warrant, the Company will promptly determine the new number of such shares or other securities or property purchasable upon exercise of the Warrant and (i) prepare and retain on file a statement describing

in reasonable detail the method used in arriving at the new number of such shares or other securities or property purchasable upon exercise of the Warrant and (ii) cause a copy of such statement to be mailed to the Warrantholder within thirty (30) days after the date of the event giving rise to the adjustment.

(d) No fractional shares of Common Stock or other securities will be issued in connection with the exercise of the Warrant, but the Company will pay, in lieu of fractional shares, a cash payment therefor on the basis of the mean between the bid and asked prices of the Common Stock in the over-the-counter market or the last sale price on a national securities exchange or on The Nasdaq National Market on the day immediately prior to exercise.

(e) If securities of the Company or securities of any subsidiary of the Company are distributed pro rata to holders of Common Stock, such number of securities will be distributed to the Warrantholder or his assignee upon exercise of his rights hereunder as such Warrantholder or assignee would have been entitled to if this Warrant Certificate had been exercised prior to the record date for such distribution. The provisions with respect to adjustment of the Common Stock provided in this Section 3 will also apply to the securities to which the Warrantholder or his assignee is entitled under this subsection 3(e).

(f) Notwithstanding anything herein to the contrary, there will be no adjustment made hereunder on account of the sale of the Common Stock or other Securities purchasable upon exercise of the Warrant.

4. Reservation of Securities. The Company agrees that the number of shares of Common Stock or other Securities sufficient to provide for the exercise of the Warrant upon the basis set forth above will at all times during the term of the Warrant be reserved for issuance upon exercise of the Warrant.

5. Validity of Securities. All Securities delivered upon the exercise of the Warrant will be duly and validly issued in accordance with their terms, and the Company will pay all documentary and transfer taxes, if any, in respect of the original issuance thereof upon exercise of the Warrant.

6. Registration of Securities Issuable on Exercise of Warrant Certificate.

(a) The Company will register the Securities with the Commission pursuant to the Act so as to allow the unrestricted sale of the Securities to the public from time to time commencing on the first anniversary of the Effective Date and ending at 5:00 p.m. Pacific Time on the fifth anniversary of the Effective Date (the "Registration Period"). The Company will also file such applications and other documents necessary to permit the sale of the Securities to the public during the Registration Period in those states in which the shares of Common Stock were qualified for sale in the Offering or such other states as the Company and the Warrantholder agree to. In order to comply with the provisions of this Section 6(a), the Company is not required to file more than one registration statement. The Company will initially register the Securities

on the registration statement to be used by the Company for the Offering. No registration right of any kind, "piggyback" or otherwise, will last longer than five years from the Closing Date.

(b) The Company will pay all of the Company's Expenses and each Warrantholder will pay its pro rata share of the Warrantholder's Expenses relating to the registration, offer, and sale of the Securities.

(c) Except as specifically provided herein, the manner and conduct of the registration, including the contents of the registration, will be entirely in the control and at the discretion of the Company. The Company will file such post-effective amendments and supplements as may be necessary to maintain the currency of the registration statement during the period of its use. In addition, if the Warrantholder participating in the registration is advised by counsel that the registration statement, in their opinion, is deficient in any material respect, the Company will use its best efforts to cause the registration statement to be amended to eliminate the concerns raised.

(d) The Company will furnish to the Warrantholder the number of copies of a prospectus, including a preliminary prospectus, in conformity with the requirements of the Act, and such other documents as it may reasonably request in order to facilitate the disposition of Securities owned by it.

(e) The Company will, at the request of Warrantholders holding at least 50 percent of the then outstanding Warrants, (i) furnish an opinion of the counsel representing the Company for the purposes of the registration pursuant to this Section 6, addressed to the Warrantholders and any Participating Underwriter, (ii) furnish an appropriate letter from the independent public accountants of the Company, addressed to the Warrantholders and any Participating Underwriter, and (iii) make representations and warranties to the Warrantholders and any Participating Underwriter. A request pursuant to this subsection (e) may be made on three occasions. The documents required to be delivered pursuant to this subsection (e) will be dated within ten days of the request and will be, in form and substance, equivalent to similar documents furnished to the underwriters in connection with the Offering, with such changes as may be appropriate in light of changed circumstances.

7. Indemnification in Connection with Registration.

(a) If any of the Securities are registered, the Company will indemnify and hold harmless each selling Warrantholder, any person who controls any selling Warrantholder within the meaning of the Act, and any Participating Underwriter against any losses, claims, damages, or liabilities, joint or several, to which any Warrantholder, controlling person, or Participating Underwriter may be subject under the Act or otherwise; and it will reimburse each Warrantholder, each controlling person, and each Participating Underwriter for any legal or other expenses reasonably incurred by the Warrantholder, controlling person, or Participating Underwriter in connection with investigating or defending any such loss, claim, damage, liability, or action, insofar as such losses, claims, damages, or liabilities, joint or several (or actions in

respect thereof), arise out of or are based upon any untrue statement or alleged untrue statement of any material fact contained, on the effective date thereof, in any such registration statement or any preliminary prospectus or final prospectus, or any amendment or supplement thereto, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading; provided, however, that the Company will not be liable in any case to the extent that any loss, claim, damage, or liability arises out of or is based upon any untrue statement or alleged untrue statement or omission or alleged omission made in any registration statement, preliminary prospectus, final prospectus, or any amendment or supplement thereto, in reliance upon and in conformity with written information furnished by a Warrantholder for use in the preparation thereof. The indemnity agreement contained in this subparagraph (a) will not apply to amounts paid to any claimant in settlement of any suit or claim unless such payment is first approved by the Company, such approval not to be unreasonably withheld.

(b) Each selling Warrantholder, as a condition of the Company's registration obligation, will indemnify and hold harmless the Company, each of its directors, each of its officers who have signed any registration statement or other filing or any amendment or supplement thereto, and any person who controls the Company within the meaning of the Act, against any losses, claims, damages, or liabilities to which the Company or any such director, officer, or controlling person may become subject under the Act or otherwise, and will reimburse any legal or other expenses reasonably incurred by the Company or any such director, officer, or controlling person in connection with investigating or defending any such loss, claim, damage, liability, or action, insofar as such losses, claims, damages, or liabilities (or actions in respect thereof) arise out of or are based upon any untrue or alleged untrue statement of any material fact contained in said registration statement, any preliminary or final prospectus, or other filing, or any amendment or supplement thereto, or arise out of or are based upon the omission or the alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, but only to the extent that such untrue statement or alleged untrue statement or omission or alleged omission was made in said registration statement, preliminary or final prospectus, or other filing, or amendment or supplement, in reliance upon and in conformity with written information furnished by such Warrantholder for use in the preparation thereof; provided, however, that the indemnity agreement contained in this subparagraph (b) will not apply to amounts paid to any claimant in settlement of any suit or claim unless such payment is first approved by the Warrantholder, such approval not to be unreasonably withheld.

(c) Promptly after receipt by an indemnified party under subparagraphs (a) or (b) above of notice of the commencement of any action, such indemnified party will, if a claim in respect thereof is to be made against an indemnifying party, notify the indemnifying party of the commencement thereof; but the omission to notify the indemnifying party will not relieve it from any liability that it may have to any indemnified party otherwise than under subparagraphs (a) and (b).

(d) If any such action is brought against any indemnified party and it notifies an indemnifying party of the commencement thereof, the indemnifying party will be entitled to participate in, and, to the extent that it may wish, jointly with any other indemnifying party similarly notified, to assume the defense thereof, with counsel satisfactory to such indemnified party; and after notice from the indemnifying party to such indemnified party of its election to assume the defense thereof, the indemnifying party will not be liable to such indemnified party for any legal or other expenses subsequently incurred by such indemnified party in connection with the defense thereof other than reasonable costs of investigation.

8. Restrictions on Transfer. This Warrant Certificate and the Warrant may not be sold, transferred, assigned or hypothecated for a one-year period after the Effective Date except to underwriters of the Offering or to individuals who are either a partner or an officer of such an underwriter or by will or by operation of law. The Warrant may be divided or combined, upon request to the Company by the Warrantholder, into a certificate or certificates evidencing the same aggregate number of Warrants.

9. No Rights as a Stockholder. Except as otherwise provided herein, the Warrantholder will not, by virtue of ownership of the Warrant, be entitled to any rights of a shareholder of the Company but will, upon written request to the Company, be entitled to receive such quarterly or annual reports as the Company distributes to its stockholders.

10. Notice. Any notices required or permitted to be given hereunder will be in writing and may be served personally or by mail; and if served will be addressed as follows:

If to the Company:

3800 Gateway Boulevard, Suite 310
Morrisville, North Carolina 27560
Attn: President

If to the Warrantholder:

at the address furnished by the
Warrantholder to the Company for the
purpose of notice.

Any notice so given by mail will be deemed effectively given 48 hours after mailing when deposited in the United States mail, registered or certified mail, return receipt requested, postage prepaid and addressed as specified above. Any party may by written notice to the other specify a different address for notice purposes.

11. Applicable Law. This Warrant Certificate will be governed by and construed in accordance with the laws of the State of Oregon, without reference to conflict of laws principles thereunder. All disputes relating to this Warrant Certificate shall be tried before the courts of

Oregon located in Multnomah County, Oregon to the exclusion of all other courts that might have jurisdiction.

Dated as of _____, 1997

C3, INC.

By:

Its:

Agreed and Accepted as of _____, 1997.

PAULSON INVESTMENT COMPANY, INC.

By:

Its:

EXHIBIT 10.1

AGREEMENT

This Agreement ("Agreement") effective the 1st day of May, 1997, is made by and between C3, INC., (the "Company"), and Dr. Kurt Nassau (hereinafter called "Director").

W I T N E S S E T H:

The Company is currently in the business of developing, manufacturing, producing, designing and marketing (i) silicon carbide materials as gemstones and (ii) gemological testing instruments (collectively the "Business") and may expand or improve its existing products and technology and may expand into new applications for silicon carbide. The Company desires the Director to play an integral part in the development of key intellectual property for the Company during which endeavor he will have access to confidential and proprietary information of the Company and develop additional intellectual property and inventions which shall be confidential and proprietary to the Company. The Company has, effective as of the date hereof, granted to Dr. Kurt Nassau additional options for the Company's common stock as consideration for such services.

NOW, therefore, in consideration of the premises hereto. the mutual covenants and conditions herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto do hereby agree as follows:

1. Noncompetition Covenants of Director. In recognition of Director's acknowledgment that the services to be rendered to the Company are of a special and unusual character which have a unique value to the Company, loss of which cannot adequately be compensated by damages in any action at law, in view of the unique value to the Company of the services which the Director shall render to the company and the confidential information to be obtained by or disclosed to Director; and as a material inducement to the Company to grant to the Director certain options for such services to be rendered to the Company by the Director, Director covenants and agrees as follows:

(a) Period of Covenant. The period of this noncompetition covenant (the "Noncompetition Period") shall begin on the date of termination of Dr. Nassau's service to the Company a director and shall continue for one year.

(b) Nature and Area of Competition. Director agrees that for the duration of the Noncompetition Period, Director shall not, in the Territory (as defined below), directly or indirectly, serve as an owner, officer, director, engineer, designer, salesperson or manager for any business (i) which engages in the Business, or (ii) which engages in any additional business in which the Company is engaged at the time of the commencement of the Noncompetition Period for purposes of this Agreement. "Territory" shall mean (i) throughout the world, but if such area is determined by judicial action to be too broad, then (ii) the United States of America.

2. Discoveries are Property of the Company. Director agrees that all discoveries, developments, designs, improvements, inventions, formula, processes, techniques, program, know how, data, brand identifications or other product identifiers (whether or not used by the Company as a trademark) or other information of possible technical or commercial importance relating to the development, manufacture, production, design or marketing of any consumer or industrial applications for silicon carbide made by Director alone or with others at any time, during Director's access to the Company's Proprietary Information ("Developments") shall be the sole property of the Company and deemed "work made for hire" (as defined in Section 101 of the U.S. Copyright Act of 1976, as amended). If, for any reason, any such Development does not qualify as a work made for hire, Director agrees to assign, and hereby assigns, to the Company, all right, title and interest (including, but not limited to all patent rights, common law and statutory trademark rights and copyrights) in and to such Development, free and clear of any liens, claims or encumbrances (except as otherwise contemplated herein). To the extent any of the Developments created by Director hereunder incorporates or utilizes the proprietary rights of any third party, Director represents and warrants that Director's use of such proprietary rights is pursuant to an existing license from the owner thereof (with full right to sublicense), and Director and the Company expressly acknowledge that the assignment contemplated by this Agreement will instead be a royalty-free sublicense with respect to any licensed components of the Developments. Director also agrees that Director w ill neither (i) adopt nor use any such Developments (or any material portion of such Developments) for Director's use, nor (ii) present any such Developments (or any material portion of such Developments) to any third party (including, but not limited to, any customer of the Company) for such party's use; provided, however that nothing in this Agreement shall be construed to restrict Director's continued use of (1) proprietary rights in materials that are the subject of an existing license from the owner thereof (with full right to sublicense), or (2) materials considered to be generic or in the public domain. Director agrees to assist the Company in every necessary way to obtain or enforce any patents, copyrights or any proprietary rights relating to the Developments and to execute all documents and applications necessary to vest in the Company full legal title in such developments, and Director agrees to continue this assistance after the termination of this Agreement. Furthermore, Director hereby designates and appoints the Company and its duly authorized officers and agents as Director's agents and attorneys-in-fact to execute and file any certificates, applications or documents and to do all other lawful acts necessary to protect the company's rights in the Developments. Director expressly acknowledges that the foregoing power of attorney is coupled with an interest and is therefore irrevocable and shall survive Director's termination, death or incompetency.

3. Reasonableness of Restrictions. Director has carefully read and considered the provisions of this Agreement and, having done so, agrees that the restrictions set forth in this Agreement (including, but not limited to, the time period of restriction and the geographical areas of restriction set forth in Section 2) are fair and reasonable and are reasonably required for the protection of the interests of the Company. Notwithstanding the foregoing, in the event any part of the covenants set forth in Sections 1 or 2 shall be held to be invalid or unenforceable, the remaining parts thereof shall nevertheless continue to be valid and enforceable as though the invalid or unenforceable parts had not been included therein. In the event that any provision of

Section 2 relating to time period and/or geographical areas of restriction shall be declared by a court of competent jurisdiction to exceed the maximum time period and/or geographical areas of restriction such court deems reasonable and enforceable, said time period and/or geographical areas of restriction shall be deemed to become and thereafter be the maximum time period and/or geographical areas of restriction that such court deems reasonable and enforceable.

4. Accounting for Profits. Director covenants and agrees that if Director violates any of the covenants or agreements under Sections 1 or 2, the Company shall be entitled to an accounting and repayment of all profits, compensation, commissions, remuneration or benefits that Director directly or indirectly has realized and/or may realize as a result of, growing out of or in connection with any such violation; such remedy shall be in addition to and not in limitation of any injunctive relief or other rights or remedies that the Company is or may be entitled at law, in equity or under this Agreement.

5. Miscellaneous.

(a) Entire Agreement. This Agreement constitutes the entire agreement and understanding between the parties hereto with the respect to the subject matter contained herein, and supersedes and cancels any and all prior agreements between the parties hereto relating to the subject matter. The parties hereto acknowledge that no promises, statements or representations, other than those contained or referred to in this Agreement, have been made to induce any party to enter into this Agreement The parties hereto confirm that they have each read this Agreement in its entirety, that they have had the opportunity to consult with legal counsel, and that they understand the nature and effect of this Agreement. The recitals set forth above are incorporated herein by reference.

(b) Injunction. In the event of a breach or threatened breach by Director of the provisions of this Agreement, the Company shall, in addition to any other rights and remedies available to it, at law or otherwise, be entitled to an injunction to be issued by any court of competent jurisdiction enjoining and restraining Director from committing any present violation or future violation of this Agreement.

(c) Assignment. The rights and obligations of the Company hereunder shall inure to the benefit of and shall be binding upon its successors and assigns. This Agreement is personal to Director. Director may not assign or delegate any of Director's rights or obligations hereunder, and any attempted assignment or delegation shall be null and void.

(d) Choice of Law. This Agreement shall be governed by and construed in accordance with the laws of the State of North Carolina without reference to the choice of law principles thereof. If any dispute arises hereunder, the parties hereto agree that any suit brought by either party shall be heard in the courts of North Carolina or any federal court sitting in North Carolina, and the parties hereto consent to the jurisdiction of such courts.

(e) Waiver. Failure to insist upon strict compliance with any provision hereof shall not be deemed a waiver of such provision or any other provision hereof.

(f) Amendment. This Agreement may not be modified except by an agreement in writing executed by both of the parties hereto.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the day and year first above written.

COMPANY	DIRECTOR
C3, Inc.	
By: /s/ Jeff N. Hunter	/s/ Dr. Kurt Nassau (SEAL)
Jeff N. Hunter, President	Dr. Kurt Nassau

EXHIBIT 10.2

May 17, 1997

Dr. Kurt Nassau
_____
_____

Dear Kurt:

Because of the increasing time commitment C3 has for your gemological expertise, I propose that we enter into a twelve month consulting relationship. These services would be provided outside of the normal duties as a Director of C3.

It is my understanding that a retainer of $1,000 per month will secure two consulting days per month. Upon approval by the Board of Directors, these services would begin retroactive to April 1997 and end March 1998 (see attached consulting rate terms for details).

The consulting services would include, but are not limited to, the following:

- - Training staff in the science of color and its application to moissanite;
- - Consulting on key gemological characteristics;
- - Providing public relations support through seminars; and,
- - Others as may arise.

Thank you for your continued support of C3 and synthetic moissanite gemstones.

Sincerely,

/s/ Jeff N. Hunter

Jeff N. Hunter

The signatures below indicate agreement by C3 and Nassau Consultants to this twelve month consulting relationship:

/s/ Jeff Hunter	/s/ Kurt Nassau
- ----------	----------
Jeff Hunter (C3)	Kurt Nassau (Nassau Consultants)

CONSULTING RATE TERMS FOR NASSAU CONSULTANTS

A minimum of $1,000 per month (equal to two consulting days) plus expenses. C3 will receive a statement each month from Nassau Consultants showing the charges and/or accumulated time. Payment will be made within 15 days after receipt of your statement.

In addition to the statement of services, a calendar of open days for the following two months will be included to facilitate scheduling of meetings.

At the end of six months:

- - Time spent in excess of two days per month will be paid by C3.
- - If more than two days of un-used consulting time accumulate then the next month's fee may be waived or the contract may be extended without a monthly fee until the accumulated time is used.

EXHIBIT 10.3

February 17, 1997

W. Howard Rubin
GemDialogue Systems, Inc.
_____
_____

Dear Howard:

In response to your letter of January 1, 1997, C3 is delighted to enter into a twelve month consulting relationship with your services through GemDialogue Systems, Inc. (GemDialogue). These services are provided outside of the normal duties as a Director of C3.

It is my understanding that a retainer of $ 1,000 per month will secure two consulting days per month (see Attachment A: GemDialogue Consulting Rate Chart). Payment will be made within 15 days after the end of each month. These services would begin effective February 1997 and end January 1998.

The consulting services include, but are not limited to, the following:

- - Facilitating plans for arrangement of work areas as one would for a diamond or gem company;
- - Training staff in the language and tools of the jewelry trade;
- - Explaining the demographics of the jewelry industry as it relates to distribution chains; or providing public relations support through seminars, and,
- - Others as may arise.

Thank you for your continued support of C3 and synthetic moissanite gemstones.

Sincerely,

/s/ Jeff Hunter

Jeff Hunter

Enclosure: Attachment A: GemDialogue Consulting Rate Chart

The signatures below indicate agreement by C3 and GemDialogue Systems to this twelve month consulting relationship:

/s/ Jeff Hunter	/s/ Howard Rubin
- ----------	----------
Jeff Hunter (C3)	Howard Rubin for GemDialogue

ATTACHMENT A

GEMDIALOGUE CONSULTING RATE CHART

DAILY RATE + EXPENSES	PAYMENT TERMS	COMMENTS
$1000.00 PER 8 MR DAY UP TO THREE DAYS.	BILLING AFTER ASSIGNMENT OR EVERY 30 DAYS. (Whichever is first)	TRAVEL EXPENSES MUST BE PAID, BUT BILLING IS NOT ADDED FOR TRAVEL TIME UNLESS RETURNING THE SAME DAY.
$800.00 PER DAY IF ASSIGNMENT IS LONGER THAN THREE DAYS.	DEPOSIT OF 25% OF PROPOSAL ESTIMATE IN ADVANCE AND BILLING AS ABOVE.	SAME AS ABOVE
$500.00 PER DAY IN ADDITION TO RETAINER* FEE, IF ON A RETAINER BASIS AND EXTRA SERVICES ARE NEEDED AS LISTED ABOVE.	RETAINER OF $1000.00 PER MONTH FOR LENGTH OF CONTRACT WITH ADJUSTMENTS MADE BASED ON 2 DAYS OF SERVICE PER MONTH. RETAINER CONTRACTS MAY BE MADE FOR	TRAVEL EXPENSES AS ABOVE. CONTRACT TIME BECOMES CUMULATIVE IF NOT USED DURING MONTH. IF MORE THAN TWO DAYS OF TIME IS ACCUMULATED THE NEXT MONTH'S FEE MAY BE WAIVED OR THE
RETAINER BASED CHARGES ARE OUR LOWEST CHARGE.	MINIMUMS OF 6 MONTHS.	CONTRACT MAY BE EXTENDED WITHOUT MONTHLY FEE UNTIL ACCUMULATED TIME IS USED. NO WAIVER OF FEES BEFORE THREE MONTHS.

*RETAINER BASED ACCOUNTS WILL RECEIVE STATEMENTS EACH MONTH SHOWING CHARGES AND/OR ACCUMULATED TIME.

EXHIBIT 10.4

INDEPENDENT CONTRACTOR AGREEMENT

THIS INDEPENDENT CONTRACTOR AGREEMENT, made effective as of the 1st day of May, 1997 by and between C3, INC., a North Carolina corporation (the "Company"), and Paula K. Berardinelli (the "Contractor").

RECITALS:

A. The Company is engaged in the business of designing, developing, manufacturing and selling moissanite gemstones (the "Business").

B. The Contractor served as Vice President of Sales and Marketing for the Company but has taken a leave of absence from such position.

C. The Company wishes the Contractor to continue to assist the Company in providing marketing and sales, organization and management and other consulting services for the Business.

D. The Contractor desires to provide such services to the Company on the terms and for the compensation set for herein.

NOW, THEREFORE, the parties hereto agree as follows:

1. ENGAGEMENT. The Company hereby engages the Contractor as a nonexclusive contractor to perform the Services (as defined below) subject to the terms and conditions of this Agreement, and the Contractor hereby accepts such engagement for and in consideration of the compensation hereinafter provided and agrees to use his best efforts performing the Services. The Contractor shall perform her obligations hereunder in compliance with the terms of this Agreement and any and all applicable laws and regulations. The Contractor acknowledges that this is a nonexclusive engagement by the Company and that the Company retains the right to appoint additional contractors as the Company. in its sole and unrestricted judgment, may from time to time determine to be in the best interests of the Company without liability or obligation to the Contractor.

2. SERVICES.

(a) The Contractor agrees to provide marketing and sales, organization and management and other consulting services for the Company and perform other duties related thereto as the Company may determine from time to time (the "Services"). The Contractor warrants to the Company that the Services will be performed in a professional, timely and workmanlike manner.

(b) The Contractor shall execute a Nondisclosure and Noncompetition Agreement in substantially the form attached hereto as Exhibit A concurrent with the execution of this Agreement.

3. LICENSES; TOOLS AND MATERIALS. The Contractor shall be responsible for obtaining, at the Contractor's own expense, all licenses, permits and bonds as may be required by any federal, state or local law or regulation for the performance of the Contractor's duties hereunder. The Company shall be responsible for supplying at its cost all necessary tools and materials to be used by the Contractor.

4. LIMITATIONS. Nothing in this Agreement shall be construed to give the Contractor authority to represent the Company before any court or governmental or regulatory agency without the express prior written authorization of the Company. In addition, all files, books, accounts, records and other information of any nature, however recorded or stored, and related to the Company (the "Records") shall at all times belong to the Company and to the extent possessed by the Contractor hereunder, such possession shall be for the benefit of and as agent for the Company. The Contractor's possession of the Records is at the will of the Company and is solely for the purpose of enabling the Contractor to perform his obligations hereunder. The Records shall be readily separable from the records of the Contractor.

5. TERM. The term of this Agreement shall commence on the date hereof and shall continue thereafter through and including the close of business on April 30, 1998. At the end of the term, the Contractor shall have the option, in her sole discretion, to return to the Company in her prior position or a position equivalent to her prior position as Vice President of Sales and Marketing. Notwithstanding the foregoing, the Company may terminate this Agreement for "cause," as defined herein, by giving written notice at least 30 days in advance of its desire to terminate this Agreement for cause. The Company shall be deemed to have cause for terminating the Contractor's engagement in the event the Contractor (i) demonstrates any dishonesty or engages in any act of moral turpitude, (ii) improperly performs or fails to perform the Services described herein, (iii) causes intentional damage to substantial property of the Company, or (iv) is unable to perform the Services because of death or a disability which renders her unable to perform the Services for 30 consecutive calendar days.

6. FEES. As compensation for the performance of the Services, the Company shall pay to the Contractor the amounts agreed to from time to time by the Company and the Contractor. No amounts (including, without limitation, social security, federal and state withholding taxes) shall be withheld or otherwise subtracted from the compensation paid to the Contractor pursuant to this Section 6 unless required by law. In addition, the Contractor shall be reimbursed for all expenses incurred by the Contractor on behalf (and with the prior written authorization) of the Company within 15 days from the date the Contractor delivers an itemized report of such expenses, together with receipts or other evidence of payment reasonably satisfactory to the Company and its accountant.

7. INDEMNIFICATION. The Contractor shall defend, release, indemnify and hold the Company and its directors, officers, shareholders, employees and agents and the personal representatives and assigns of each, harmless from and against any and all claims, suits, liability, costs and expenses, including, without limitation, attorneys' fees and expenses, in connection with any act

or omission of the Contractor, his employees and/or agents in connection with the provision of the Services.

8. INSURANCE REPRESENTATIONS; WORKPLACE SAFETY. The Contractor agrees to maintain liability, worker's compensation, errors and omission and/or other insurance such amounts and with such carriers as the Company may reasonably request, each of which policies shall, upon request of the Company, name the Company as an additional insured. In addition, the Contractor shall be solely responsible for workplace safety, shall maintain the workplace in accordance with industry standards and shall comply with all governmental (including federal, state and local) regulations.

9. NOTICES. All notices, demands, requests or other communications which may be or are required to be given, served or sent by one party to the other party pursuant to this Agreement shall be in writing and shall be hand delivered or mailed by certified mail return receipt requested, postage prepaid, or sent by telefax, addressed as follows:

If to the Company:

P.O. Box 13533
Research Triangle Park, NC 27709
Attention: Jeff Hunter, President
Telecopy: (919) 468-0486

If to the Contractor:

_____
_____
_____

Each party may designate by notice in writing a new address to which any notice, demand, request or communication may thereafter be delivered, given or sent. Documents delivered by hand shall be deemed to have been received upon delivery; documents sent by telefax shall be deemed to have been received when the answer back is received; and documents sent by mail shall be deemed to have been received upon their receipt or at such time as delivery is refused by the addressee upon presentation.

10. SECURITY. The Contractor agrees that she will at all times comply with all security regulations in effect from time to time at the Company's premises or applicable outside such premises to materials belonging to the Company. The Contractor agrees not to use or disclose to any party any information, systems, equipment, ideas, processor or methods of operation observed in connection with the performance of his obligations hereunder.

11. INDEPENDENT CONTRACTOR.

(a) Acknowledgment by the Contractor. The Contractor acknowledges and agrees that the Contractor will be treated, vis-a-vis the Company, as an independent contractor and

not as an employee, agent or authorized representative of the Company. The Contractor shall have no authority to bind the Company to any contract, agreement or obligation whatsoever. The acts of the Contractor shall in no way constitute the acts of the Company, and the Contractor shall not represent to any third party that the Contractor has any express or implied authority to bind the Company to any such contract, agreement or obligation.

(b) Tax Matters. Because the Contractor is an independent contractor, the Company will not withhold from any compensation paid to the Contractor any amounts for federal or state income taxes, or social security (FICA) for the Contractor, nor will the Company pay any social security or unemployment tax with respect to the Contractor. Such taxes are the responsibility of the Contractor. The Contractor agrees to indemnify and hold the Company (including its employees, officers, directors, agents, subsidiaries or affiliates) harmless, and hereby indemnifies and hold the Company harmless, from and against any damage, claim, assessment, interest charge or penalty incurred by or charged to the Company as a result of any claim, cause of action or assessment by any federal or state government or agency for any nonpayment or late payment by the Contractor of any tax or contribution based upon compensation paid hereunder or because the Company did not withhold any taxes from compensation paid hereunder.

(c) No insurance. Consistent with the Contractor's status as an independent contractor, the Company will not provide the Contractor with any company, individual or group insurance policy or any other kind of insurance coverage whatsoever.

12. ASSIGNMENT. Neither this Agreement or any interest herein or any rights hereunder shall be sold or assigned by the Contractor, nor shall any of the duties of the Contractor hereunder be delegated to any person, firm or corporation, without prior notice to and consent of the Company.

13. INTELLECTUAL PROPERTY. Any inventions, copyrights or other intellectual property created or developed by the Contractor or the Contractor's employees, or associates or subcontractors during the term of this Agreement related to the work performed under the Agreement shall be assigned to the Company.

14. STANDARD OF CARE. The Contractor warrants that she will exercise due diligence to performance Services in a professional manner in compliance with all applicable laws and regulations and the highest ethical standards. In addition, the Contractor represents and warrants that any information which she may supply the Company during the term of this Agreement (i) will have been obtained by the Contractor lawfully and firm publicly available sources and (ii) will not be confidential or proprietary to any third person. Nothing in this Agreement shall be construed as authorizing or encouraging the Contractor to obtain information for the Company in violation of any third party's rights to copyright or trade secret protection.

15. MISCELLANEOUS.

(a) The provisions of this Agreement may be waived, altered, amended or repealed, in whole or in part, only on the written consent of the Company and the Contractor.

(b) Section headings and numbers used in this Agreement are included for convenience of reference only, and, if there is any conflict between any such numbers and headings and the text of this Agreement, the text shall control. Each of the statements set forth in the premises of this Agreement is incorporated into the Agreement as a valid and binding representation of the party or parties to whom it relates.

(c) This Agreement shall be governed by and construed in accordance with the laws of the State of North Carolina without reference to the choice of law principles thereof. If any dispute arises hereunder, the parties hereto agree that any suit brought by either party shall be heard in the courts of North Carolina or any federal court sitting in North Carolina, and the parties hereto consent to the jurisdiction of such courts.

(d) This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

(e) This Agreement, together with the Confidential Disclosure Agreement herein referenced represent the entire agreement of the parties with respect to the subject matter hereof and supersede in their entirety any and all prior written or oral agreements with respect thereto.

(f) Neither party shall have the right under this Agreement to use the name, trademark or trade names of the other, unless prior written approval has been obtained. Any such approval or authorization shall cease upon termination of this Agreement.

IN WITNESS WHEREOF, the duly authorized representations of the parties have executed this Independent Contractor Agreement as of the date and year first above written.

COMPANY

C3, Inc.

By: /s/ Jeff Hunter

Jeff Hunter, President

CONTRACTOR

/s/ Paula K. Berardinelli (SEAL)

Paula K. Berardinelli

EXHIBIT 10.5

INDEPENDENT CONTRACTOR AGREEMENT

THIS INDEPENDENT CONTRACTOR AGREEMENT, made effective as of the 3 day of September, 1997 by and between C3, INC., a North Carolina corporation (the "Company"), and C. Eric Hunter (the "Contractor").

RECITALS:

A. The Company is engaged in the business of designing, developing, manufacturing and selling moissanite gemstones (the "Business") and desires to engage the Contractor to assist the Company in providing consulting services related to intellectual property of patents filed for the business (the "Services").

B. The Contractor desires to provide such services to the Company on the terms and for the compensation set forth herein.

NOW, THEREFORE, the parties hereto agree as follows:

1. ENGAGEMENT. The Company hereby engages the Contractor as a nonexclusive contractor to perform the Services subject to the terms and conditions of this Agreement, and the Contractor hereby accepts such engagement for and in consideration of the compensation hereinafter provided and agrees to use his best efforts in performing the Services. The Contractor shall perform his obligations hereunder in compliance with the terms of this Agreement and any and all applicable laws and regulations. The Contractor acknowledges that this is a nonexclusive engagement by the Company and that the Company retains the right to appoint additional contractors as the Company, in its sole and unrestricted judgment, may from time to time determine to be in the best interests of the Company without liability or obligation to the Contractor.

2. SERVICES.

(a) The Contractor agrees to provide the Services The Contractor warrants to the Company that the Services will be performed in a professional, timely and workmanlike manner.

(b) The Contractor shall execute a Nondisclosure and Noncompetition Agreement in substantially the form attached hereto as Exhibit A concurrent with the execution of this Agreement.

3. LICENSES; TOOLS AND MATERIALS. The Contractor shall be responsible for obtaining, at the Contractor's own expense, all licenses, permits and bonds as may be required by any federal, state or local law or regulation for the performance of the Contractor's duties hereunder. The Company shall be responsible for supplying at its cost all necessary tools and materials to be used by the Contractor.

4. LIMITATIONS. Nothing in this Agreement shall be construed to give the Contractor authority to represent the Company before any court or governmental or regulatory agency without the express prior written authorization of the Company. In addition, all files, books, accounts, records and other information of any nature, however recorded or stored, and related to the Company (the "Records") shall at all times belong to the Company and to the extent possessed by the Contractor hereunder, such possession shall be for the benefit of and as agent for the Company. The Contractor's possession of the Records is at the will of the Company and is solely for the purpose of enabling the Contractor to perform his obligations hereunder. The Records shall be readily separable from the records of the Contractor.

5. TERM. The terms of this Agreement shall commence on the date hereof and shall continue thereafter through and including the close of business on September 3, 1999. Notwithstanding the foregoing, the Company may terminate this Agreement for "cause," as defined herein, by giving written notice of at least 30 days in advance of its desire to terminate this Agreement for cause. The Company shall be deemed to have cause for terminating the Contractor's engagement in the event the Contractor (i) demonstrates any dishonesty or engages in any act of moral turpitude, (ii) improperly performs or fails to perform the Services described herein, (iii) causes intentional damage to substantial property of the Company, or (iv) is unable to perform the Services because of death or a disability which renders him unable to perform the Services for 30 consecutive calendar days.

6. FEES. As compensation for the performance of the Services, the Company shall pay to the Contractor $1,800 per month. No amounts (including, without limitation, social security, federal and state withholding taxes) shall be withheld or otherwise subtracted from the compensation paid to the Contractor pursuant to this Section 6 unless required by law. In addition, the Contractor shall be reimbursed for all expenses incurred by the Contractor on behalf (and with the prior written authorization) of the Company within 15 days from the date the Contractor delivers an itemized report of such expenses, together with receipts or other evidence of payment reasonably satisfactory to the Company and its accountant.

7. INDEMNIFICATION. The Company shall defend, release, indemnify and hold the Consultant harmless from and against any and all claims, suits, liability, costs and expenses, including, without limitation, attorneys' fees and expenses, arising out of the provision of any Services or work by the Consultant; provided the Company is given prompt written notice of such claims and control of the defense and settlement negotiations.

8. INSURANCE REPRESENTATIONS; WORKPLACE SAFETY. The Contractor agrees to maintain liability, worker's compensation, errors and omission and/or other insurance in such amounts and with such carriers as the Company may reasonably request, each of which policies shall, upon request of the Company, name the Company as an additional insured. In addition, the Contractor shall be solely responsible for workplace safety, shall maintain the workplace in accordance with industry standards and shall comply with all governmental (including federal, state and local) regulations.

9. NOTICES. All notices, demands, requests or other communications which may be or are required to be given, served or sent by one party to the other party pursuant to this Agreement shall be in writing and shall be hand delivered or mailed by certified mail, return receipt requested, postage prepaid, or sent by telefax, addressed as follows:

If to the Company:

P.O. Box 13533
Research Triangle Park, North Carolina 27709-3533
Attention: Jeff Hunter, President
Telecopy: (919) 468-0486

If to the Contractor:

_____
_____
_____

Each party may designate by notice in writing a new address to which any notice, demand, request or communication may, thereafter be delivered, given or sent. Documents delivered by hand shall be deemed to have been received upon delivery; documents sent by telefax shall be deemed to have been received when the answer back is received; and documents sent by mail shall be deemed to have been received upon their receipt, or at such time ~ delivery is refused by the addressee upon presentation.

10.SECURITY. The Contractor agrees that he will at all times comply with all security regulations in effect from time to time at the Company's premises or applicable outside such premises to materials belonging to the Company. The Contractor agrees not to use or disclose to any party any information, systems, equipment, ideas, processor or methods of operation observed in connection with the performance of his obligations hereunder.

11.INDEPENDENT CONTRACTOR.

(a) Acknowledgment by the Contractor. The Contractor acknowledges and agrees that the Contractor will be treated, vis-a-vis the Company, as an independent contractor and not as an employee, agent or authorized representative of the Company. The Contractor shall have no authority to bind the Company to any contract, agreement or obligation whatsoever. The acts of the Contractor shall in no way constitute the acts of the Company, and the Contractor shall not represent to any third party that the Contractor has any express or implied authority to bind the Company to any such contract, agreement or obligation.

(b) Tax Matters. Because the Contractor is an independent contractor, the Company will not withhold from any compensation paid to the Contractor any amounts for federal or state income taxes, or social security (FICA) for the Contractor, nor will the Company pay any social security or unemployment tax with respect to the Contractor. Such taxes are the responsibility of the Contractor. The Contractor agrees to indemnify and hold the Company (including its employees, officers, directors, agents, subsidiaries or affiliates) harmless, and hereby indemnifies and holds the Company harmless, from and against any damage, claim, assessment, interest charge or penalty incurred by or charged to the Company as a result of any claim, cause of action or assessment by any federal or state government or agency for any nonpayment or late payment by the Contractor of any tax or contribution based upon compensation paid hereunder or because the Company did not withhold any taxes from compensation paid hereunder.

(c) No Insurance. Consistent with the Contractor's status as an independent contractor, the Company will not provide the Contractor with any company, individual or group insurance policy or any other kind of insurance coverage whatsoever.

12. ASSIGNMENT. Neither this Agreement or any interest herein or any rights hereunder shall be sold or assigned by the Contractor, nor shall any of the duties of the Contractor hereunder be delegated to any person, firm or corporation, without prior notice to and consent of the Company.

13. INTELLECTUAL PROPERTY. Any inventions, copyrights or other intellectual property created or developed by the Contractor or the Contractor's employees, or associates or pr subcontractors during the term of this Agreement related to the work performed under the Agreement shall be assigned to the Company.

14. STANDARD OF CARE. The Contractor warrants that he will exercise due diligence to perform the Services in a professional manor in compliance with all applicable laws and regulations and the highest ethical standards. In addition, the Contractor represents and warrants that any information which he may supply the Company during the term of this Agreement (i) will have been obtained by the Contractor lawfully and from publicly available sources and (ii) will not be confidential or proprietary to any third person. Nothing in this Agreement shall be construed as authorizing or encouraging the Contractor to obtain information for the Company in violation of any third party's rights to copyright or trade secret protection.

15. MISCELLANEOUS.

(a) The provisions of this Agreement may be waived, altered, amended or repealed, in whole or in part, only on the written consent of the Company and the Contractor.

(b) Section headings and numbers used in this Agreement are included for convenience of reference only, and if there is any conflict between any such numbers and headings and the text of this Agreement, the text shall control. Each of the statements set

forth in the premises of this Agreement is incorporated into the Agreement as a valid and binding representation of the party or parties to whom it relates.

(c) This Agreement shall be governed by and construed in accordance with the laws of the State of North Carolina without reference to the choice of law principles thereof If any dispute arises hereunder, the parties hereto agree that any suit brought by either party shall be heard in the courts of North Carolina or any federal court sitting in North Carolina, and the parties hereto consent to the jurisdiction of such courts.

(d) This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

(e) This Agreement, together with the Nondisclosure and Noncompetition Agreement herein referenced represent the entire agreement of the parties with respect to the subject matter hereof and supersede in their entirety any and all prior written or oral agreements with respect thereto.

(f) Neither party shall have the right under this Agreement to use the name, trademark or trade names of the other unless prior written approval has been obtained. Any such approval or authorization shall cease upon termination of this Agreement.

IN WITNESS WHEREOF, the duly authorized representations of the parties have executed this Independent Contractor Agreement as of the date and year first above written

COMPANY

C3, Inc.

By: /s/ Jeff N. Hunter

Jeff N. Hunter, President

CONTRACTOR

/s/ C. Eric Hunter

C. Eric Hunter

EXHIBIT 10.6

INDEPENDENT CONTRACTOR AGREEMENT

THIS INDEPENDENT CONTRACTOR AGREEMENT, made effective as of the 10 day of July 1997 by and between C3, INC., a North Carolina corporation (the "Company"), and OLLIN B. SYKES (the "Contractor").

RECITALS:

A. The Company is engaged in the business of designing, developing, manufacturing and selling moissanite gemstones (the "Business") and desires to engage the Contractor to assist the Company in providing finance and business development services for the Business.

B. The Contractor desires to provide such services to the Company on the terms and for the compensation set forth herein.

NOW, THEREFORE, the parties hereto agree as follows:

1. ENGAGEMENT. The Company hereby engages the Contractor as a nonexclusive contractor to perform the Services (as defined herein) subject to the terms and conditions of this Agreement, and the Contractor hereby accepts such engagement for and in consideration of the compensation hereinafter provided and agrees to use his best efforts in performing the Services. The Contractor shall perform his obligations hereunder in compliance with the terms of this Agreement and any and all applicable laws and regulations. The Contractor acknowledges that this is a nonexclusive engagement by the Company and that the Company retains the right to appoint additional contractors as the Company, in it sole and unrestricted judgment, may from time to time determine to be in the best interests of the Company without liability or obligation to the Contractor.

2. SERVICES.

a. The Contractor agrees to provide finance and business development services for the Company and perform other duties related thereto as the Company may determine from time to time (the "Services"). Contractor warrants to the Company that the Services will be performed in a professional, timely and workmanlike manner.

b. The Contractor shall execute a Confidential Disclosure Agreement in substantially the form attached hereto as Exhibit A concurrent with the execution of this Agreement.

3. LICENSES; TOOLS AND MATERIALS. Contractor shall be responsible for obtaining, at Contractor's own expense, all licenses, permits and bonds as may be required by any federal, state or local law or regulation for the performance of Contractor's duties hereunder. The Company shall be responsible for supplying at its cost all necessary tools and materials to be used by Contractor.

4. LIMITATIONS. Nothing in this Agreement shall construed to give the Contractor authority to represent the Company before any court or governmental or regulatory agency without the express prior written authorization of the Company. In addition all files, books, accounts, records and other information of any nature, however recorded or stored, and related to the Company (the "Records") shall at all times belong to the Company and to the extent possessed by the Contractor hereunder, such possession shall be for the benefit of and as agent for the Company. The Contractor's possession of the Records is at the will of the Company and is solely for the purpose of enabling the Contractor to perform his obligations hereunder. The Records shall be readily separable from the records of the Contractor.

5. TERM. The term of this Agreement shall commence on the date hereof end shall continue thereafter through and including the close of business on July 9, 2002. Notwithstanding the foregoing, the Company may terminate this Agreement for "cause", as defined herein, by giving written notice of at least 30 days in advance of its desire to terminate this Agreement for cause. The Company shall be deemed to have cause for terminating Contractor's engagement in the event Contractor (i) demonstrates any dishonesty or engages in any act of moral turpitude, (ii) improperly performs or fails to perform the Services described herein, (iii) causes intentional damage to substantial property of the Company, or (iv) is unable to perform the Services because of death or a disability which renders him unable to perform the Services for 30 consecutive calendar days.

6. FEES. As compensation for the performance of the Services, the Company shall pay to the Contractor the amounts agreed to from time to time by the Company and the Contractor. No amounts (including without limitation, social security, federal and state withholding taxes) shall be withheld or otherwise subtracted from the compensation paid to the Contractor pursuant to this Section 5 unless required by law. In addition, the Contractor shall be reimbursed for all expenses incurred by the Contractor on behalf (and with the prior written authorization) of the Company within 15 days from the date the Contractor delivers an itemized report of such expenses, together with receipts or other evidence of payment reasonably satisfactory to the Company and its accountant.

7. INDEMNIFICATION. The Contractor shall defend, release, indemnify and hold the Company and its directors, officers, shareholders, employees and agents and the personal representatives and assigns of each, harmless from and against any and all claims, suits, liability, costs and expenses, including, without limitation, attorneys' fees and expenses, in connection with any knowing and intentional act or omission of the Contractor, his employees and/or agents in connection with the provision of the Services.

8. INSURANCE REPRESENTATIONS; WORKPLACE SAFETY. The Contractor agrees to maintain liability, worker's compensation, errors and omission and/or other insurance in such amounts and with such carriers as the Company may reasonably request, each of which policies shall, upon request of the Company, name the Company as an additional insured. In addition, the Contractor shall be solely responsible for workplace safety, shall maintain the workplace in accordance with industry standards and shall comply with all governmental (including federal, state and local) regulations.

9. NOTICES. All notices, demands, requests or other communications which may be or are required to be given, served or sent by one party to the other party pursuant to this Agreement shall be in writing and shall be hand delivered or mailed by certified mail, return receipt requested, postage prepaid, or sent by telefax, addressed as follows:

If to the Company:

P.O. Box 13533
Research Triangle Park, North Carolina 22709-3533
Attention: Jeff N. Hunter, President
Telecopy: (919) 468-0486

If to the Contractor:

Ollin B. Sykes
P.O. Box 1050
214 West Eden Street
Edenton, North Carolina 27932
Telecopy: (919) 482-2556

Each party may designate by notice in writing a new address to which any notice, demand, request or communication may thereafter be delivered, given or sent. Documents delivered by hand shall be deemed to have been received upon delivery, documents sent by telefax shall be deemed to have been received when the answer back is received; and documents sent by mail shall be deemed to have been received upon their receipt, or at such time as delivery is refused by the addressee upon presentation.

10. SECURITY. The Contractor agrees that he will at all times comply with all security regulations in effect from time to time at the Company's premises or applicable outside such premises' to materials belonging to the Company. The Contractor agrees not to use or disclose to any party any information, systems, equipment, ideas, processes or methods of operation observed in connection with the performance of his obligations hereunder.

11. INDEPENDENT CONTRACTOR.

a. Acknowledgment by Contractor. Contractor acknowledges and agrees that Contractor will be treated, vis-a-vis the Company as an independent contractor and not as an employee, agent or authorized representative of the Company. Contractor shall have no authority to bind the Company to any contract, agreement or obligation whatsoever. The acts of Contractor shall in no way constitute the acts of the Company and Contractor shall not represent to any third party that Contractor has any express or implied authority to bind the Company to any such contract, agreement or obligation.

b. Tax Matters. Because Contractor is an independent contractor, the Company will not withhold from any compensation paid to Contractor any amounts for federal

or state income taxes, or social security (FICA) for Contractor, nor will the Company pay any social security or unemployment tax with respect to Contractor. Such taxes are the responsibility of Contractor. Contractor agrees to indemnify and hold the Company (including its employees, officers, directors, agents, subsidiaries or affiliates) harmless, and hereby indemnifies and hold the Company harmless, from and against any damage, claim, assessment, interest charge or penalty incurred by or charged to the Company as a result of any claim, cause of action or assessment by any federal or state government or agency for any nonpayment or late payment by Contractor of any tax or contribution based upon compensation paid hereunder or because the Company did not withhold any taxes from compensation paid hereunder.

c. No Insurance. Consistent with Contractor's status as an independent contractor, the Company will not provide Contractor with any company, individual or group insurance policy or any other kind of insurance coverage whatsoever.

12. ASSIGNMENT. Neither this Agreement or any interest herein or any rights hereunder shall be sold or assigned by the Contractor, nor shall any of the duties of the Contractor hereunder be delegated to any person, firm or corporation, without prior notice to and consent of the Company.

13. INTELLECTUAL PROPERTY. Any inventions, copyrights, or other intellectual property created or developed by Contractor or Contractor's employees, or associates or sub-contractors during the term of this Agreement related to the work performed under the Agreement shall be assigned to the Company.

14. STANDARD OF CARE. The Contractor warrants that he will exercise due diligence to perform the Services in a professional manner in compliance with all applicable laws and regulations and the highest ethical standards. In addition the Contractor represents and warrants that any information which he may supply the Company during the term of this Agreement (i) will have been obtained by the Contractor lawfully and from publicly available sources' and (ii) will not be confidential or proprietary to any third person. Nothing in this Agreement shall be construed as authorizing or encouraging the Contractor to obtain information for the Company in violation of any third party's rights to copyright or trade secret protection,

15. MISCELLANEOUS.

a. The provisions of this Agreement may be waived, altered, amended or repealed, in whole or in part, only on the written consent of the Company and the Contractor.

b. Section headings and numbers used in this Agreement are included for convenience of reference only, and, if there is any conflict between any such numbers and headings, and the text of this Agreement, the text shall control. Each of the statements set forth in the premises of this Agreement is incorporated into the Agreement as a valid and binding representation of the party or parties to whom it relates.

c. This Agreement shall be governed by and construed in accordance with the laws of the State of North Carolina without reference to the choice of law principles thereof. If any

dispute arises hereunder, the parties hereto agree that any suit brought by either party shall be heard in the courts of North Carolina or any federal court sitting in North Carolina, and the parties hereto consent to the jurisdiction of such courts.

d. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

e. This Agreement, together with the Nondisclosure and Noncompetition Agreement herein referenced represent the entire agreement of the parties with respect to the subject matter hereof and supersede in their entirety any and all prior written or oral agreements with respect thereto.

f. Neither party shall have the right under this Agreement to use the name, trademark or trade names of the other, unless prior written approval has been obtained. Any such approval or authorization shall cease upon termination of this Agreement.

IN WITNESS WHEREOF, the duly authorized representatives of the parties have executed this Independent Contractor Agreement as of the date and year first above written.

COMPANY

C3, INC.

By: /s/Jeff N. Hunter

Jeff N. Hunter

CONTRACTOR

By: /s/Ollin Sykes (SEAL)

Ollin Sykes

EXHIBIT 10.7

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (the "Agreement") is made and entered into effective as of June 1, 1997 by and between C3, Inc., a North Carolina company with its principal office at 3800 Gateway Boulevard, Suite 310, Morrisville, North Carolina, 27560 (the "Company), and Jeff N. Hunter, an individual currently residing at _____ ("Employee").

Statement of Purpose

The Company wishes to obtain the services of Employee on the terms and conditions and with the additional benefits as set forth in this Agreement. Employee desires to be employed by the Company on such terms and conditions and with such benefits.

Therefore, in consideration of the mutual covenants contained in this Agreement and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Company and Employee agree as follows:

1. Employment. The Company hereby agrees to employ Employee, and Employee hereby accepts such employment, on the terms and conditions set forth in this Agreement.

2. Term of Employment. The term of Employee's employment under this Agreement shall commence as of the date of this Agreement and shall continue on and through May 31, 1998; provided, however, that upon the successful completion by the Company of an initial public offering raising a minimum of eight million dollars ($8,000,000) (an "IPO"), the term of this Agreement shall be extended on and through May 31, 2000. Termination of employment shall be governed by Paragraph 7 of this Agreement, and unless terminated by either party as provided in Paragraph 7, this Agreement shall automatically, at the expiration of each then existing term, renew for successive one year terms.

3. Position and Duties. The Employee shall serve as President and Chief Executive Officer of the Company. Employee will, under the direction of the Board of Directors, faithfully and to the best of his ability perform the duties as set out on Exhibit A hereto and such additional duties as may be reasonably assigned by the Board of Directors. Employee agrees to devote his entire working time, energy and skills to the Company while so employed.

4. Compensation and Benefits. Employee shall receive compensation and benefits for the services performed for the Company under this Agreement as follows:

(a) Base Salary. Employee shall receive a base salary of $110,000, payable in regular and equal monthly installments ("Base Salary"); provided, however, that upon the successful completion by the Company of an IPO, the Compensation Committee of

the Board of Directors may review the Employee's Base Salary and determine if an increase is warranted.

(b) Employee Benefits. Employee shall receive such benefits as are made available to the other employees of the Company, including, but not limited to, life, medical and disability insurance, retirement benefits and such vacation as is provided to the other employees of the Company (the "Employee Benefits").

(c) Incentive Compensation. Employee shall participate in such incentive plans as may be approved by the Board of Directors from time-to-time. The specific incentive compensation plans for 1998 are as set out on Exhibit B hereto.

5. Reimbursement of Expenses. The Company shall reimburse Employee for all reasonable out-of-pocket expenses incurred by Employee specifically and directly related to the performance by Employee of the services under this Agreement.

6. Withholding. The Company may withhold from any payments or benefits under this Agreement all federal, state or local taxes or other amounts as may be required pursuant to applicable law, government regulation or ruling.

7. Termination of Employment.

(a) Death of Employee. If the Employee shall die during the Term, this Agreement and the employment relationship hereunder will automatically terminate on the date of death, which date shall be the last day of the Term.

(b) Termination for Just Cause. The Company shall have the right to terminate the Employee's employment under this Agreement at any time for Just Cause, which termination shall be effective immediately. Termination for "Just Cause" shall include termination for the Employee's personal dishonesty, gross incompetence, willful misconduct, breach of a fiduciary duty involving personal profit, intentional failure to perform stated duties, willful violation of any law, rule, regulation (other than traffic violations or similar offenses), written Company policy or final cease-and-desist order, conviction of a felony or of a misdemeanor involving moral turpitude, unethical business practices in connection with the Company's business, misappropriation of the Company's assets (determined on a reasonable basis), or material breach of any other provision of this Agreement, provided that the Employee has received written notice from the Company of such material breach and such breach remains uncured thirty days after the delivery of such notice. In the event the Employee's employment under this Agreement is terminated for Just Cause, the Employee shall have no right to receive compensation or other benefits under this Agreement for any period after such termination.

(c) Termination Without Cause. The Company may terminate the Employee's employment other than for "Just Cause," as described in Subsection (b) above, at any time upon written notice to the Employee, which termination shall be effective immediately. In the event the Company terminates Employee pursuant to this Subsection (c), (i) the Employee will receive the highest amount of the annual cash compensation (including cash bonuses and other cash-based benefits, including for these purposes amounts earned or payable whether or not deferred) received from the Company during any of the three calendar years immediately preceding such termination ("Termination Compensation") in each year until the end of the Term, so long as the Employee complies with Sections 8, 9 and 10 of the Agreement and (ii) the Company shall take such action as may be required to vest any unvested benefits of the Employee under any employee stock-based or other benefit plan or arrangement. Such amounts shall be payable at the times such amounts would have been paid in accordance with Section 4. In addition, Employee shall continue to participate in the same group hospitalization plan, health care plan, dental care plan, life or other insurance or death benefit plan, and any other present or future similar group employee benefit plan or program for which officers of the Company generally are eligible, on the same terms as were in effect prior to Employee's termination, either under the Company's plans or comparable coverage, for all periods Employee receives Termination Compensation. Notwithstanding anything in this Agreement to the contrary, if Employee breaches Sections 8, 9 or 10 of this Agreement, the Employee will not be entitled to receive any further compensation or benefits pursuant to this Section 7(c).

(d) Change of Control Situations. In the event of a Change of Control of Company at any time after the date hereof, Employee may voluntarily terminate employment with Company up until twelve (12) months after the Change of Control for "Good Reason" and, subject to Section 7(f), (y) be entitled to receive in a lump sum (i) any compensation due but not yet paid through the date of termination and (ii) in lieu of any further salary payments from the date of termination to the end of the then existing term, an amount equal to the Termination Compensation times 2.99, and (z) shall continue to participate in the same group hospitalization plan, health care plan, dental care plan, life or other insurance or death benefit plan, and any other present or future similar group employee benefit plan or program for which officers of the Company generally are eligible, or comparable plans or coverage, for a period of two years following termination of employment by the Employee, on the same terms as were in effect either (A) at the date of such termination, or (B) if such plans and programs in effect prior to the Change of Control of Company are, considered together as a whole, materially more generous to the officers of Company, then at the date of the Change of Control. Any equity based incentive compensation (including but not limited to stock options, SARs, etc.) shall fully vest and be immediately exercisable in full upon a Change in Control, not withstanding any provision in any applicable plan. Any such benefits shall be paid by the Company to the same extent as they were so paid prior to the termination or the Change of Control of Company.

"Good Reason" shall mean the occurrence of any of the following events without the Employee's express written consent:

(i) the assignment to the Employee of duties inconsistent with the position and status of the Employee with the Company immediately prior to the Change of Control;

(ii) a reduction by the Company in the Employee's pay grade or base salary as then in effect, or the exclusion of Employee from participation in Company's benefit plans in which he previously participated as in effect at the date hereof or as the same may be increased from time to time during the Term, or Company's failure to increase (within twelve (12) months of the Employee's last increase in base salary) the Employee's base salary in an amount which at least equals, on a percentage basis, the average percentage increase in base salary for all executives entitled to participate in Company's executive incentive plans for which Employee was eligible in the preceding 12 months; or

(iii) an involuntary relocation of the Employee more than 50 miles from the location where the Employee worked immediately prior to the Change in Control or the breach by the Company of any material provision of this Agreement; or

(iv) any purported termination of the employment of Employee by Company which is not effected in accordance with this Agreement.

A "Change of Control" shall be deemed to have occurred if (i) any person or group of persons (as defined in Section 13(d) and 14(d) of the Securities Exchange Act of 1934) together with its affiliates, excluding employee benefit plans of Company, becomes, directly or indirectly, the "beneficial owner" (as defined in Rule 13d-3 promulgated under the Securities Exchange Act of 1934) of securities of Company representing 20% or more of the combined voting power of Company's then outstanding securities; or (ii) during the then existing term of the Agreement, as a result of a tender offer or exchange offer for the purchase of securities of Company (other than such an offer by the Company for its own securities), or as a result of a proxy contest, merger, consolidation or sale of assets, or as a result of any combination of the foregoing, individuals who at the beginning of any year period during such term constitute the Company's Board of Directors, plus new directors whose election by Company's shareholders is approved by a vote of at least two-thirds of the outstanding voting shares of the Company, cease for any reason during such year period to constitute at least two-thirds of the members of such Board of Directors; or (iii) the shareholders of the

Company approve a merger or consolidation of the Company with any other corporation or entity regardless of which entity is the survivor, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or being converted into voting securities of the surviving entity) at least 60% of the combined voting power of the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation; or (iv) the shareholders of the Company approve a plan of complete liquidation or winding-up of the Company or an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets; or (v) any event which the Company's Board of Directors determines should constitute a Change of Control.

(e) Employee's Right to Payments. In receiving any payments pursuant to this Section 7, Employee shall not be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to the Employee hereunder, and such amounts shall not be reduced or terminated whether or not the Employee obtains other employment.

(f) Reduction in Agreement Payments. Notwithstanding anything in this Agreement to the contrary, if any of the payments provided for under this Agreement (the "Agreement Payments"), together with any other payments that the Employee has the right to receive (such other payments together with the Agreement Payments are referred to as the "Total Payments"), would constitute a "parachute payment" as defined in Section 280G(b)(2) of the Internal Revenue Code of 1986, as amended (the "Code") (a "Parachute Payment"), the Agreement Payments shall be reduced by the smallest amount necessary so that no portion of such Total Payments would be Parachute Payments. In the event the Company shall make an Agreement Payment to the Employee that would constitute a Parachute Payment, the Employee shall return such payment to the Company (together with interest at the rate set forth in Section 1274(b)(2)(B) of the Code). For purposes of determining whether and the extent to which the Total Payments constitute Parachute Payments, no portion of the Total Payments the receipt of which Employee has effectively waived in writing shall be taken into account.

8. Covenant Not to Compete. Employee agrees that during his employment with the Company and for a period of one (1) year following the termination of his employment with the Company, for whatever reason:

(a) Employee shall not, directly or indirectly, own any interest in, manage, operate, control, be employed by, render advisory services to, or participate in the management or control of any business that operates in the same business as the

Company, which Employee and the Company specifically agree as the business of fabricating (wafering, preforming and faceting), marketing and distributing moissanite gemstones or other diamond simulants to the gem and jewelry industry (the "Business"), unless Employee's duties, responsibilities and activities for and on behalf of such other business are not related in any way to such other business's products which are in competition with the Company's products. For purposes of this section, "competition with the Company" shall mean competition for customers in the United States and in any country in which the Company is selling the Company's products at the time of termination. Employee's ownership of less than one percent of the issued and outstanding stock of a corporation engaged in the Business shall not by itself be deemed to be a violation of this Agreement. Employee recognizes that the possible restriction on his activities which may occur as a result of his performance of his obligations under Paragraph 8(a) are substantial, but that such restriction is required for the reasonable protection of the Company.

(b) Employee shall not, directly or indirectly, influence or attempt to influence any customer of the Company to discontinue its purchase of any product of the Company which is manufactured or sold by the Company at the time of termination of Employee's employment or to divert such purchases to any other person, firm or employer.

(c) Employee shall not, directly or indirectly, interfere with, disrupt or attempt to disrupt the relationship, contractual or otherwise, between the Company and any of its suppliers.

(d) Employee shall not, directly or indirectly, solicit any employee of the Company to work for any other person, firm or employer.

9. Confidentiality. In the course of his employment with the Company, Employee will have access to confidential information, records, data, customer lists, lists of product sources, specifications, trade secrets and other information which is not generally available to the public and which the Company and Employee hereby agree is proprietary information of the Company ("Confidential Information"). During and after his employment by the Company, Employee shall not, directly or indirectly, disclose the Confidential Information to any person or use any Confidential Information, except as is required in the course of his employment under this Agreement. Employee agrees to abide by the Company's policies and procedures for treatment of confidential information as may be adopted from time to time. All Confidential Information as well as records, files, memoranda, reports, plans, drawings, documents, models, equipment and the like, including copies thereof, relating to the Company's business, which Employee shall prepare or use or come into contact with during the course of his employment, shall be and

remain the Company's sole property, and upon termination of Employee's employment with the Company, Employee shall return all such materials to the Company.

10. Proprietary Information. Employee shall assign to the Company, its successors or assigns, all of Employee's rights to copyrightable works and inventions which, during the period of Employee's employment by the Company or its successors in business, Employee makes or conceives, either solely or jointly with others, relating to any subject matter with which Employee's work for the Company is or may be concerned ("Proprietary Information"). Employee shall promptly disclose in writing to the Company such copyrightable works and inventions and, without charge to the Company, to execute, acknowledge and deliver all such further papers, including applications for copyrights and patents for such copyrightable works and inventions, if any, in all countries and to vest title thereto in the Company, its successors, assigns or nominees. Upon termination of Employee's employment hereunder, Employee shall return to the Company or its successors or assigns, as the case may be, any Proprietary Information. The obligation of Employee to assign the rights to such copyrightable works and inventions shall survive the discontinuance or termination of this Agreement for any reason.

11. Entire Agreement. This Agreement contains the entire agreement of the parties with respect to Employee's employment by the Company and supersedes any prior agreements between them, whether written or oral.

12. Waiver. The failure of either party to insist in any one or more instance, upon performance of the terms and conditions of this Agreement, shall not be construed as a waiver or a relinquishment of any right granted hereunder or of the future performance of any such term or condition.

13. Notices. Any notice to be given under this Agreement shall be deemed sufficient if addressed in writing and delivered personally, by telefax with receipt acknowledged, or by registered or certified U.S. mail to the address first above appearing, or to such other address as a party may designate by notice from time to time.

14. Severability. In the event that any provision of any paragraph of this Agreement shall be deemed to be invalid or unenforceable for any reason whatsoever, it is agreed such invalidity or unenforceability shall not affect any other provision of such paragraph or of this Agreement, and the remaining terms, covenants, restrictions or provisions in such paragraph and in this Agreement shall remain in full force and effect and any court of competent jurisdiction may so modify the objectionable provision as to make it valid, reasonable and enforceable.

15. Amendment. This Agreement may be amended only by an agreement in writing signed by each of the parties hereto.

16. Arbitration. Any controversy or claim arising out of or relating to this Agreement, or breach thereof, shall be settled by arbitration in Raleigh, North Carolina in accordance with the expedited procedures of the Rules of the American Arbitration Association, and judgment upon the award may be rendered by the arbitrator and may be entered in any court having jurisdiction thereof.

17. Governing Law. This Agreement shall be governed and construed in accordance with the laws of the State of North Carolina. Each of the parties hereto irrevocably submits to the exclusive jurisdiction of the courts located in North Carolina for the purposes of any suit, action or other proceeding contemplated hereby or any transaction contemplated hereby.

18. Benefit. This Agreement shall be binding upon and inure to the benefit of and shall be enforceable by and against the Company, its successors and assigns, and Employee, his heirs, beneficiaries and legal representatives. It is agreed that the rights and obligations of Employee may not be delegated or assigned except as may be specifically agreed to by the parties hereto.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

C3, Inc.

By: /s/Martin J. DeRoy

Martin J. DeRoy, Vice-President

/s/Jeff N. Hunter

Jeff N. Hunter

POSITION DESCRIPTION EXHIBIT A
JEFF N. HUNTER - CHIEF EXECUTIVE OFFICER AND PRESIDENT

Purpose

The Chief Executive Officer and President is responsible for directing the Company according to business plan to achieve desired profit and return on investment capital. In particular, this position develops the basic goals, operating plans and policies for the Company and implements board-approved plans. This position will report to the Board of Directors of the Company.

Responsibilities:

Works with the Board of Directors to develop and approve business objectives, policies and plans that improve profit and growth objectives for the Company.

Coordinates the activities of the marketing, sales, manufacturing, research and development, finance and administrative units of the Company. Directs operations to achieve planned performance goals and develops management systems to effectively control each unit.

Leads the development of the organization and personnel, products, facilities, technology and appropriate financial resources to secure the position of the Company and to facilitate its planned development.

Directs periodic review of the Company's strategic market position.

Performs such other responsibilities as may be assigned by the Board of Directors from time to time.

INCENTIVE COMPENSATION PLANS EXHIBIT B
JEFF N. HUNTER

Background

Each member of the management team can have a significant impact on the Company's ability to meet and exceed its goals. The Company has established an Annual Incentive Compensation Plan and a Long-term Incentive Compensation Plan to provide management and key employees with incentives to not only achieve the performance goals outlined in the business plan, but to exceed those goals.

New goals and targets will be established each year for the Annual Incentive Compensation Plan and goals and targets for the Long-term Incentive Plan will be established from time-to-time.

1998 Annual Incentive Compensation Plan

The 1998 Annual Incentive Compensation Plan (Annual Plan) provides for a "target bonus" which is based on a percentage of base compensation. Your specific "target bonus" is outlined below. Each person that participates in the Annual Plan has the ability to earn far in excess of their "target bonus" if the Company exceeds its performance goals.

1. Your "Target Bonus". Your 1998 "target bonus" is 50% of your base compensation, or $55,000.

2. Performance Goals. The Annual Plan performance goals for 1998 have been separated into several categories based on the Company's performance relative to net revenue and pre-tax income. Based upon the Company achieving different performance levels, as outlined in the chart below, the participating employee can earn different percentages of their "target bonus".

	NET REVENUE			
PRE-TAX INCOME	TARGET >$31.7 M	TARGET + >$35.6 M	OPTIMUM >$42.2 M	OUTSTANDING >$48.5 M
TARGET >$12.4 M	100%	110%	120%	130%
TARGET + >$16.3 M	150%	165%	180%	195%
OPTIMUM >$22.9 M	225%	245%	270%	290%
OUTSTANDING >$29.2 M	325%	360%	390%	425%

The actual net revenue and pre-tax income from the Company's 1998 audited financial statements will be used to determine the appropriate percentage in the table above. For example, net revenue of $34 million with pre-tax income of $14 million would lead to a bonus equal to 100%

of the participant's "target bonus"; net revenue of $35.6 million with pre-tax income of $16.3 million would lead to a bonus equal to 165% of the participants "target bonus", etc. If the performance of the Company exceeds the criteria above, the percentages will increase on a similar basis to those used above. If however, the Company does not meet the criteria above, the bonus structure will be modified as follows:

(a) As long as the $12.4 million pre-tax income target is met the bonuses will be awarded at the 100% level.

(b) If pre-tax income is below $12.4 million, so long as the Company achieves a positive pre-tax income, the percentage of the "target bonus" bonus would be reduced on a linear basis. Therefore, the percentage will be calculated by dividing the actual pre-tax net income by the $12.4 million target. No bonuses will be earned or paid if the Company does not achieve positive pre-tax net income.

Long-term Incentive Compensation Plan

The Long-term Incentive Compensation Plan (Long-term Plan) provides for the award of equity based incentives (stock options, stock appreciation rights, etc.); the specific grants and terms of which will be determined by the Compensation Committee of the Board of Directors from time-to-time. Generally the awards under the Long-term Plan will vest and become exercisable only upon the attainment of specific operating goals for the target. These targets will be based on factors that are deemed to have a direct impact on the performance of the Company's stock, typically this will be earnings per share.

1. Your Award. Your current award under the Long-term Plan, to be granted only upon completion of an IPO, is incentive stock options for the purchase of 70,000 shares of common stock at $13.50 per share.

2. Vesting Period. These options will vest and become exercisable based upon the Company achieving the following results (note vesting will stop once 100% vesting level has been achieved):

Completion of IPO	15%
98 Q1 sales > $800k & margin > 28%	5%
98 Q1 EPS > $.01 per share (stretch goal)	10%
98 Q2 sales > $2.2 M & margin > 36%	5%
98 Q2 EPS > $.01 per share (stretch goal)	10%
98 Q2 EPS > $.33 per share	10%
1998 TOTAL EPS > $1.13 per share	25%
99 Q1 EPS > $1.13 per share	5%
99 Q2 EPS > $1.31 per share	5%
99 Q3 EPS > $1.71 per share	5%
1999 TOTAL EPS > $8.00 per share	25%
2000 TOTAL EPS > $14.00 per share	25%
2001 TOTAL EPS > $19.00 per share	25%

EXHIBIT 10.8

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (the "Agreement") is made and entered into effective as of July 30, 1997 by and between C3, Inc., a North Carolina company with its principal office at 3800 Gateway Boulevard, Suite 310, Morrisville, North Carolina, 27560 (the "Company), and Mark W. Hahn, an individual currently residing at _____ ("Employee").

Statement of Purpose

The Company wishes to obtain the services of Employee on the terms and conditions and with the benefits set forth in this Agreement. Employee desires to be employed by the Company on such terms and conditions and to receive such additional consideration as set out herein.

Therefore, in consideration of the mutual covenants contained in this Agreement, the grant of certain options to purchase common stock of the Company and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Company and Employee agree as follows:

1. Employment. The Company hereby agrees to employ Employee, and Employee hereby accepts such employment, on the terms and conditions set forth in this Agreement.

2. Term of Employment. The term of Employee's employment under this Agreement shall commence as of the date of this Agreement and shall continue on and through July 29, 1999; provided, however, that upon the successful completion by the Company of an initial public offering raising a minimum of eight million dollars ($8,000,000) (an "IPO"), the term of this Agreement shall be extended on and through July 29, 2002. Termination of employment shall be governed by Paragraph 7 of this Agreement, and unless terminated by either party as provided in Paragraph 7, this Agreement shall automatically, at the expiration of each then existing term, renew for successive one year terms.

3. Position and Duties. The Employee shall serve as Chief Financial Officer of the Company. Employee will, under the direction of the President and CEO of the Company, faithfully and to the best of his ability perform the duties as set out on Exhibit A hereto and such additional duties as may be reasonably assigned by the President and Board of Directors. Employee agrees to devote his entire working time, energy and skills to the Company while so employed.

4. Compensation and Benefits. Employee shall receive compensation and benefits for the services performed for the Company under this Agreement as follows:

(a) Base Salary. Employee shall receive a base salary of $95,000, payable in regular and equal monthly installments ("Base Salary"); provided, however, that upon the

successful completion by the Company of an IPO, Employee's Base Salary shall be increased to $122,000 per year, payable in regular and equal monthly installments.

(b) Employee Benefits. Employee shall receive such benefits as are made available to the other employees of the Company, including, but not limited to, life, medical and disability insurance, retirement benefits and such vacation as is provided to the other employees of the Company (the "Employee Benefits").

(c) Incentive Compensation. Employee shall participate in such incentive plans as may be approved by the Board of Directors from time-to-time. The specific incentive compensation plans for 1998 are as set out on Exhibit B hereto.

5. Reimbursement of Expenses. The Company shall reimburse Employee for all reasonable out-of-pocket expenses incurred by Employee specifically and directly related to the performance by Employee of the services under this Agreement.

6. Withholding. The Company may withhold from any payments or benefits under this Agreement all federal, state or local taxes or other amounts as may be required pursuant to applicable law, government regulation or ruling.

7. Termination of Employment.

(a) Death of Employee. If the Employee shall die during the Term, this Agreement and the employment relationship hereunder will automatically terminate on the date of death, which date shall be the last day of the Term.

(b) Termination for Just Cause. The Company shall have the right to terminate the Employee's employment under this Agreement at any time for Just Cause, which termination shall be effective immediately. Termination for "Just Cause" shall include termination for the Employee's personal dishonesty, gross incompetence, willful misconduct, breach of a fiduciary duty involving personal profit, intentional failure to perform stated duties, willful violation of any law, rule, regulation (other than traffic violations or similar offenses), written Company policy or final cease-and-desist order, conviction of a felony or of a misdemeanor involving moral turpitude, unethical business practices in connection with the Company's business, misappropriation of the Company's assets (determined on a reasonable basis), disability or material breach of any other provision of this Agreement, provided that the Employee has received written notice from the Company of such material breach and such breach remains uncured thirty days after the delivery of such notice. For purposes of this subsection, the term "disability" means the inability of Employee, due to the condition of his physical, mental or emotional health, to satisfactorily perform the duties of his employment hereunder for a

continuous three month period; provided further that if the Company furnishes long term disability insurance for the Employee, the term "disability" shall mean that continuous period sufficient to allow for the long term disability payments to commence pursuant to the Company's long term disability insurance policy. In the event the Employee's employment under this Agreement is terminated for Just Cause, the Employee shall have no right to receive compensation or other benefits under this Agreement for any period after such termination.

(c) Termination Without Cause. The Company may terminate the Employee's employment other than for "Just Cause," as described in Subsection (b) above, at any time upon written notice to the Employee, which termination shall be effective immediately. In the event the Company terminates Employee pursuant to this Subsection (c), (i) the Employee will receive the highest amount of the annual cash compensation (including cash bonuses and other cash-based benefits, including for these purposes amounts earned or payable whether or not deferred) received from the Company during any of the five calendar years immediately preceding such termination ("Termination Compensation") in each year until the end of the Term, so long as the Employee complies with Sections 8, 9 and 10 of the Agreement and (ii) the Company shall take such action as may be required to vest any unvested benefits of the Employee under any employee stock-based or other benefit plan or arrangement. Such amounts shall be payable at the times such amounts would have been paid in accordance with Section 4. In addition, Employee shall continue to participate in the same group hospitalization plan, health care plan, dental care plan, life or other insurance or death benefit plan, and any other present or future similar group employee benefit plan or program for which officers of the Company generally are eligible, on the same terms as were in effect prior to Employee's termination, either under the Company's plans or comparable coverage, for all periods Employee receives Termination Compensation. Notwithstanding anything in this Agreement to the contrary, if Employee breaches Sections 8, 9 or 10 of this Agreement, the Employee will not be entitled to receive any further compensation or benefits pursuant to this Section 7(c).

(d) Change of Control Situations. In the event of a Change of Control of Company at any time after the date hereof, Employee may voluntarily terminate employment with Company up until twelve (12) months after the Change of Control for "Good Reason" and, subject to Section 7(f), (y) be entitled to receive in a lump sum (i) any compensation due but not yet paid through the date of termination and (ii) in lieu of any further salary payments from the date of termination to the end of the then existing term, an amount equal to the Termination Compensation times 2.99, and (z) shall continue to participate in the same group hospitalization plan, health care plan, dental care plan, life or other insurance or death benefit plan, and any other present or future similar group employee benefit plan or program for which officers of the Company generally are eligible, or comparable plans or coverage, for a period of two years following termination of employment by the Employee, on the same terms as were in effect either (A) at the date of such termination, or (B) if such plans and programs in effect prior to the

Change of Control of Company are, considered together as a whole, materially more generous to the officers of Company, then at the date of the Change of Control. Any equity based incentive compensation (including but not limited to stock options, SARs, etc.) shall fully vest and be immediately exercisable in full upon a Change in Control, not withstanding any provision in any applicable plan. Any such benefits shall be paid by the Company to the same extent as they were so paid prior to the termination or the Change of Control of Company.

"Good Reason" shall mean the occurrence of any of the following events without the Employee's express written consent:

(i) the assignment to the Employee of duties inconsistent with the position and status of the Employee with the Company immediately prior to the Change of Control;

(ii) a reduction by the Company in the Employee's pay grade or base salary as then in effect, or the exclusion of Employee from participation in Company's benefit plans in which he previously participated as in effect at the date hereof or as the same may be increased from time to time during the Term, or Company's failure to increase (within twelve (12) months of the Employee's last increase in base salary) the Employee's base salary in an amount which at least equals, on a percentage basis, the average percentage increase in base salary for all executives entitled to participate in Company's executive incentive plans for which Employee was eligible in the preceding 12 months; or

(iii) an involuntary relocation of the Employee more than 50 miles from the location where the Employee worked immediately prior to the Change in Control or the breach by the Company of any material provision of this Agreement; or

(iv) any purported termination of the employment of Employee by Company which is not effected in accordance with this Agreement.

A "Change of Control" shall be deemed to have occurred if (i) any person or group of persons (as defined in Section 13(d) and 14(d) of the Securities Exchange Act of 1934) together with its affiliates, excluding employee benefit plans of Company, becomes, directly or indirectly, the "beneficial owner" (as defined in Rule 13d-3 promulgated under the Securities Exchange Act of 1934) of securities of Company representing 20% or more of the combined voting power of Company's then outstanding securities; or (ii) during the then existing term of the Agreement, as a result of a tender offer or exchange offer for the purchase of securities of Company (other than such an offer by the Company for its own securities), or as a result of a

proxy contest, merger, consolidation or sale of assets, or as a result of any combination of the foregoing, individuals who at the beginning of any year period during such term constitute the Company's Board of Directors, plus new directors whose election by Company's shareholders is approved by a vote of at least two-thirds of the outstanding voting shares of the Company, cease for any reason during such year period to constitute at least two-thirds of the members of such Board of Directors; or (iii) the shareholders of the Company approve a merger or consolidation of the Company with any other corporation or entity regardless of which entity is the survivor, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or being converted into voting securities of the surviving entity) at least 60% of the combined voting power of the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation; or (iv) the shareholders of the Company approve a plan of complete liquidation or winding-up of the Company or an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets; or (v) any event which the Company's Board of Directors determines should constitute a Change of Control.

(e) Employee's Right to Payments. In receiving any payments pursuant to this Section 7, Employee shall not be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to the Employee hereunder, and such amounts shall not be reduced or terminated whether or not the Employee obtains other employment.

(f) Reduction in Agreement Payments. Notwithstanding anything in this Agreement to the contrary, if any of the payments provided for under this Agreement (the "Agreement Payments"), together with any other payments that the Employee has the right to receive (such other payments together with the Agreement Payments are referred to as the "Total Payments"), would constitute a "parachute payment" as defined in Section 280G(b)(2) of the Internal Revenue Code of 1986, as amended (the "Code") (a "Parachute Payment"), the Agreement Payments shall be reduced by the smallest amount necessary so that no portion of such Total Payments would be Parachute Payments. In the event the Company shall make an Agreement Payment to the Employee that would constitute a Parachute Payment, the Employee shall return such payment to the Company (together with interest at the rate set forth in Section 1274(b)(2)(B) of the Code). For purposes of determining whether and the extent to which the Total Payments constitute Parachute Payments, no portion of the Total Payments the receipt of which Employee has effectively waived in writing shall be taken into account.

8. Covenant Not to Compete. Employee agrees that during his employment with the Company and for a period of one (1) year following the termination of his employment with the Company, for whatever reason:

(a) Employee shall not, directly or indirectly, own any interest in, manage, operate, control, be employed by, render advisory services to, or participate in the management or control of any business that operates in the same business as the Company, which Employee and the Company specifically agree as the business of fabricating (wafering, preforming and faceting), marketing and distributing moissanite gemstones or other diamond simulants to the gem and jewelry industry (the "Business"), unless Employee's duties, responsibilities and activities for and on behalf of such other business are not related in any way to such other business's products which are in competition with the Company's products. For purposes of this section, "competition with the Company" shall mean competition for customers in the United States and in any country in which the Company is selling the Company's products at the time of termination. Employee's ownership of less than one percent of the issued and outstanding stock of a corporation engaged in the Business shall not by itself be deemed to be a violation of this Agreement. Employee recognizes that the possible restriction on his activities which may occur as a result of his performance of his obligations under Paragraph 8(a) are substantial, but that such restriction is required for the reasonable protection of the Company.

(b) Employee shall not, directly or indirectly, influence or attempt to influence any customer of the Company to discontinue its purchase of any product of the Company which is manufactured or sold by the Company at the time of termination of Employee's employment or to divert such purchases to any other person, firm or employer.

(c) Employee shall not, directly or indirectly, interfere with, disrupt or attempt to disrupt the relationship, contractual or otherwise, between the Company and any of its suppliers.

(d) Employee shall not, directly or indirectly, solicit any employee of the Company to work for any other person, firm or employer.

9. Confidentiality. In the course of his employment with the Company, Employee will have access to confidential information, records, data, customer lists, lists of product sources, specifications, trade secrets and other information which is not generally available to the public and which the Company and Employee hereby agree is proprietary information of the Company ("Confidential Information"). During and after his employment by the Company, Employee shall not, directly or indirectly, disclose the Confidential Information to any person or use any Confidential Information, except as is required in the course of his employment under this Agreement. All Confidential Information as well as records, files, memoranda, reports, plans, drawings, documents, models, equipment and the like, including copies thereof, relating to the Company's business, which Employee shall prepare or use or come into contact with during the

course of his employment, shall be and remain the Company's sole property, and upon termination of Employee's employment with the Company, Employee shall return all such materials to the Company.

10. Proprietary Information. Employee shall assign to the Company, its successors or assigns, all of Employee's rights to copyrightable works and inventions which, during the period of Employee's employment by the Company or its successors in business, Employee makes or conceives, either solely or jointly with others, relating to any subject matter with which Employee's work for the Company is or may be concerned ("Proprietary Information"). Employee shall promptly disclose in writing to the Company such copyrightable works and inventions and, without charge to the Company, to execute, acknowledge and deliver all such further papers, including applications for copyrights and patents for such copyrightable works and inventions, if any, in all countries and to vest title thereto in the Company, its successors, assigns or nominees. Upon termination of Employee's employment hereunder, Employee shall return to the Company or its successors or assigns, as the case may be, any Proprietary Information. The obligation of Employee to assign the rights to such copyrightable works and inventions shall survive the discontinuance or termination of this Agreement for any reason.

11. Entire Agreement. This Agreement contains the entire agreement of the parties with respect to Employee's employment by the Company and supersedes any prior agreements between them, whether written or oral.

12. Waiver. The failure of either party to insist in any one or more instance, upon performance of the terms and conditions of this Agreement, shall not be construed as a waiver or a relinquishment of any right granted hereunder or of the future performance of any such term or condition.

13. Notices. Any notice to be given under this Agreement shall be deemed sufficient if addressed in writing and delivered personally, by telefax with receipt acknowledged, or by registered or certified U.S. mail to the address first above appearing, or to such other address as a party may designate by notice from time to time.

14. Severability. In the event that any provision of any paragraph of this Agreement shall be deemed to be invalid or unenforceable for any reason whatsoever, it is agreed such invalidity or unenforceability shall not affect any other provision of such paragraph or of this Agreement, and the remaining terms, covenants, restrictions or provisions in such paragraph and in this Agreement shall remain in full force and effect and any court of competent jurisdiction may so modify the objectionable provision as to make it valid, reasonable and enforceable.

15. Amendment. This Agreement may be amended only by an agreement in writing signed by each of the parties hereto.

16. Arbitration. Any controversy or claim arising out of or relating to this Agreement, or breach thereof, shall be settled by arbitration in Raleigh, North Carolina in accordance with the expedited procedures of the Rules of the American Arbitration Association, and judgment upon the award may be rendered by the arbitrator and may be entered in any court having jurisdiction thereof.

17. Governing Law. This Agreement shall be governed and construed in accordance with the laws of the State of North Carolina. Each of the parties hereto irrevocably submits to the exclusive jurisdiction of the courts located in North Carolina for the purposes of any suit, action or other proceeding contemplated hereby or any transaction contemplated hereby.

18. Benefit. This Agreement shall be binding upon and inure to the benefit of and shall be enforceable by and against the Company, its successors and assigns, and Employee, his heirs, beneficiaries and legal representatives. It is agreed that the rights and obligations of Employee may not be delegated or assigned except as may be specifically agreed to by the parties hereto.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

C3, Inc.

By: /s/Jeff N. Hunter

Jeff N. Hunter, President

/s/Mark W. Hahn

Mark W. Hahn

Position Description Exhibit A
Mark Hahn - Chief Financial Officer

Purpose:

The Chief Financial Officer is responsible for the management of all financial and administrative operations of the company. This position will report to the Chief Executive Officer.

Responsibilities:

Lead all aspects of business development and finance activities for the Company including managing an initial public offering of the Company's stock, financial reporting and investor relations.

Direct all aspects of the financial operations of the Company including accounting, budgeting, investment management, cash management and presentations of financial information at Board of Directors' meetings.

Manage the human resource activities and information systems for the Company.

Serve on company-wide project teams and perform such other responsibilities as may be assigned by the Chief Executing Officer or Board of Directors from time to time.

Incentive Compensation Plans Exhibit B
Mark W. Hahn

Background

Each member of the management team can have a significant impact on the Company's ability to meet and exceed its goals. The Company has established an Annual Incentive Compensation Plan and a Long-term Incentive Compensation Plan to provide management and key employees with incentives to not only achieve the performance goals outlined in the business plan, but to exceed those goals.

New goals and targets will be established each year for the Annual Incentive Compensation Plan and goals and targets for the Long-term Incentive Plan will be established from time-to-time.

1998 Annual Incentive Compensation Plan

The 1998 Annual Incentive Compensation Plan (Annual Plan) provides for a "target bonus" which is based on a percentage of base compensation. Your specific "target bonus" is outlined below. Each person that participates in the Annual Plan has the ability to earn far in excess of their "target bonus" if the Company exceeds its performance goals.

1. Your "Target Bonus". Your 1998 "target bonus" is 40% of your base compensation, or $48,800.

2. Performance Goals. The Annual Plan performance goals for 1998 have been separated into several categories based on the Company's performance relative to net revenue and pre-tax income. Based upon the Company achieving different performance levels, as outlined in the chart below, the participating employee can earn different percentages of their "target bonus".

	NET REVENUE			
PRE-TAX INCOME	TARGET >$31.7 M	TARGET + >$35.6 M	OPTIMUM >$42.2 M	OUTSTANDING >$48.5 M
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The actual net revenue and pre-tax income from the Company's 1998 audited financial statements will be used to determine the appropriate percentage in the table above. For example, net revenue of $34 million with pre-tax income of $14 million would lead to a bonus equal to 100%

of the participant's "target bonus"; net revenue of $35.6 million with pre-tax income of $16.3 million would lead to a bonus equal to 165% of the participants "target bonus", etc. If the performance of the Company exceeds the criteria above, the percentages will increase on a similar basis to those used above. If however, the Company does not meet the criteria above, the bonus structure will be modified as follows:

(a) As long as the $12.4 million pre-tax income target is met the bonuses will be awarded at the 100% level.

(b) If pre-tax income is below $12.4 million, so long as the Company achieves a positive pre-tax income, the percentage of the "target bonus" bonus would be reduced on a linear basis. Therefore, the percentage will be calculated by dividing the actual pre-tax net income by the $12.4 million target. No bonuses will be earned or paid if the Company does not achieve positive pre-tax net income.

Long-term Incentive Compensation Plan

The Long-term Incentive Compensation Plan (Long-term Plan) provides for the award of equity based incentives (stock options, stock appreciation rights, etc.); the specific grants and terms of which will be determined by the Compensation Committee of the Board of Directors from time-to-time. Generally the awards under the Long-term Plan will vest and become exercisable only upon the attainment of specific operating goals for the target. These targets will be based on factors that are deemed to have a direct impact on the performance of the Company's stock, typically this will be earnings per share.

1. Your Award. Your current award under the Long-term Plan, to be granted only upon completion of an IPO, is incentive stock options for the purchase of 50,000 shares of common stock at $13.50 per share.

2. Vesting Period. These options will vest and become exercisable based upon the Company achieving the following results (note vesting will stop once 100% vesting level has been achieved):

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98 Q2 EPS > $.01 per share (stretch goal)	10%
98 Q2 EPS > $.33 per share	10%
1998 total EPS > $1.13 per share	25%
99 Q1 EPS > $1.13 per share	5%
99 Q2 EPS > $1.31 per share	5%
99 Q3 EPS > $1.71 per share	5%
1999 total EPS > $8.00 per share	25%
2000 total EPS > $14.00 per share	25%
2001 total EPS > $19.00 per share	25%

EXHIBIT 10.9

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (the "Agreement") is made and entered into effective as of September 15, 1997 by and between C3, Inc., a North Carolina company with its principal office at 3800 Gateway Boulevard, Suite 310, Morrisville, North Carolina, 27560 (the "Company), and Martin J. DeRoy, an individual currently residing at _____ ("Employee").

Statement of Purpose

The Company wishes to obtain the services of Employee on the terms and conditions and with the benefits set forth in this Agreement. Employee desires to be employed by the Company on such terms and conditions and to receive such additional consideration as set out herein.

Therefore, in consideration of the mutual covenants contained in this Agreement, the grant of certain options to purchase common stock of the Company and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Company and Employee agree as follows:

1. Employment. The Company hereby agrees to employ Employee, and Employee hereby accepts such employment, on the terms and conditions set forth in this Agreement.

2. Term of Employment. The term of Employee's employment under this Agreement shall commence as of the date of this Agreement and shall continue on and through September 14, 1998. Termination of employment shall be governed by Paragraph 7 of this Agreement, and unless terminated by either party as provided in Paragraph 7, this Agreement shall automatically, at the expiration of each then existing term, renew for successive one year terms.

3. Position and Duties. The Employee shall serve as Vice President of Marketing of the Company. Employee will, under the direction of the President and CEO of the Company, faithfully and to the best of his ability perform the duties as set out on Exhibit A hereto and such additional duties as may be reasonably assigned by the President and Board of Directors. Employee agrees to devote his entire working time, energy and skills to the Company while so employed.

4. Compensation and Benefits. Employee shall receive compensation and benefits for the services performed for the Company under this Agreement as follows:

(a) Base Salary. Employee shall receive a base salary of $94,000 per year, payable in regular and equal monthly installments ("Base Salary").

(b) Employee Benefits. Employee shall receive such benefits as are made available to the other employees of the Company, including, but not limited to, life,

medical and disability insurance, retirement benefits and such vacation as is provided to the other employees of the Company (the "Employee Benefits").

(c) Incentive Compensation. Employee shall participate in such incentive plans as may be approved by the Board of Directors from time-to-time. The specific incentive compensation plans for 1998 are as set out on Exhibit B hereto.

5. Reimbursement of Expenses. The Company shall reimburse Employee for all reasonable out-of-pocket expenses incurred by Employee specifically and directly related to the performance by Employee of the services under this Agreement.

6. Withholding. The Company may withhold from any payments or benefits under this Agreement all federal, state or local taxes or other amounts as may be required pursuant to applicable law, government regulation or ruling.

7. Termination of Employment.

(a) Death of Employee. If the Employee shall die during the Term, this Agreement and the employment relationship hereunder will automatically terminate on the date of death, which date shall be the last day of the Term.

(b) Termination for Just Cause. The Company shall have the right to terminate the Employee's employment under this Agreement at any time for Just Cause, which termination shall be effective immediately. Termination for "Just Cause" shall include termination for the Employee's personal dishonesty, gross incompetence, willful misconduct, breach of a fiduciary duty involving personal profit, intentional failure to perform stated duties, willful violation of any law, rule, regulation (other than traffic violations or similar offenses), written Company policy or final cease-and-desist order, conviction of a felony or of a misdemeanor involving moral turpitude, unethical business practices in connection with the Company's business, misappropriation of the Company's assets (determined on a reasonable basis), disability or material breach of any other provision of this Agreement, provided that the Employee has received written notice from the Company of such material breach and such breach remains uncured thirty days after the delivery of such notice. For purposes of this subsection, the term "disability" means the inability of Employee, due to the condition of his physical, mental or emotional health, to satisfactorily perform the duties of his employment hereunder for a continuous three month period; provided further that if the Company furnishes long term disability insurance for the Employee, the term "disability" shall mean that continuous period sufficient to allow for the long term disability payments to commence pursuant to the Company's long term disability insurance policy. In the event the Employee's employment under this Agreement is terminated for Just Cause, the Employee shall receive within ten (10) business days

a severance payment equal to six (6) months Base Salary, but shall have no right to receive compensation or other benefits under this Agreement for any period after such termination.

(c) Termination Without Cause. The Company may terminate the Employee's employment other than for "Just Cause," as described in Subsection (b) above, at any time upon written notice to the Employee, which termination shall be effective immediately. In the event the Company terminates Employee pursuant to this Subsection (c), (i) the Employee will receive the Base Salary for the remainder of the then existing term but no less than six (6) months of Base Salary ("Termination Compensation"), so long as the Employee complies with Sections 8, 9 and 10 of the Agreement and (ii) the Company shall take such action as may be required to vest any unvested benefits of the Employee under any employee stock-based or other benefit plan or arrangement. Such amounts shall be payable at the times such amounts would have been paid in accordance with Section 4. In addition, Employee shall continue to participate in the same group hospitalization plan, health care plan, dental care plan, life or other insurance or death benefit plan, and any other present or future similar group employee benefit plan or program for which officers of the Company generally are eligible, on the same terms as were in effect prior to Employee's termination, either under the Company's plans or comparable coverage, for all periods Employee receives Termination Compensation. Notwithstanding anything in this Agreement to the contrary, if Employee breaches Sections 8, 9 or 10 of this Agreement, the Employee will not be entitled to receive any further compensation or benefits pursuant to this Section 7(c).

(d) Change of Control Situations. In the event of a Change of Control of Company at any time after the date hereof, Employee may voluntarily terminate employment with Company up until twelve (12) months after the Change of Control for "Good Reason" and, subject to Section 7(f), (y) be entitled to receive in a lump sum (i) any compensation due but not yet paid through the date of termination and (ii) in lieu of any further salary payments from the date of termination to the end of the then existing term, an amount equal to the base salary plus prior years incentive compensation times 2.99, and (z) shall continue to participate in the same group hospitalization plan, health care plan, dental care plan, life or other insurance or death benefit plan, and any other present or future similar group employee benefit plan or program for which officers of the Company generally are eligible, or comparable plans or coverage, for a period of two years following termination of employment by the Employee, on the same terms as were in effect either (A) at the date of such termination, or (B) if such plans and programs in effect prior to the Change of Control of Company are, considered together as a whole, materially more generous to the officers of Company, then at the date of the Change of Control. Any equity based incentive compensation (including but not limited to stock options, SARs, etc.) shall fully vest and be immediately exercisable in full upon a Change in Control, not withstanding any provision in any applicable plan. Any such benefits shall be paid by the Company to the same extent as they were so paid prior to the termination or the Change of Control of Company.

"Good Reason" shall mean the occurrence of any of the following events without the Employee's express written consent:

(i) the assignment to the Employee of duties inconsistent with the position and status of the Employee with the Company immediately prior to the Change of Control;

(ii) a reduction by the Company in the Employee's pay grade or base salary as then in effect, or the exclusion of Employee from participation in Company's benefit plans in which he previously participated as in effect at the date hereof or as the same may be increased from time to time during the Term, or Company's failure to increase (within twelve (12) months of the Employee's last increase in base salary) the Employee's base salary in an amount which at least equals, on a percentage basis, the average percentage increase in base salary for all executives entitled to participate in Company's executive incentive plans for which Employee was eligible in the preceding 12 months; or

(iii) an involuntary relocation of the Employee more than 50 miles from the location where the Employee worked immediately prior to the Change in Control or the breach by the Company of any material provision of this Agreement; or

(iv) any purported termination of the employment of Employee by Company which is not effected in accordance with this Agreement.

A "Change of Control" shall be deemed to have occurred if (i) any person or group of persons (as defined in Section 13(d) and 14(d) of the Securities Exchange Act of 1934) together with its affiliates, excluding employee benefit plans of Company, becomes, directly or indirectly, the "beneficial owner" (as defined in Rule 13d-3 promulgated under the Securities Exchange Act of 1934) of securities of Company representing 20% or more of the combined voting power of Company's then outstanding securities; or (ii) during the then existing term of the Agreement, as a result of a tender offer or exchange offer for the purchase of securities of Company (other than such an offer by the Company for its own securities), or as a result of a proxy contest, merger, consolidation or sale of assets, or as a result of any combination of the foregoing, individuals who at the beginning of any year period during such term constitute the Company's Board of Directors, plus new directors whose election by Company's shareholders is approved by a vote of at least two-thirds of the outstanding voting shares of the Company, cease for any reason during such year period to constitute at least two-thirds of the members of such Board of Directors; or (iii) the shareholders of the Company approve a merger or consolidation of the Company with any other corporation or entity regardless of which entity is

the survivor, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or being converted into voting securities of the surviving entity) at least 60% of the combined voting power of the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation; or (iv) the shareholders of the Company approve a plan of complete liquidation or winding-up of the Company or an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets; or (v) any event which the Company's Board of Directors determines should constitute a Change of Control.

(e) Employee's Right to Payments. In receiving any payments pursuant to this Section 7, Employee shall not be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to the Employee hereunder, and such amounts shall not be reduced or terminated whether or not the Employee obtains other employment.

(f) Reduction in Agreement Payments. Notwithstanding anything in this Agreement to the contrary, if any of the payments provided for under this Agreement (the "Agreement Payments"), together with any other payments that the Employee has the right to receive (such other payments together with the Agreement Payments are referred to as the "Total Payments"), would constitute a "parachute payment" as defined in Section 280G(b)(2) of the Internal Revenue Code of 1986, as amended (the "Code") (a "Parachute Payment"), the Agreement Payments shall be reduced by the smallest amount necessary so that no portion of such Total Payments would be Parachute Payments. In the event the Company shall make an Agreement Payment to the Employee that would constitute a Parachute Payment, the Employee shall return such payment to the Company (together with interest at the rate set forth in Section 1274(b)(2)(B) of the Code). For purposes of determining whether and the extent to which the Total Payments constitute Parachute Payments, no portion of the Total Payments the receipt of which Employee has effectively waived in writing shall be taken into account.

8. Covenant Not to Compete. Employee agrees that during his employment with the Company and for a period of one (1) year following the termination of his employment with the Company, for whatever reason:

(a) Employee shall not, directly or indirectly, own any interest in, manage, operate, control, be employed by, render advisory services to, or participate in the management or control of any business that operates in the same business as the Company, which Employee and the Company specifically agree as the business of fabricating (wafering, preforming and faceting), marketing and distributing moissanite gemstones or other diamond simulants to the gem and jewelry industry (the "Business"), unless Employee's duties, responsibilities and activities for and on behalf of such other

business are not related in any way to such other business's products which are in competition with the Company's products. For purposes of this section, "competition with the Company" shall mean competition for customers in the United States and in any country in which the Company is selling the Company's products at the time of termination. Employee's ownership of less than one percent of the issued and outstanding stock of a corporation engaged in the Business shall not by itself be deemed to be a violation of this Agreement. Employee recognizes that the possible restriction on his activities which may occur as a result of his performance of his obligations under Paragraph 8(a) are substantial, but that such restriction is required for the reasonable protection of the Company.

(b) Employee shall not, directly or indirectly, influence or attempt to influence any customer of the Company to discontinue its purchase of any product of the Company which is manufactured or sold by the Company at the time of termination of Employee's employment or to divert such purchases to any other person, firm or employer.

(c) Employee shall not, directly or indirectly, interfere with, disrupt or attempt to disrupt the relationship, contractual or otherwise, between the Company and any of its suppliers.

(d) Employee shall not, directly or indirectly, solicit any employee of the Company to work for any other person, firm or employer.

9. Confidentiality. In the course of his employment with the Company, Employee will have access to confidential information, records, data, customer lists, lists of product sources, specifications, trade secrets and other information which is not generally available to the public and which the Company and Employee hereby agree is proprietary information of the Company ("Confidential Information"). During and after his employment by the Company, Employee shall not, directly or indirectly, disclose the Confidential Information to any person or use any Confidential Information, except as is required in the course of his employment under this Agreement. All Confidential Information as well as records, files, memoranda, reports, plans, drawings, documents, models, equipment and the like, including copies thereof, relating to the Company's business, which Employee shall prepare or use or come into contact with during the course of his employment, shall be and remain the Company's sole property, and upon termination of Employee's employment with the Company, Employee shall return all such materials to the Company.

10. Proprietary Information. Employee shall assign to the Company, its successors or assigns, all of Employee's rights to copyrightable works and inventions which, during the period of Employee's employment by the Company or its successors in business, Employee makes or conceives, either solely or jointly with others, relating to any subject matter with which Employee's work for the Company is or may be concerned ("Proprietary Information"). Employee shall promptly disclose in writing to the Company such copyrightable works and

inventions and, without charge to the Company, to execute, acknowledge and deliver all such further papers, including applications for copyrights and patents for such copyrightable works and inventions, if any, in all countries and to vest title thereto in the Company, its successors, assigns or nominees. Upon termination of Employee's employment hereunder, Employee shall return to the Company or its successors or assigns, as the case may be, any Proprietary Information. The obligation of Employee to assign the rights to such copyrightable works and inventions shall survive the discontinuance or termination of this Agreement for any reason.

11. Entire Agreement. This Agreement contains the entire agreement of the parties with respect to Employee's employment by the Company and supersedes any prior agreements between them, whether written or oral.

12. Waiver. The failure of either party to insist in any one or more instance, upon performance of the terms and conditions of this Agreement, shall not be construed as a waiver or a relinquishment of any right granted hereunder or of the future performance of any such term or condition.

13. Notices. Any notice to be given under this Agreement shall be deemed sufficient if addressed in writing and delivered personally, by telefax with receipt acknowledged, or by registered or certified U.S. mail to the address first above appearing, or to such other address as a party may designate by notice from time to time.

14. Severability. In the event that any provision of any paragraph of this Agreement shall be deemed to be invalid or unenforceable for any reason whatsoever, it is agreed such invalidity or unenforceability shall not affect any other provision of such paragraph or of this Agreement, and the remaining terms, covenants, restrictions or provisions in such paragraph and in this Agreement shall remain in full force and effect and any court of competent jurisdiction may so modify the objectionable provision as to make it valid, reasonable and enforceable.

15. Amendment. This Agreement may be amended only by an agreement in writing signed by each of the parties hereto.

16. Arbitration. Any controversy or claim arising out of or relating to this Agreement, or breach thereof, shall be settled by arbitration in Raleigh, North Carolina in accordance with the expedited procedures of the Rules of the American Arbitration Association, and judgment upon the award may be rendered by the arbitrator and may be entered in any court having jurisdiction thereof.

17. Governing Law. This Agreement shall be governed and construed in accordance with the laws of the State of North Carolina. Each of the parties hereto irrevocably submits to the exclusive jurisdiction of the courts located in North Carolina for the purposes of any suit, action or other proceeding contemplated hereby or any transaction contemplated hereby.

18. Benefit. This Agreement shall be binding upon and inure to the benefit of and shall be enforceable by and against the Company, its successors and assigns, and Employee, his heirs, beneficiaries and legal representatives. It is agreed that the rights and obligations of Employee may not be delegated or assigned except as may be specifically agreed to by the parties hereto.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

C3, Inc.

By: /s/Jeff N. Hunter

Jeff N. Hunter, President

/s/Martin J. DeRoy

Martin J. DeRoy

POSITION DESCRIPTION EXHIBIT A
MARTIN J. DEROY - VICE PRESIDENT OF MARKETING

Purpose:

To lead the marketing, promotion, advertising and public relations activities for the Company. This position will report to the President and may serve as Vice-President of the Company.

Responsibilities:

Lead all aspects of marketing moissanite gemstones, test instruments and other products as developed, including planning, budgeting and policy setting. Work closely with the Director of Sales to support the sales of moissanite gemstones.

Manage all aspects of gemstone and test instrument branding such as product image and recognition to trade and consumers, including collaboration with the Director of Sales in maintaining brand images.

Direct all aspects of advertising and promotion of all products to the trade and consumers. Interface with Advertising and Promotional (PR) Firms as necessary to support product image.

Direct market research activities and continually develop plans to better meet customer and consumer needs.

Keep current with consumer marketing and prevailing gemstone and jewelry industry trends and issues.

Serve on company-wide project teams and perform such other responsibilities as may be assigned by the President or Board of Directors from time to time.

INCENTIVE COMPENSATION PLANS EXHIBIT B
MARTIN DEROY

Background

Each member of the management team can have a significant impact on the Company's ability to meet and exceed its goals. The Company has established an Annual Incentive Compensation Plan and a Long-term Incentive Compensation Plan to provide management and key employees with incentives to not only achieve the performance goals outlined in the business plan, but to exceed those goals.

New goals and targets will be established each year for the Annual Incentive Compensation Plan and goals and targets for the Long-term Incentive Plan will be established from time-to-time.

1998 Annual Incentive Compensation Plan

The 1998 Annual Incentive Compensation Plan (Annual Plan) provides for a "target bonus" which is based on a percentage of base compensation. Your specific "target bonus" is outlined below. Each person that participates in the Annual Plan has the ability to earn far in excess of their "target bonus" if the Company exceeds its performance goals.

1. Your "Target Bonus". Your 1998 "target bonus" is 55% of your base compensation, or $51,700.

2. Performance Goals. The Annual Plan performance goals for 1998 have been separated into several categories based on the Company's performance relative to net revenue and pre-tax income. Based upon the Company achieving different performance levels, as outlined in the chart below, the participating employee can earn different percentages of their "target bonus".

	NET REVENUE			
PRE-TAX INCOME	TARGET >$31.7 M	TARGET + >$35.6 M	OPTIMUM >$42.2 M	OUTSTANDING >$48.5 M
TARGET >$12.4 M	100%	110%	120%	130%
TARGET + >$16.3 M	150%	165%	180%	195%
OPTIMUM >$22.9 M	225%	245%	270%	290%
OUTSTANDING >$29.2 M	325%	360%	390%	425%

The actual net revenue and pre-tax income from the Company's 1998 audited financial statements will be used to determine the appropriate percentage in the table above. For example, net revenue of $34 million with pre-tax income of $14 million would lead to a bonus equal to 100% of the participant's "target bonus"; net revenue of $35.6 million with pre-tax income of $16.3 million would lead to a bonus equal to 165% of the participants "target bonus", etc. If the performance of the Company exceeds the criteria above, the percentages will increase on a similar

basis to those used above. If however, the Company does not meet the criteria above, the bonus structure will be modified as follows:

(a) As long as the $12.4 million pre-tax income target is met the bonuses will be awarded at the 100% level.

(b) If pre-tax income is below $12.4 million, so long as the Company achieves a positive pre-tax income, the percentage of the "target bonus" bonus would be reduced on a linear basis. Therefore, the percentage will be calculated by dividing the actual pre-tax net income by the $12.4 million target. No bonuses will be earned or paid if the Company does not achieve positive pre-tax net income.

Long-term Incentive Compensation Plan

The Long-term Incentive Compensation Plan (Long-term Plan) provides for the award of equity based incentives (stock options, stock appreciation rights, etc.); the specific grants and terms of which will be determined by the Compensation Committee of the Board of Directors from time-to-time. Generally the awards under the Long-term Plan will vest and become exercisable only upon the attainment of specific operating goals for the target. These targets will be based on factors that are deemed to have a direct impact on the performance of the Company's stock, typically this will be earnings per share.

1. Your Award. Your current award under the Long-term Plan, to be granted only upon completion of an IPO, is incentive stock options for the purchase of 20,000 shares of common stock at $13.50 per share.

2. Vesting Period. These options will vest and become exercisable based upon the Company achieving the following results (note vesting will stop once 100% vesting level has been achieved):

Completion of IPO	15%
98 Q1 sales > $800k & margin > 28%	5%
98 Q1 EPS > $.01 per share (stretch goal)	10%
98 Q2 sales > $2.2 M & margin 36%	5%
98 Q2 EPS > $.01 per share (stretch goal)	10%
98 Q2 EPS > $.33 per share	10%
1998 TOTAL EPS > $1.13 per share	25%
99 Q1 EPS > $1.13 per share	5%
99 Q2 EPS > $1.31 per share	5%
99 Q3 EPS > $1.71 per share	5%
1999 TOTAL EPS > $8.00 per share	25%
2000 TOTAL EPS > $14.00 per share	25%
2001 TOTAL EPS > $19.00 per share	25%

EXHIBIT 10.10

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (the "Agreement") is made and entered into effective as of March 1, 1997 by and between C3, Inc., a North Carolina company with its principal office at 3800 Gateway Boulevard, Suite 310, Morrisville, North Carolina, 27560 (the "Company), and Thomas G. Coleman, an individual currently residing at _____ ("Employee").

Statement of Purpose

The Company wishes to obtain the services of Employee on the terms and conditions and with the benefits set forth in this Agreement. Employee desires to be employed by the Company on such terms and conditions and to receive such additional consideration as set out herein.

Therefore, in consideration of the mutual covenants contained in this Agreement, the grant of certain options to purchase common stock of the Company and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Company and Employee agree as follows:

1. Employment. The Company hereby agrees to employ Employee, and Employee hereby accepts such employment, on the terms and conditions set forth in this Agreement.

2. Term of Employment. The term of Employee's employment under this Agreement shall commence as of the date of this Agreement and shall continue on and through August 24, 1998; provided, however, that upon the successful completion by the Company of an initial public offering raising a minimum of eight million dollars ($8,000,000) (an "IPO"), the term of this Agreement shall be extended on and through August 24, 2000. Termination of employment shall be governed by Paragraph 7 of this Agreement, and unless terminated by either party as provided in Paragraph 7, this Agreement shall automatically, at the expiration of each then existing term, renew for successive one year terms.

3. Position and Duties. The Employee shall serve as Director of Technology of the Company. Employee will, under the direction of the President and CEO of the Company, faithfully and to the best of his ability perform the duties as set out on Exhibit A hereto and such additional duties as may be reasonably assigned by the President and Board of Directors. Employee agrees to devote his entire working time, energy and skills to the Company while so employed.

4. Compensation and Benefits. Employee shall receive compensation and benefits for the services performed for the Company under this Agreement as follows:

(a) Base Salary. Employee shall receive a base salary of $36,000 per year, payable in regular and equal monthly installments ("Base Salary"); provided, however,

that upon the successful completion by the Company of an IPO, Employee's Base Salary shall be increased to $87,000 per year, payable in regular and equal monthly installments.

(b) Employee Benefits. Employee shall receive such benefits as are made available to the other employees of the Company, including, but not limited to, life, medical and disability insurance, retirement benefits and such vacation as is provided to the other employees of the Company (the "Employee Benefits").

(c) Incentive Compensation. Employee shall participate in such incentive plans as may be approved by the Board of Directors from time-to-time. The specific incentive compensation plans for 1998 are as set out on Exhibit B hereto.

5. Reimbursement of Expenses. The Company shall reimburse Employee for all reasonable out-of-pocket expenses incurred by Employee specifically and directly related to the performance by Employee of the services under this Agreement.

6. Withholding. The Company may withhold from any payments or benefits under this Agreement all federal, state or local taxes or other amounts as may be required pursuant to applicable law, government regulation or ruling.

7. Termination of Employment.

(a) Death of Employee. If the Employee shall die during the Term, this Agreement and the employment relationship hereunder will automatically terminate on the date of death, which date shall be the last day of the Term.

(b) Termination for Just Cause. The Company shall have the right to terminate the Employee's employment under this Agreement at any time for Just Cause, which termination shall be effective immediately. Termination for "Just Cause" shall include termination for the Employee's personal dishonesty, gross incompetence, willful misconduct, breach of a fiduciary duty involving personal profit, intentional failure to perform stated duties, willful violation of any law, rule, regulation (other than traffic violations or similar offenses), written Company policy or final cease-and-desist order, conviction of a felony or of a misdemeanor involving moral turpitude, unethical business practices in connection with the Company's business, misappropriation of the Company's assets (determined on a reasonable basis), disability or material breach of any other provision of this Agreement, provided that the Employee has received written notice from the Company of such material breach and such breach remains uncured thirty days after the delivery of such notice. For purposes of this subsection, the term "disability" means the inability of Employee, due to the condition of his physical, mental or emotional health, to satisfactorily perform the duties of his employment hereunder for a

continuous three month period; provided further that if the Company furnishes long term disability insurance for the Employee, the term "disability" shall mean that continuous period sufficient to allow for the long term disability payments to commence pursuant to the Company's long term disability insurance policy. In the event the Employee's employment under this Agreement is terminated for Just Cause, the Employee shall have no right to receive compensation or other benefits under this Agreement for any period after such termination.

(c) Termination Without Cause. The Company may terminate the Employee's employment other than for "Just Cause," as described in Subsection (b) above, at any time upon written notice to the Employee, which termination shall be effective immediately. In the event the Company terminates Employee pursuant to this Subsection (c), (i) the Employee will receive the highest amount of the annual cash compensation (including cash bonuses and other cash-based benefits, including for these purposes amounts earned or payable whether or not deferred) received from the Company during any of the five calendar years immediately preceding such termination ("Termination Compensation") in each year until the end of the Term, so long as the Employee complies with Sections 8, 9 and 10 of the Agreement and (ii) the Company shall take such action as may be required to vest any unvested benefits of the Employee under any employee stock-based or other benefit plan or arrangement. Such amounts shall be payable at the times such amounts would have been paid in accordance with Section 4. In addition, Employee shall continue to participate in the same group hospitalization plan, health care plan, dental care plan, life or other insurance or death benefit plan, and any other present or future similar group employee benefit plan or program for which officers of the Company generally are eligible, on the same terms as were in effect prior to Employee's termination, either under the Company's plans or comparable coverage, for all periods Employee receives Termination Compensation. Notwithstanding anything in this Agreement to the contrary, if Employee breaches Sections 8, 9 or 10 of this Agreement, the Employee will not be entitled to receive any further compensation or benefits pursuant to this Section 7(c).

(d) Change of Control Situations. In the event of a Change of Control of Company at any time after the date hereof, Employee may voluntarily terminate employment with Company up until twelve (12) months after the Change of Control for "Good Reason" and, subject to Section 7(f), (y) be entitled to receive in a lump sum (i) any compensation due but not yet paid through the date of termination and (ii) in lieu of any further salary payments from the date of termination to the end of the then existing term, an amount equal to the Termination Compensation times 2.99, and (z) shall continue to participate in the same group hospitalization plan, health care plan, dental care plan, life or other insurance or death benefit plan, and any other present or future similar group employee benefit plan or program for which officers of the Company generally are eligible, or comparable plans or coverage, for a period of two years following termination of employment by the Employee, on the same terms as were in effect either (A) at the date of such termination, or (B) if such plans and programs in effect prior to the

Change of Control of Company are, considered together as a whole, materially more generous to the officers of Company, then at the date of the Change of Control. Any equity based incentive compensation (including but not limited to stock options, SARs, etc.) shall fully vest and be immediately exercisable in full upon a Change in Control, not withstanding any provision in any applicable plan. Any such benefits shall be paid by the Company to the same extent as they were so paid prior to the termination or the Change of Control of Company.

"Good Reason" shall mean the occurrence of any of the following events without the Employee's express written consent:

(i) the assignment to the Employee of duties inconsistent with the position and status of the Employee with the Company immediately prior to the Change of Control;

(ii) a reduction by the Company in the Employee's pay grade or base salary as then in effect, or the exclusion of Employee from participation in Company's benefit plans in which he previously participated as in effect at the date hereof or as the same may be increased from time to time during the Term, or Company's failure to increase (within twelve (12) months of the Employee's last increase in base salary) the Employee's base salary in an amount which at least equals, on a percentage basis, the average percentage increase in base salary for all executives entitled to participate in Company's executive incentive plans for which Employee was eligible in the preceding 12 months; or

(iii) an involuntary relocation of the Employee more than 50 miles from the location where the Employee worked immediately prior to the Change in Control or the breach by the Company of any material provision of this Agreement; or

(iv) any purported termination of the employment of Employee by Company which is not effected in accordance with this Agreement.

A "Change of Control" shall be deemed to have occurred if (i) any person or group of persons (as defined in Section 13(d) and 14(d) of the Securities Exchange Act of 1934) together with its affiliates, excluding employee benefit plans of Company, becomes, directly or indirectly, the "beneficial owner" (as defined in Rule 13d-3 promulgated under the Securities Exchange Act of 1934) of securities of Company representing 20% or more of the combined voting power of Company's then outstanding securities; or (ii) during the then existing term of the Agreement, as a result of a tender offer or exchange offer for the purchase of securities of Company (other than such an offer by the Company for its own securities), or as a result of a

proxy contest, merger, consolidation or sale of assets, or as a result of any combination of the foregoing, individuals who at the beginning of any year period during such term constitute the Company's Board of Directors, plus new directors whose election by Company's shareholders is approved by a vote of at least two-thirds of the outstanding voting shares of the Company, cease for any reason during such year period to constitute at least two-thirds of the members of such Board of Directors; or (iii) the shareholders of the Company approve a merger or consolidation of the Company with any other corporation or entity regardless of which entity is the survivor, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or being converted into voting securities of the surviving entity) at least 60% of the combined voting power of the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation; or (iv) the shareholders of the Company approve a plan of complete liquidation or winding-up of the Company or an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets; or (v) any event which the Company's Board of Directors determines should constitute a Change of Control.

(e) Employee's Right to Payments. In receiving any payments pursuant to this Section 7, Employee shall not be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to the Employee hereunder, and such amounts shall not be reduced or terminated whether or not the Employee obtains other employment.

(f) Reduction in Agreement Payments. Notwithstanding anything in this Agreement to the contrary, if any of the payments provided for under this Agreement (the "Agreement Payments"), together with any other payments that the Employee has the right to receive (such other payments together with the Agreement Payments are referred to as the "Total Payments"), would constitute a "parachute payment" as defined in Section 280G(b)(2) of the Internal Revenue Code of 1986, as amended (the "Code") (a "Parachute Payment"), the Agreement Payments shall be reduced by the smallest amount necessary so that no portion of such Total Payments would be Parachute Payments. In the event the Company shall make an Agreement Payment to the Employee that would constitute a Parachute Payment, the Employee shall return such payment to the Company (together with interest at the rate set forth in Section 1274(b)(2)(B) of the Code). For purposes of determining whether and the extent to which the Total Payments constitute Parachute Payments, no portion of the Total Payments the receipt of which Employee has effectively waived in writing shall be taken into account.

8. Covenant Not to Compete. Employee agrees that during his employment with the Company and for a period of one (1) year following the termination of his employment with the Company, for whatever reason:

(a) Employee shall not, directly or indirectly, own any interest in, manage, operate, control, be employed by, render advisory services to, or participate in the management or control of any business that operates in the same business as the Company, which Employee and the Company specifically agree as the business of fabricating (wafering, preforming and faceting), marketing and distributing moissanite gemstones or other diamond simulants to the gem and jewelry industry (the "Business"), unless Employee's duties, responsibilities and activities for and on behalf of such other business are not related in any way to such other business's products which are in competition with the Company's products. For purposes of this section, "competition with the Company" shall mean competition for customers in the United States and in any country in which the Company is selling the Company's products at the time of termination. Employee's ownership of less than one percent of the issued and outstanding stock of a corporation engaged in the Business shall not by itself be deemed to be a violation of this Agreement. Employee recognizes that the possible restriction on his activities which may occur as a result of his performance of his obligations under Paragraph 8(a) are substantial, but that such restriction is required for the reasonable protection of the Company.

(b) Employee shall not, directly or indirectly, influence or attempt to influence any customer of the Company to discontinue its purchase of any product of the Company which is manufactured or sold by the Company at the time of termination of Employee's employment or to divert such purchases to any other person, firm or employer.

(c) Employee shall not, directly or indirectly, interfere with, disrupt or attempt to disrupt the relationship, contractual or otherwise, between the Company and any of its suppliers.

(d) Employee shall not, directly or indirectly, solicit any employee of the Company to work for any other person, firm or employer.

9. Confidentiality. In the course of his employment with the Company, Employee will have access to confidential information, records, data, customer lists, lists of product sources, specifications, trade secrets and other information which is not generally available to the public and which the Company and Employee hereby agree is proprietary information of the Company ("Confidential Information"). During and after his employment by the Company, Employee shall not, directly or indirectly, disclose the Confidential Information to any person or use any Confidential Information, except as is required in the course of his employment under this Agreement. Employee agrees to abide by the Company's policies and procedures for treatment of confidential information as may be adopted from time to time. All Confidential Information as well as records, files, memoranda, reports, plans, drawings, documents, models, equipment and

the like, including copies thereof, relating to the Company's business, which Employee shall prepare or use or come into contact with during the course of his employment, shall be and remain the Company's sole property, and upon termination of Employee's employment with the Company, Employee shall return all such materials to the Company.

10. Proprietary Information. Employee shall assign to the Company, its successors or assigns, all of Employee's rights to copyrightable works and inventions which, during the period of Employee's employment by the Company or its successors in business, Employee makes or conceives, either solely or jointly with others, relating to any subject matter with which Employee's work for the Company is or may be concerned ("Proprietary Information"). Employee shall promptly disclose in writing to the Company such copyrightable works and inventions and, without charge to the Company, to execute, acknowledge and deliver all such further papers, including applications for copyrights and patents for such copyrightable works and inventions, if any, in all countries and to vest title thereto in the Company, its successors, assigns or nominees. Upon termination of Employee's employment hereunder, Employee shall return to the Company or its successors or assigns, as the case may be, any Proprietary Information. The obligation of Employee to assign the rights to such copyrightable works and inventions shall survive the discontinuance or termination of this Agreement for any reason.

11. Entire Agreement. This Agreement contains the entire agreement of the parties with respect to Employee's employment by the Company and supersedes any prior agreements between them, whether written or oral.

12. Waiver. The failure of either party to insist in any one or more instance, upon performance of the terms and conditions of this Agreement, shall not be construed as a waiver or a relinquishment of any right granted hereunder or of the future performance of any such term or condition.

13. Notices. Any notice to be given under this Agreement shall be deemed sufficient if addressed in writing and delivered personally, by telefax with receipt acknowledged, or by registered or certified U.S. mail to the address first above appearing, or to such other address as a party may designate by notice from time to time.

14. Severability. In the event that any provision of any paragraph of this Agreement shall be deemed to be invalid or unenforceable for any reason whatsoever, it is agreed such invalidity or unenforceability shall not affect any other provision of such paragraph or of this Agreement, and the remaining terms, covenants, restrictions or provisions in such paragraph and in this Agreement shall remain in full force and effect and any court of competent jurisdiction may so modify the objectionable provision as to make it valid, reasonable and enforceable.

15. Amendment. This Agreement may be amended only by an agreement in writing signed by each of the parties hereto.

16. Arbitration. Any controversy or claim arising out of or relating to this Agreement, or breach thereof, shall be settled by arbitration in Raleigh, North Carolina in accordance with the expedited procedures of the Rules of the American Arbitration Association, and judgment upon the award may be rendered by the arbitrator and may be entered in any court having jurisdiction thereof.

17. Governing Law. This Agreement shall be governed and construed in accordance with the laws of the State of North Carolina. Each of the parties hereto irrevocably submits to the exclusive jurisdiction of the courts located in North Carolina for the purposes of any suit, action or other proceeding contemplated hereby or any transaction contemplated hereby.

18. Benefit. This Agreement shall be binding upon and inure to the benefit of and shall be enforceable by and against the Company, its successors and assigns, and Employee, his heirs, beneficiaries and legal representatives. It is agreed that the rights and obligations of Employee may not be delegated or assigned except as may be specifically agreed to by the parties hereto.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

C3, Inc.

By: /s/Jeff N. Hunter

Jeff N. Hunter, President

/s/Thomas G. Coleman

Thomas G. Coleman

POSITION DESCRIPTION EXHIBIT A
THOMAS G. COLEMAN - DIRECTOR OF TECHNOLOGY

Purpose:

The Director of Technology is responsible for all research and development activities at the Company including, but not limited to, interfacing with Cree Research on development programs and developing methods to maximize gemstone yields. This position reports to the President.

Responsibilities:

Lead the research and development activities for the Company, including planning, budgeting and policy setting.

Interface with Cree Research on silicon carbide development programs working closely with the Director of Manufacturing at the Company.

Identify and implement solutions, working closely with the Director of Manufacturing, to maximize gemstone yields and improve the efficiency and effectiveness of the manufacturing processes.

Handle all facilities needs for the Company, including upfit and technical renovations.

Serve on company-wide project teams and perform such other responsibilities as may be assigned by the President or Board of Directors from time to time.

INCENTIVE COMPENSATION PLANS EXHIBIT B
THOMAS G. COLEMAN

Background

Each member of the management team can have a significant impact on the Company's ability to meet and exceed its goals. The Company has established an Annual Incentive Compensation Plan and a Long-term Incentive Compensation Plan to provide management and key employees with incentives to not only achieve the performance goals outlined in the business plan, but to exceed those goals.

New goals and targets will be established each year for the Annual Incentive Compensation Plan and goals and targets for the Long-term Incentive Plan will be established from time-to-time.

1998 Annual Incentive Compensation Plan

The 1998 Annual Incentive Compensation Plan (Annual Plan) provides for a "target bonus" which is based on a percentage of base compensation. Your specific "target bonus" is outlined below. Each person that participates in the Annual Plan has the ability to earn far in excess of their "target bonus" if the Company exceeds its performance goals.

1. Your "Target Bonus". Your 1998 "target bonus" is 35% of your base compensation, or $30,500.

2. Performance Goals. The Annual Plan performance goals for 1998 have been separated into several categories based on the Company's performance relative to net revenue and pre-tax income. Based upon the Company achieving different performance levels, as outlined in the chart below, the participating employee can earn different percentages of their "target bonus".

	NET REVENUE			
PRE-TAX INCOME	TARGET >$31.7 M	TARGET + >$35.6 M	OPTIMUM >$42.2 M	OUTSTANDING >$48.5 M
TARGET >$12.4 M	100%	110%	120%	130%
TARGET + >$16.3 M	150%	165%	180%	195%
OPTIMUM >$22.9 M	225%	245%	270%	290%
OUTSTANDING >$29.2 M	325%	360%	390%	425%

The actual net revenue and pre-tax income from the Company's 1998 audited financial statements will be used to determine the appropriate percentage in the table above. For example, net revenue of $34 million with pre-tax income of $14 million would lead to a bonus equal to 100%

of the participant's "target bonus"; net revenue of $35.6 million with pre-tax income of $16.3 million would lead to a bonus equal to 165% of the participants "target bonus", etc. If the performance of the Company exceeds the criteria above, the percentages will increase on a similar basis to those used above. If however, the Company does not meet the criteria above, the bonus structure will be modified as follows:

(a) As long as the $12.4 million pre-tax income target is met the bonuses will be awarded at the 100% level.

(b) If pre-tax income is below $12.4 million, so long as the Company achieves a positive pre-tax income, the percentage of the "target bonus" bonus would be reduced on a linear basis. Therefore, the percentage will be calculated by dividing the actual pre-tax net income by the $12.4 million target. No bonuses will be earned or paid if the Company does not achieve positive pre-tax net income.

Long-term Incentive Compensation Plan

The Long-term Incentive Compensation Plan (Long-term Plan) provides for the award of equity based incentives (stock options, stock appreciation rights, etc.); the specific grants and terms of which will be determined by the Compensation Committee of the Board of Directors from time-to-time. Generally the awards under the Long-term Plan will vest and become exercisable only upon the attainment of specific operating goals for the target. These targets will be based on factors that are deemed to have a direct impact on the performance of the Company's stock, typically this will be earnings per share.

1. Your Award. Your current award under the Long-term Plan, to be granted only upon completion of an IPO, is incentive stock options for the purchase of 10,000 shares of common stock at $13.50 per share.

2. Vesting Period. These options will vest and become exercisable based upon the Company achieving the following results (note vesting will stop once 100% vesting level has been achieved):

Completion of IPO	15%
98 Q1 sales > $800k & margin > 28%	5%
98 Q1 EPS > $.01 per share (stretch goal)	10%
98 Q2 sales > $2.2 M & margin > 36%	5%
98 Q2 EPS > $.01 per share (stretch goal)	10%
98 Q2 EPS > $.33 per share	10%
1998 TOTAL EPS > $1.13 per share	25%
99 Q1 EPS > $1.13 per share	5%
99 Q2 EPS > $1.31 per share	5%
99 Q3 EPS > $1.71 per share	5%
1999 TOTAL EPS > $8.00 per share	25%
2000 TOTAL EPS > $14.00 per share	25%
2001 TOTAL EPS > $19.00 per share	25%

EXHIBIT 10.11

THE REGISTRANT HAS REQUESTED THAT CERTAIN PORTIONS OF THIS EXHIBIT BE GIVEN CONFIDENTIAL TREATMENT. AN UNREDACTED VERSION OF THIS EXHIBIT HAS BEEN FILED WITH THE COMMISSION.

AMENDED AND RESTATED EXCLUSIVE SUPPLY AGREEMENT, DATED JUNE 6, 1997, BETWEEN CREE RESEARCH, INC. AND C3, INC.

AMENDED AND RESTATED EXCLUSIVE SUPPLY AGREEMENT

THIS AMENDED AND RESTATED EXCLUSIVE SUPPLY AGREEMENT (this "Agreement") is made and entered into effective as of the 6th day of June, 1997, by and between CREE RESEARCH, INC. ("Cree"), a North Carolina corporation having its principal offices at 2810 Meridian Parkway, Suite 144, Durham, North Carolina, 27713, and C3, INC. ("C3"), a North Carolina corporation formerly known as C3 Diamante, Inc. and having its principal offices at P.O. Box 13533, Research Triangle Park, North Carolina 27709-3533.

Recitals

WHEREAS, Cree is engaged in the business of developing, manufacturing and selling silicon carbide (SiC) substrates and material for various electronic applications; and

WHEREAS, C3 intends to develop, manufacture and market gemstones fabricated from SiC material and desires to purchase such material from Cree; and

WHEREAS, Cree and C3 entered into an Exclusive Supply Agreement dated September 15, 1995 and a First Amendment to Exclusive Supply Agreement dated July 10, 1996 wherein Cree and C3 agreed, inter alia, for Cree to supply C3 SiC material and C3 agreed to purchase certain SiC material as provided therein; and

WHEREAS, Cree and C3 desire to amend and restate the Exclusive Supply Agreement, as amended as set out herein; and

WHEREAS, Cree and C3 shall simultaneously with the execution of this Agreement enter into a Development Agreement (the "Development Agreement");

NOW, THEREFORE, the parties hereto, in consideration of the foregoing premises and the covenants and undertakings herein contained, mutually agree as follows:

1. Duties of C3

1.1 C3 agrees to purchase from Cree in each calendar quarter at least 50% (by dollar volume) of C3's requirements for SiC material for the production of gemstones in each calendar quarter. A purchase shall be considered to be made on the shipment date requested by C3 in any order submitted by it and accepted by Cree, or as otherwise mutually agreed by C3 and Cree. C3 shall not be in breach of this Section 1.1 if the dollar volume of purchases by C3 in a given calendar quarter falls below such 50% due to Cree's failure to accept orders requesting delivery in the quarter, provided that C3's orders do not request delivery during the quarter for an aggregate number of boules in excess of the number delivered during the preceding quarter, plus a commercially reasonable increase (taking into consideration the time periods for capacity increases specified in Sections 1.6 and 1.7 which are intended to address capacity increases demanded for normal growth). C3 shall be obligated to purchase from Cree under this Agreement, and Cree shall be obligated to sell to C3, only SiC material in colors available from Cree. As used in this Agreement, "colors available from Cree" means:

(a) SiC material in colors that result from standard processes Cree may from time to time employ for manufacturing SiC semiconductor material; and

(b) Transparent or nearly transparent SiC material that results from either the process claimed in U.S. Patent Application Serial No. 08/596,526 entitled "Growth of Colorless Silicon Carbide Crystals" or any other process using then standard crystal growth equipment and processes of Cree capable of producing transparent or nearly transparent SiC material, which processes are currently under development by Cree or as such processes may be developed by Cree from time to time. References in this Agreement to "transparent" and "nearly transparent" material are understood to mean colorless material (and vice versa) and references in this Agreement to "gemstones" are understood to mean "gems" (and vice versa).

As of June 6, 1997, the colors available from Cree are green, blue, amber, and colorless, with processes for significantly improved colorless material under development by Cree pursuant to the Development Agreement. Cree will give C3 written notice of the availability of other colors as they become available. Without limiting the foregoing, when Cree notifies C3 that it has developed a "Repeatable Process," as defined in the Development Agreement, for producing SiC boules that meet specifications set forth in the Specifications and Timetable Chart in Section 1.3 of the Development Agreement, boules meeting such specifications shall be deemed standard products in colors available from Cree under this Agreement.

1.2 Should C3 require SiC material in a color other than the colors available from Cree, C3 will extend to Cree a right of first refusal with respect to the development, manufacture and sale of such material as provided in this paragraph. C3 agrees that it will not purchase such material from, or otherwise enter into any agreement for the development, manufacture or sale of such material with, any person or entity other than Cree except in compliance with this paragraph. C3 will give Cree written notice referencing this Section 1.2 setting out the terms of the proposed transaction and extending an offer to contract with Cree on such terms. If Cree does not accept such offer by written notice given within thirty (30) days after receipt of C3's notice, C3 shall be free at any time within the next six (6) months after expiration of the thirty-day period to conclude the transaction with any third party, provided the terms are no more favorable to the supplier than those described in C3's notice to Cree. If Cree accepts any offer from C3 under this paragraph, then notwithstanding anything to the contrary in such offer or herein, (i) all other terms and provisions of this Agreement relating to the purchase of SiC material for the production of gemstones not inconsistent with such offer shall apply to the development, manufacture and sale of such material as provided in this paragraph, and (ii) Cree shall have a perpetual, irrevocable, royalty-free, exclusive (including exclusive of C3) license to use, manufacture, sell and otherwise practice (including the right to sublicense) any process or other work developed for C3 for all applications other than the manufacture of gemstones. The foregoing shall not be construed as an assignment or other transfer by Cree of any rights in any intellectual property. Development work performed by Cree pursuant to the Development Agreement shall be governed by the terms of such Development Agreement and not this Section 1.2.

1.3 C3 agrees to place orders that in the aggregate total a minimum purchase price to C3 of $10,000 for SiC material to be shipped before December 31, 1995.

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1.4 C3 agrees that it will not, without Cree's written consent, use any SiC material supplied by Cree as a seed for bulk crystal growth or for any purpose other than fabricating gemstones from such material. C3 further agrees that it will not, without Cree's written consent, resell or otherwise transfer bulk SiC material supplied by Cree to any third party and that it will not, without Cree's written consent, sell or otherwise transfer SiC gemstones fabricated from material supplied by Cree to any third party that C3 knows or has reason to believe intends to use the material as a seed for the growth of SiC.

1.5 C3 grants Cree a perpetual, irrevocable, royalty-free, exclusive (including exclusive of C3) license to use, manufacture, sell and otherwise practice (including the right to sublicense), for electronic applications only, any inventions developed by employees of C3 or acquired by C3 during the term of this Agreement which relate to SiC or gallium nitride (GaN) material, including without limitation inventions relating to bulk crystal growth, cutting or polishing of SiC or GaN material.

1.6. For so long as Cree has more than ***** but less than ***** crystal growth systems in use for the production of SiC material under this Agreement, if the order and delivery requirements from C3 exceed the capacity of the crystal growth systems then being used by Cree for the production of SiC material under this Agreement, then Cree shall notify C3. C3 may elect to either (i) reduce the order size or extend the delivery schedule so as not to require additional crystal growth systems or (ii) upon submission to Cree of a written request and the binding commitment of C3 to purchase a minimum of six (6) months' output from such crystal growth system(s) (and subject to the condition that specifications for any processes under development have been established), require Cree to provide the additional crystal growth system(s), up to a total of ***** systems, needed to meet the order and delivery requirements of C3. Any such additional crystal growth systems provided under this Section 1.6 (up to a total of ***** systems) shall be provided by Cree at its expense within four months after receipt of such written request from C3.

1.7 If the order and delivery requirements from C3 exceed the capacity of ***** crystal growth systems, then Cree may, but shall not be obligated to, notify C3 of a request for additional capital equipment to supply such capacity.

(a) Cree shall provide written notice to C3 identifying the particular system or systems to be constructed for which funding is required and an estimate of the cost for all work as set out in this Section 1.7.

(b) C3 may elect to either (i) reduce the order size or extend the delivery schedule so as not to require additional crystal growth systems or (ii) purchase the designated system or systems from Cree at Cree's cost. Systems purchased by C3 are referred to below as the "Purchased Equipment" and shall be provided by Cree within four months after receipt of C3's election. C3 will loan the Purchased Equipment back to Cree.

(c) Cree will use the Purchased Equipment exclusively for the production of SiC material for C3, except that from time to time Cree may give 7 days prior written notice to C3 of available production time for the Purchased Equipment, and if C3 does not by the end of such 7-day period demonstrate an immediate need for use of the Purchased Equipment, then Cree will be free to use the Purchased Equipment for other purposes until the Purchased Equipment is next required to meet C3's orders under this Agreement.

(d) The price to be paid by C3 for the Purchased Equipment will include all labor and material costs incurred by Cree in the construction of the systems purchased, plus reasonable overhead, and will specifically include, without limitation, all costs of piping, electrical and mechanical systems required for the operation of the Purchased Equipment. Cree will be responsible solely for costs of providing light industrial shell space (i.e., space upfit with only lay-in lighting, drop ceiling, sprinklers, tile floor and walls).

(e) Cree will invoice C3 on a monthly basis for all costs to be paid by C3 during construction of a system designated to be purchased by C3. Any costs not previously billed will be invoiced to C3 once the Purchased Equipment is placed in service. Amounts invoiced under this paragraph will be due within thirty (30) days from the date of invoice.

(f) Upon payment of C3 of all costs incurred in the construction of Purchased Equipment, Cree will execute and deliver to C3 an assignment transferring title to such system to C3, subject to reservation of a security interest in favor of Cree as provided below.

(g) Purchased Equipment will at all times remain at Cree's facilities. C3 shall not sell or otherwise transfer to any third party any rights in or to any Purchased Equipment and shall at all times keep such Purchased Equipment free and clear of any claim, lien or other encumbrance, other than the security interest in favor of Cree. C3 acknowledges that the Purchased Equipment embodies confidential and proprietary information of Cree and shall at all times remain in Cree's possession and control, notwithstanding any ownership interest of C3.

(h) Cree hereby reserves, and C3 hereby grants to Cree, a security interest in and to all Purchase Equipment, including all accessions thereto and replacements thereof and all parts and supplies associated therewith. This security interest secures the performance by C3 of the obligations owed to Cree, arising under this Agreement. If C3 attempts to sell or otherwise transfer to any third party any rights in or to any such property, or fails to keep the same free and clear of any claim, lien or other encumbrance in favor of any third party, C3 shall be deemed in

default under this Agreement, and Cree shall have all of the rights and remedies afforded a secured party upon default by Chapter 25 of the North Carolina General Statutes. C3 agrees to execute and deliver to Cree, from time to time upon Cree's request, appropriate financing statements for filing in the public records to evidence Cree's security interest hereunder.

(i) Cree will, at its expense, maintain the Purchased Equipment in good operating condition. The Purchased Equipment shall be conspicuously marked as property of C3. Cree shall not sell or otherwise transfer to any third party any rights in or to any Purchased Equipment and shall at all times keep such Purchased Equipment free and clear of any claim, lien or other encumbrance in favor of any third party. Cree agrees to execute and deliver to C3, from time to time, upon C3's request, appropriate financing statements for filing in the public records to evidence C3's ownership of the Purchased Equipment. Cree shall not, however, be obligated to repair or replace any Purchased Equipment damaged as a result of fire, lightning, flood or other casualty of any kind unless C3 or its insurer agrees to pay the cost of such repair or replacement.

(j) C3 will be responsible for and shall timely pay all property taxes due with respect to Purchased Equipment during the period of C3's ownership thereof.

(k) C3 will transfer ownership of the Purchased Equipment to Cree, without charge, when such equipment is fully-depreciated. If ownership has not been transferred prior to the termination of this Agreement, (i) in the event this Agreement is terminated through no fault of Cree, upon such termination C3 shall transfer ownership of the Purchased Equipment to Cree without charge, or (ii) in the event this Agreement is terminated due to the breach of this Agreement by Cree, C3 shall transfer the Purchased Equipment to Cree and Cree shall pay to C3 the book value of the Purchased Equipment.

1.8 C3 shall not and shall cause its shareholders to not accept any payment, or enter into any contract or other arrangement, for the purpose of discontinuing or substantially curtailing its business of producing and selling gemstones other than in connection with a sale of its business (whether by stock sale, asset sale, merger or otherwise), subject to Section 6.5.

1.9 For the purpose of determining whether C3 has purchased at least 50% of its SiC material as provided in Section 1.1, the dollar value of SiC material required by C3 and not purchased from Cree shall be equal to:

(a) If the material is purchased from a person other than Cree, the purchase price of such material paid by C3; or

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(b) If such material is produced by C3, an amount calculated using the price calculation as set forth in the first sentence of Section 2.2, as then used by Cree, using C3's loaded manufacturing cost.

1.10 Upon the request of Cree, which request shall occur no more than twice per year, C3 shall, within two weeks of such request, provide non-binding projections regarding SiC material to be ordered hereunder.

1.11 C3 will give Cree written notice upon the purchase from anyone other than Cree, or producing for itself, any portion of its requirements of SiC material for the production of gemstones. Thereafter Cree shall have the right, at Cree's expense, to have an independent public accounting firm reasonably acceptable to C3 audit C3's purchases of SiC material for the production of gemstones and the calculation of dollar value under Section 1.9. The audit shall be conducted during normal business hours and upon reasonable prior notice. The accounting firm conducting the audit shall be required to enter into a mutually acceptable nondisclosure agreement with C3 under which such firm will be obligated not to disclose any information obtained during the course of the audit, except that it may disclose to Cree its analysis of whether C3 has complied with its obligations under Section 1.1. The audit right under this paragraph may be exercised not more than once during any fiscal year of C3 and only with respect to calendar quarters ended within one year preceding the request for an audit. C3 shall provide reasonable assistance to the public accounting firm including, but not limited to, providing a schedule of purchases and the dollar value calculation under Section 1.9 (which shall provide reasonable detail, but not divulge proprietary or confidential information of C3, as to the calculation of loaded manufacturing costs), supporting analyses and any supporting source documentation reasonably required by the public accounting firm. Such accounting firm will audit and report to Cree on the schedule of purchases and the dollar value calculation under Section 1.9, but will not divulge to Cree any proprietary or confidential information (including but not limited to supporting schedules and source documentation) disclosed during the audit process.

2. Duties of Cree

2.1 Cree agrees to supply to C3, in accordance with C3's orders from time to time submitted to and accepted by Cree in writing, such quantities of SiC material ("material sales grade" and scrap) as C3 is obligated to purchase from Cree under this Agreement for the purpose of developing and manufacturing gemstones. Cree shall be obligated to supply SiC material from the production capacity of ***** crystal growth systems and any growth systems purchased by Cree or C3 pursuant to Section 1.6 or Section 1.7 of this Agreement. Without limiting the foregoing, if Cree elects not to give notice under Section 1.7 above, Cree will obtain additional capacity to fill C3's orders under this Agreement as promptly as commercially reasonable.

2.2 Cree agrees to provide "material sales grade" SiC material at its "loaded manufacturing cost" plus ***** and to provide reject (scrap) material at ***** per crystal. Cree also agrees to cut the SiC material for a price equal to its loaded manufacturing cost plus *****, provided that the cutting

utilizes Cree's standard equipment and processes. All "material sales grade" material supplied by Cree under this Agreement shall be SiC crystals of the quality and defect density that Cree supplies as standard products to its SiC semiconductor wafer customers; provided, however, that transparent or nearly transparent SiC material shall be considered "material sales grade" if it is of the quality and defect density that results from either the process claimed in U.S. Patent Application Serial No. 08/596,526 entitled 'Growth of Colorless Silicon Carbide Crystals' as currently under development and as approved by C3 or by any other process using then standard Cree crystal growth equipment capable of producing transparent SiC material, as those processes are developed by Cree and as approved by C3. Cree will be obligated to supply SiC material under this Agreement in cut form and in bulk crystal form, subject to compliance by C3 with the terms of Section 1.4 and the other terms of this Agreement.

2.3 For purposes of this Agreement,

(a) "Loaded manufacturing cost" shall be determined in accordance with Cree's standard accounting practices using allocations, conditions and calculations no less favorable than those available to any other person or entity from Cree, and in all events "loaded manufacturing cost" shall exclude any costs and expenses related to capital equipment funding paid by C3 pursuant to Section 1.7 hereunder and costs related to the production of crystals that do not meet "minimum specifications," as provided herein, or elsewhere if mutually agreed upon in writing by Cree and C3 in a document referencing this Section 2.3. The "minimum specifications" for colorless material shall be determined as set forth in Section 2.4 below.

(b) The loaded manufacturing cost applicable to an order will be Cree's average loaded manufacturing cost (as determined in accordance with this Section 2.3) during the three (3) calendar months preceding the month in which the order is received by Cree.

(c) In manufacturing SiC material for sale to C3 under this Agreement, Cree agrees to employ substantially the same processes it employs in the manufacture of SiC material for semiconductor applications for the purpose of maximizing productivity and minimizing costs, except insofar as such processes may be modified for the production of transparent or nearly transparent SiC material or otherwise modified by mutual agreement. Cree shall use its best commercially reasonable efforts to incorporate into its production processes those advances obtained from work pursuant to the Development Agreement.

2.4 For the purposes of Section 2.3 above, "minimum specifications" for colorless SiC material means:

(a) Prior to such date as Cree notifies C3 that it has developed a "Repeatable Process," as defined in the Development Agreement, for producing SiC boules that meet the specifications for January 1, 1998 set forth in the first row of the Specifications and Timetable Chart in Section 1.3 of the Development Agreement, no "minimum specifications" shall apply unless otherwise mutually agreed by the parties as provided in Section 2.3; and

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(b) When Cree notifies C3 that it has developed a "Repeatable Process," as defined in the Development Agreement, for producing SiC boules that meet the specifications for January 1, 1998 set forth in the first row of the Specifications and Timetable Chart in Section 1.3 of the Development Agreement, "minimum specifications" shall mean a ***** or larger diameter crystal with at least a ***** slice comprised of material in the color grade range of GHIJ, with no less than ***** in the GH range, or better, according to the standards generally accepted by the diamond industry for color using pregraded master color stones (it being understood that while the minimum specifications do not require the absence of inclusions, blemishes or other defects affecting clarity, Cree shall use its best commercially reasonable efforts to minimize such defects since such defects can have an impact on the color grade); and

(c) On the first day of the calendar month immediately following each anniversary of the date Cree notifies C3 it has achieved the specification as stated in Subsection (b) above, the "minimum specifications" shall be revised to require that each boule contain a contiguous volume of material (with a minimum height of *****) in the GHIJ range, with no less than ***** in the GH range, or better, according to the standards generally accepted by the diamond industry for color using pregraded master color stones, with such volume equal to at least ***** of the average volume of such material contained in all boules that met the minimum specifications over the previous twelve months (the "Minimum Specifications Adjustment") (it being understood that while the minimum specifications do not require the absence of inclusions, blemishes or other defects affecting clarity, Cree shall use its best commercially reasonable efforts to minimize such defects since such defects can have an impact on the color grade). However, the minimum specifications shall never decrease from the previous period. A Minimum Specifications Adjustment shall occur each year for so long as C3 continues funding SiC material development at Cree in an amount not less than C3 funded during the previous twelve month period. No Minimum Specifications Adjustment will occur if such funding requirement is not fulfilled.

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

2.5 Should the price to C3 for production SiC boules calculated pursuant to Section 2.2 become ***** per cubic millimeter for SiC boules having a contiguous volume of material of at least ***** cubic millimeters of colorless material with a minimum height of ***** in the comparable diamond color grade range of GHIJ, with no less than ***** in the GH range, in each case in accordance with the standards generally accepted by the diamond industry for color using pregraded master color stones (it being understood that while the minimum specifications do not require the absence of inclusions, blemishes or other defects affecting clarity, Cree shall use its best commercially reasonable efforts to minimize such defects since such defects can have an impact on the color grade), notwithstanding the provisions of Section 2.2 hereof, the price to C3 for such boules shall not drop to less than ***** per cubic millimeter, except to the extent that such price yields to Cree an amount in excess of Cree's loaded manufacturing cost plus *****.

2.6 Upon the request of C3, which request shall occur no more than twice per year, Cree shall, within two weeks of such request, provide non-binding updated projections regarding the cost of SiC material to be supplied hereunder.

2.7 Cree is under no obligation to share any technical information regarding crystal growth technology and/or crystal growth processes with any C3 personnel.

2.8 C3 shall have the right, at its expense, to have an independent public accounting firm reasonably acceptable to Cree audit Cree's loaded manufacturing cost determination and the price to be paid by C3 under Section 1.7 for the Purchased Equipment. The audit shall be conducted during normal business hours and upon reasonable prior notice. The accounting firm conducting the audit shall be required to enter into a mutually acceptable nondisclosure agreement with Cree under which such firm will be obligated not to disclose any information obtained during the course of the audit, except that it may disclose to C3 its analysis of the correctness of the loaded manufacturing cost as calculated by Cree. The audit right under this paragraph may be exercised not more than once during any fiscal year of Cree and only with respect to costs applicable to shipments made within one year preceding the request for an audit. Cree shall provide reasonable assistance to the public accounting firm, including but not limited to, providing a schedule of the loaded manufacturing costs (which shall provide reasonable detail, but not divulge proprietary or confidential information of Cree, as to the calculation of loaded manufacturing costs), supporting analyses and any supporting source documentation reasonably required by the public accounting firm. Such accounting firm will audit and report to C3 on the schedule of loaded manufacturing costs, but will not divulge to C3 any proprietary or confidential information (including but not limited to supporting schedules and source documentation) disclosed during the audit process.

2.9 During the term of this Agreement, Cree shall not sell SiC material or crystals in any form to any customer other than C3 if Cree knows or has reason to believe such customer intends to use such material for the purpose of fabricating, distributing or selling gemstones.

2.10 Notwithstanding Section 2.9, if C3 has not placed orders to purchase SiC material from Cree having a combined purchase price to C3 of at least $100,000 by April 15, 1998, with shipment of

such quantity to be made not later than July 15, 1998, this Agreement shall become non-exclusive and Cree shall be free to sell SiC material to others for use in the fabrication of gemstones.

3. Term and Termination

3.1 The term of this Agreement shall extend for ten (10) years beginning July 15, 1995, unless sooner terminated in accordance with Section 3.3 or by written mutual consent of both parties.

3.2 If C3 submits and Cree accepts orders to purchase SiC material having an aggregate purchase price in excess of $1,000,000 for delivery during any thirty-six (36) consecutive months, then C3 and Cree shall each have an option to extend this Agreement for one (1) additional term of ten (10) years. Such option shall become exercisable at such time as the volume purchase condition specified in the preceding sentence has been satisfied and may be exercised by written notice given at any time thereafter prior to expiration of the initial ten-year term.

3.3 In the event of a material breach by either party of any obligation to the other party, whether arising under this Agreement or otherwise, the other party may terminate this Agreement upon written notice if the breach is not cured within thirty (30) days after giving written notice to the party in breach setting out the nature of the breach in reasonable detail.

4. Terms and Conditions of Purchase

4.1 All orders under this Agreement shall be submitted to Cree in writing. Cree will advise C3 in writing within ten (10) days after receipt of each order whether Cree accepts the order. If not accepted within such 10-day period the order will be deemed rejected.

4.2 C3 shall submit all orders at least thirty (30) days prior to the requested shipping date. Subject to the foregoing, Cree shall use all reasonable efforts to ship standard products on or before the date requested by C3 in its order, but will not be obligated to make delivery under any order earlier than forty-five (45) days after receipt of the order. Lead times for non-standard products shall be subject to mutual agreement.

4.3 Cree shall invoice C3 upon shipment of each order. Payment of each invoice is due within thirty (30) days after the invoice date. Any portion of any invoice not paid when due will accrue interest until paid at the rate of 1.5% per month or, if less, the maximum rate permitted by law. Until receipt of payment for each shipment Cree reserves a security interest in such shipment to secure the purchase price and all taxes and shipping and other expenses relating to such shipment. In the event of default in payment of any invoice, C3 agrees to pay Cree's expenses, including reasonable attorney's fees and expenses, incurred in enforcing payment thereof.

4.4 All applicable sales, use and other taxes with respect to purchases under this Agreement (other than taxes on Cree's net income) will be invoiced to and paid by C3.

4.5 All shipping expenses, including insurance against loss or damage in transit, will be invoiced to and paid by C3.

4.6 Material shall be shipped F.O.B. Cree's manufacturing facilities to any U.S. location designated by C3. Subject to Cree's reserved security interest, title and risk of loss shall pass to C3 upon delivery to the carrier at the shipping point.

4.7 Cree shall not be liable for or be in default of this Agreement for any delay in delivery or failure to perform due to strike, lockout, riot, war, fire, act of God, accident, delays caused by any subcontractor or supplier or by C3, technical difficulties, failure or breakdown of machinery or components necessary to order completion, inability to obtain or substantial rises in the price of labor or materials or manufacturing facilities, curtailment of or failure to obtain sufficient electrical or other energy supplies, or compliance with any law, regulation, order or direction, whether valid or invalid, of any governmental authority or instrumentality thereof, or due to any unforeseen circumstances or any causes beyond its control, whether similar or dissimilar to the foregoing and whether or not foreseen. C3 agrees that such delay in delivery or failure to deliver or perform any part of this Agreement shall not be grounds to terminate or refuse to comply with any provisions hereof and no penalty of any kind shall be effective against Cree for delay or failure; provided, however, that if the delay or failure extends beyond six (6) months from the originally scheduled date either party may, with written notice to the other, terminate this Agreement without further liability.

4.8 All standard "material sales grade" products supplied by Cree under this Agreement shall conform to Cree's published specifications for such products in effect at the time of shipment. Nonconforming products shall be replaced by Cree upon return of the defective product, if such product is returned within 90 days after shipment; such replacement shall be C3's sole remedy for breach of the foregoing warranty. All scrap material and non-standard products supplied under this Agreement will be supplied "AS IS." EXCEPT AS PROVIDED ABOVE, CREE MAKES NO WARRANTY OF ANY KIND WITH RESPECT TO ANY MATERIAL SUPPLIED HEREUNDER AND DISCLAIMS ANY IMPLIED WARRANTIES, INCLUDING ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR NONINFRINGEMENT OF PATENT OR SIMILAR RIGHTS.

4.9 In no event shall either party be liable to the other for incidental, consequential or special loss or damages of any kind, however caused, or any punitive damages.

5. Confidential Information; Joint Inventions and Nonsolicitation

5.1 "Confidential Information" for purposes of this Agreement means any information, not generally known in the relevant trade or industry, which was obtained from the other party or which falls within any of the following categories:

(a) information constituting trade secrets, including but not limited to internal costs and margins;

(b) information relating to existing or contemplated products, services, technology, designs, processes, formula, computer systems, computer software, algorithms, media and research or development.

(c) information relating to the business of the party, including but not limited to, business plans, sales or marketing methods, methods of doing business, customer lists, customer usages and/or requirements, and supplier information; or

(d) information marked "Confidential" or "Proprietary."

5.2 Each party agrees that the other shall not be liable hereunder for disclosure or use of any information which it establishes, by legally sufficient evidence:

(a) was already known to the receiving party at the time of receipt; or

(b) was rightfully obtained from a third party without similar restriction and through no wrongful act of the receiving party; or

(c) was at the time of receipt generally available to the public or thereafter becomes so available without breach hereof; or

(d) was used or disclosed with the prior written authorization of the owner; or

(e) was disclosed pursuant to the requirement or request of a governmental agency, which disclosure cannot be made in confidence, or the disclosure of which was required by law or judicial order; provided that, in such instance, the disclosing party shall first give the other notice of such requirement or request.

5.3 Each party agrees to keep the Confidential Information of the other in the strictest confidence, in the manner set forth below:

(a) The receiving party shall not, directly or indirectly, disclose, divulge, reveal, report or transfer the Confidential Information to any third party or to any individual employee other than an employee having a need to know.

(b) The receiving party shall not use any Confidential Information or the concepts therein for its own benefit or for the benefit of a third party or for any purpose other than the purposes authorized in writing by the disclosing party.

(c) Any tangible materials which are or which contain any Confidential Information shall be kept confidential in accordance with the terms hereof, and all such materials shall be returned or destroyed upon satisfaction of the purpose for which such material was originally provided or upon the earlier request of the disclosing party.

(d) The receiving party agrees to use at least the same degree of care to protect the other party's Confidential Information as it uses to protect its own Confidential Information.

5.4 Each party shall appropriately notify each employee, agent or consultant to whom any disclosure of received Confidential Information is made and shall obtain their agreement that they will maintain Confidential Information in confidence in accordance with the provisions set forth herein. Each party represents and warrants to the others that its employees, agents and consultants to whom any disclosure of received Confidential Information is made shall be subject to a valid, binding and enforceable agreement to maintain such Confidential Information in confidence in accordance with the provisions set forth herein.

5.5 Except as expressly provided herein or in other written agreements between the parties, neither party shall have any obligation of confidentiality with respect to information received from the other. The obligations of confidentiality set forth in this Section 5 shall continue for so long as the Confidential Information continues to come within the definition thereof set forth in Section 5.1 and shall survive the expiration or any termination of this Agreement.

5.6 Nothing in this Agreement is or shall be construed to require either party to disclose proprietary or confidential information to the other. The parties agree that the terms of this Agreement shall be treated as Confidential Information of each other subject to Section 5; provided, however, that either party may, upon notice to the other, make such public disclosures regarding this Agreement as in the opinion of counsel for such party are required by applicable securities laws or regulations or other applicable law.

5.7 The parties will mutually agree on patenting procedures for any inventions made jointly by employees of both parties during the term of this Agreement. The parties do not presently anticipate that any such joint inventions will be made under either this Agreement or the Development Agreement.

5.8 Notwithstanding the ultimate determination of ownership, the invention known by the parties as the "post faceting process" and any improvements made thereon by either party during the term of this Agreement shall be licensed to the nonowning party as follows:

(a) If to C3, a perpetual, irrevocable, royalty-free, exclusive (including exclusive of Cree, except Cree shall have the right to use and practice the invention to manufacture or process material for C3) license to use, manufacture, sell and otherwise practice (including the right to sublicense) the invention and any improvement exclusively for gemstones and gemological instrumentation; or

(b) If to Cree, a perpetual, irrevocable, royalty-free, exclusive (including exclusive of C3) license to use, manufacture, sell and otherwise practice (including the right to sublicense) the invention and any improvement exclusively for electronic applications.

For all other uses and application, each party shall have full rights to use, manufacture, sell and otherwise practice the invention and any improvement, but neither party may sublicense any such use, manufacture, sale or practice.

5.9 Each party agrees that during the term of this Agreement, without the prior written consent of the other party, it will not employ or otherwise engage the services (as a consultant or in any other capacity) of any individual who within one (1) year prior to being so engaged served as an employee of the other party, or as a consultant to the other party providing services, in the case of Cree, relating to bulk growth of SiC or GaN material or the processing of such material (including without limitation, wafering and polishing), or, in the case of C3, relating to gemstones or gemological instrumentation.

6. General

6.1 This Agreement (which includes any Exhibits referenced herein), constitutes the complete and exclusive statement of the understanding and agreement of the parties with respect to the subject matter hereof and supersedes all prior written or oral agreements between the parties concerning such subject matter (including without limitation the Exclusive Distribution Agreement dated June 6, 1995 between Cree and C. Eric Hunter, to which C3 succeeded by assignment). This Agreement shall not be amended, modified or altered except pursuant to a document signed by both parties.

6.2 This Agreement is made in and shall be construed in accordance with and governed by the laws of the State of North Carolina.

6.3 Neither party shall permit any "Affiliate" of such party (as defined below) to act or fail to take action when such action or failure to take action, if by the party, would be a breach of this Agreement. Pursuant to but without limiting the foregoing, purchases of SiC material by Affiliates of C3 will be considered purchases by C3 for purposes of Section 1 of this Agreement and sale of SiC material by Affiliates of Cree shall be considered sales by Cree for purposes of Section 2.9 of this Agreement. For purposes of this Agreement, "Affiliate" of a designated party means any corporation, partnership, limited liability company or other business entity which: (a) controls, is controlled by, or is under common control with the designated party, whether directly or through one or more intermediaries; and (b) is sublicensed by either party under Section 5.8 of this Agreement, by Cree under Section 1.5 of this Agreement, or by C3 under Section 4.2 of the Development Agreement. For purposes of this definition "controlled" and "control" mean ownership of more than fifty percent (50%) of the voting capital stock or other interest having voting rights with respect to the election of the board of directors or similar governing authority. This Agreement shall inure to the benefit of and be binding upon the parties and their respective successors and permitted assigns.

6.4 The invalidity or unenforceability of any particular provision of this Agreement shall not affect the other provisions hereof, and this Agreement shall be construed in all respects as if such invalid or unenforceable provisions were omitted.

6.5 Neither this Agreement nor any rights hereunder may be assigned by either party without the other party's prior written consent, which consent shall not be unreasonably withheld except that either party may, in its sole discretion, withhold consent to assignment to any Prohibited Assignee (as defined below). Any attempted assignment in violation of this Section 6.5 is void and shall constitute a

breach of this Agreement. "Prohibited Assignee" means (i) De Beers or any corporation, partnership or other entity or individual which in the reasonable belief of Cree is affiliated with the De Beers, and the Central Selling Organization, (ii) any party whose primary business is the development, manufacture, marketing or sale of diamond gemstones or (iii) any non-gemstone and non-jewelry industry competitor of the non-assigning party. A grant by C3 to a Prohibited Assignee of exclusive rights to distribute or market moissanite gemstones shall be an assignment for purposes of this Section 6.5.

The occurrence of any Change in Control (as defined below) with respect to a transaction with a Prohibited Assignee involving a party shall be deemed an "assignment" of this Agreement by such party, subject to the provisions of this Section 6.5. A "Change in Control" shall be deemed to have occurred with respect to a party if:

(a) any person or group (as that term is used in Section 13(d)(3) and 14(d)(2) of the Securities Exchange Act of 1934, as amended), together with all affiliates of such person or group, becomes the beneficial owner of more than 50% of the outstanding capital stock of that party, and such person or group was not, at June 15, 1996, the beneficial owner of more than 50% of the outstanding capital stock of that party and is not an employee benefit plan sponsored or maintained by that party; or

(b) that party merges or consolidates with or into another corporation, or sells or otherwise disposes of all or substantially all of its assets, except as part of a reorganization in which the shareholders owning more than 50% of the outstanding capital stock of that party immediately prior to the effectiveness of the merger, consolidation or sale own more than 50% of the outstanding capital stock of the successor purchaser (as the case may be) immediately after the effectiveness of such event.

6.6 Neither party shall issue any press release or otherwise make any public announcement concerning this Agreement without the prior consent of the other party, except as may be required by law. Neither party shall use the name of the other party in any advertising, marketing or similar material without the other party's prior written consent.

6.7 The parties acknowledge and agree that in the event of a breach of the Agreement, in addition to any other rights and remedies available to it at law or otherwise, the parties shall be entitled to seek equitable relief in the form of a temporary restraining order ("TRO") from any court of competent jurisdiction; provided however, that in the event a TRO is obtained, the parties shall request that any hearing on the merits of the dispute shall be stayed pending arbitration of the dispute as provided in this Section 6.7. In the event a party seeks a TRO or in the event of any other controversy or claim (including, without limitation, any claim based on negligence, misrepresentation, strict liability or other basis) arising out of or relating to this Agreement or its performance or breach, a party shall give the other party notice of the dispute, setting out the circumstance in reasonable detail, and requesting a meeting of the representatives of the parties to attempt to resolve the dispute or to reduce the scope of the issues subject to dispute. The chief executive officers of the parties, and such other representatives as each may desire to have attend, shall meet at a mutually agreeable time within five business days from the date the meeting request was received and shall hold such meeting at the offices of the party not requesting the same, or

at some mutually agreeable alternative location. In the event the parties do not resolve the dispute at such meeting, or any mutually agreed upon adjournment thereof, the dispute shall be settled exclusively by arbitration in the City of Raleigh, North Carolina pursuant to the expedited procedures of the Commercial Arbitration Rules of the American Arbitration Association (other than notice requirements which shall be as provided in Section 6.8 below and the expedited procedures for selection of arbitrators which shall be as provided in Sections 14 and 15 of such Rules) . There shall be three arbitrators, one selected by each of C3 and Cree and a third selected by the arbitrators selected by the parties. The arbitrators shall in no event make any damage award that contravenes Section 4.9 of this Agreement, but shall order the losing party to pay all of the charges of the American Arbitration Association for such arbitration and all of the prevailing party's costs of the arbitration, including reasonable attorneys' fees. In the event of a breach of this Agreement by a party, the arbitrators may award equitable relief against such party to the extent the nonbreaching party is entitled to such relief under applicable law. The decision in such arbitration shall be final and binding and judgment on any award rendered therein may be entered in any court having jurisdiction.

6.8 All notices under this Agreement shall be in writing and addressed to the other party at the address shown below or to such other address as the party may hereafter designate by notice under this Agreement. All notices so addressed shall be deemed given five (5) days after mailing if sent by certified mail, return receipt requested, postage prepaid, or when sent via facsimile if receipt is acknowledged in writing or otherwise when actually received.

IN WITNESS WHEREOF, the parties have executed this Agreement by and through their duly authorized representatives.

CREE RESEARCH, INC.	C3, INC.
By: /s/ Charles M. Swoboda	By: /s/ Jeff N. Hunter
Charles M. Swoboda, Vice President and Chief Operating Officer	Jeff N. Hunter, President
Address for Notices:	Address for Notices:
Cree Research, Inc. 2810 Meridian Parkway, Suite 144 Durham, North Carolina 27713 Attention: President Fax No. (919) 361-5415	C3, Inc. P.O. Box 13533 Research Triangle Park, NC 27709-3533 Attention: President Fax No.: (919) 468-0486

EXHIBIT 10.12

THE REGISTRANT HAS REQUESTED THAT CERTAIN PORTIONS OF THIS EXHIBIT BE GIVEN CONFIDENTIAL TREATMENT. AN UNREDACTED VERSION OF THIS EXHIBIT HAS BEEN FILED WITH THE COMMISSION.

DEVELOPMENT AGREEMENT, DATED JUNE 6, 1997, BETWEEN CREE RESEARCH, INC. AND C3, INC.

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DEVELOPMENT AGREEMENT

This DEVELOPMENT AGREEMENT (the "Agreement") is entered into effective as of the 6th day of June, 1997 by and between Cree Research, Inc. ("Cree") and C3, Inc. ("C3").

Recitals

WHEREAS, Cree and C3 are parties to an Exclusive Supply Agreement dated September 15, 1995 as amended July 10, 1996 wherein Cree and C3 agree, inter alia, for Cree to supply C3 certain silicon carbide ("SiC") material and C3 agrees to purchase certain SiC material as provided therein; and

WHEREAS, Cree and C3 desire to enter into an agreement whereby Cree shall perform certain research and development activities directed to improving the colorless material available for purchase under the Exclusive Supply Agreement; and

WHEREAS, Cree and C3 shall simultaneously with the execution of this Agreement enter into an Amended and Restated Exclusive Supply Agreement (as thus amended and restated, the "Supply Agreement"); and

WHEREAS, Cree and C3, in entering into this Agreement and the amendment and restatement of the Supply Agreement, desire to improve and expand upon their relationship and intend to work together cooperatively with the objective of developing, as promptly as practicable, both the market for and commercially viable means of manufacturing colorless silicon carbide material suitable for gemstones; and

NOW, THEREFORE, the parties hereto, in consideration of the foregoing premises and the covenants and undertakings herein contained, mutually agree as follows:

1. Duties of Cree

1.1 Cree agrees to use its best commercially reasonable efforts to develop a repeatable process, as defined in Section 1.2 (the "Repeatable Process"), for producing SiC boules which meet the specifications provided in Section 1.3 (the "Specifications") according to the proposal attached hereto as Exhibit A.

1.2 The process for producing SiC boules shall be considered a "Repeatable Process" when ***** crystal grower can produce, in a period of 30 days, at least ***** SiC boules that meet the Specifications.

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1.3 As used in this Agreement, the term "Specifications" shall mean the applicable specifications set out in the Specifications and Timetable Chart below for SiC boules. The specifications require only that each boule contain a certain volume of SiC material of which a specified percentage (the "Percentage") is in the comparable diamond color grade range of GHIJ, with no less than ***** in the GH range, or better, according to the standards generally accepted by the diamond industry for color using pregraded master color stones. While the specifications do not require the absence of inclusions, blemishes or other defects affecting clarity, Cree shall use its best commercially reasonable efforts to minimize such defects since such defects can have an impact on the final color grade. The Percentage shall be measured by observation on the a-axis through "windows" ground onto two sides of the boule. The parties acknowledge that initially C3 shall promptly provide feedback to Cree concerning the Percentage, but the parties shall cooperate to develop a mutually acceptable testing procedure for Cree to determine the Percentage prior to delivery of the SiC boules to C3. The volume specifications are expressed in terms of the diameter and height of each boule, but any equivalent volume is acceptable. The specifications change over time, as the Date column indicates.

Specifications and Timetable Chart

Date	Diameter	Height	%G-J Grade
1/1/1998	*****	*****	*****
7/1/1998	*****	*****	*****
7/1/1999	*****	*****	*****
7/1/2000	*****	*****	*****
7/1/2001	*****	*****	*****

For each of the specifications above, Cree will provide prompt notice to C3 when Cree has developed a Repeatable Process for producing boules meeting such specifications.

1.4 Cree will use its best commercially reasonable efforts to develop by October 31, 1997 a process that yields, an aggregate of at least ***** SiC boules per month each of which has a ***** height of material in the comparable diamond color grade range of GHIJ, with no less than ***** in the GH range, or better, according to the standards generally accepted by the diamond industry for color using pregraded master color stones (it being understood that while such specifications do not require the absence of inclusions, blemishes or other defects affecting clarity, Cree shall use its best commercially reasonable efforts to minimize such defects since such defects can have an impact on the final color grade).

1.5 Cree agrees to report to C3 the progress of the development services provided pursuant to this Agreement at monthly progress meetings. Any "Confidential Information" provided by Cree to C3 at such meetings or otherwise under this Agreement shall be subject to the terms of Section 5 of the Supply Agreement.

1.6 In April of each year, Cree and C3 shall consult on appropriate development goals for the following year. Before May 1 of each year, Cree shall submit to C3 a development plan for the next twelve months beginning July 1 which shall include a budget and a description of the scope of development activities in a format and with a level of detail similar to the proposal attached hereto as Exhibit A with the addition of specific tasks and goals listed on a quarterly basis. Plans submitted under this paragraph shall set forth Cree's then current expectations for carrying on development activities under this Agreement for the period covered by the plan, in the manner determined by Cree to maximize the development progress toward the year's goals. Cree may substitute resources and personnel from those set out in the development plans provided that Cree reasonably determines such substitutions are in the best interest of maintaining or enhancing progress toward the then current development goals. If Cree succeeds in reaching goals more quickly than anticipated, Cree will consult with C3 to determine other development goals important to high yields of gemstone quality SiC material.

1.7 All SiC boules produced pursuant to this Agreement, including SiC boules that do not meet the Specifications, shall be the property of C3; provided that the seeds from all SiC boules produced shall remain the property of Cree and shall be removed and retained by Cree. Cree shall identify each boule delivered to C3 both by the crystal growth system in which it was grown and with the date it was produced. Crystal growth systems used in the development activities shall not be considered as "in use for production" for purposes of the Supply Agreement. All SiC boules delivered hereunder will be supplied "AS IS." EXCEPT AS PROVIDED ABOVE IN THIS PARAGRAPH WITH RESPECT TO IDENTIFICATION OF BOULES, CREE MAKES NO WARRANTY OF ANY KIND WITH RESPECT TO ANY MATERIAL SUPPLIED HEREUNDER AND DISCLAIMS ANY IMPLIED WARRANTIES, INCLUDING ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR NONINFRINGEMENT OF PATENT OR SIMILAR RIGHTS.

1.8 Cree will use all commercially reasonable efforts to reduce costs of the development services performed under this Agreement.

1.9 Cree is not obligated to contribute resources to the development services performed under this Agreement beyond those funded by C3, as provided in Section 2.1.

1.10 Cree provides no assurances that the development services performed under this Agreement will be successful.

2. Duties of C3

2.1 Subject to Sections 2.2 and 2.3, C3 shall pay to Cree each month a development fee equal to the sum of:

(i) The costs of materials and equipment used in the development activities undertaken pursuant to this Agreement (including the costs of operating such equipment; with such costs calculated in the same manner as "loaded manufacturing costs," but, without reduction for boules that do not meet the "minimum specifications," as provided in the Supply Agreement);

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(ii) An amount equal to a ***** gross margin of the costs described in Section 2.1(i); and

(iii) All research and development labor costs and outside services costs directly incurred by Cree in providing development services pursuant to this Agreement; provided, that these costs shall be charged to C3 on the same basis as Cree charges similar costs in providing research services pursuant to contracts between Cree and the U.S. government, using allocations, conditions and calculations no less favorable to C3 than those available under any such contract of Cree (it being understood that reductions in costs from cost-sharing shall not be applicable and that such costs include certain overhead allocations).

2.2 Subject to Section 2.3 and notwithstanding Section 2.1, C3 shall pay to Cree each month this Agreement continues in effect a development fee equal to the lesser of:

(i) The fee calculated pursuant to Section 2.1; or

(ii) The total development budget for the appropriate month set forth in the proposal attached hereto as Exhibit A.

2.3 If, prior to January 1, 1998, Cree has not developed a Repeatable Process for producing SiC boules that meet the Specifications for January 1, 1998, C3 shall have the option to reduce its funding obligations herein (that is, the amount applicable under clause (ii) of Section 2.2) by 50% by giving notice to Cree; provided, that such option, if not sooner exercised by C3, shall expire at 11:59 p.m. eastern time on January 10, 1998. If C3 exercises its option to reduce its funding obligations pursuant to this Section 2.3, such reduction shall be effective January 1, 1998.

2.4 If, prior to January 1, 1998, Cree produces from ***** crystal growers, in a 30- day period, an aggregate of at least ***** SiC boules that meet the Specifications for January 1, 1998, C3 shall pay Cree the sum of two hundred thousand dollars ($200,000) in addition to all other amounts due under this Agreement.

2.5 Cree shall invoice amounts due from C3 under this Agreement, and such invoices shall be due and payable within thirty days.

2.6 C3 shall have the right, at its expense, to have an independent public accounting firm reasonably acceptable to Cree audit Cree's costs described in Sections 2.1(i) and 2.1(iii) (the "Audited Costs"). The audit shall be conducted during normal business hours and upon reasonable prior notice. The accounting firm conducting the audit shall be required to enter into a mutually acceptable nondisclosure agreement with Cree under which such firm will be obligated not to disclose any information obtained during the course of the audit, except that it may disclose to C3 its analysis of the correctness of the Audited Costs as calculated by Cree. The audit right under this paragraph may be exercised not more than once during any fiscal year of Cree and only with respect to costs applicable to the year preceding the request for an audit. Cree shall provide reasonable assistance to the public

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accounting firm including, but not limited to, providing a schedule of the Audited Costs (which shall provide reasonable detail as to the calculation of the Audited Costs, including but not limited to hours charged by person at billing rates applicable to each, total material costs, equipment charges and overhead charges, however such schedule shall not divulge any proprietary or confidential information of Cree), supporting analyses and any supporting source documentation reasonably required by the public accounting firm. Such accounting firm will audit and report to C3 on the schedule of Audited Costs, but will not divulge to C3 any proprietary or confidential information (including but not limited to supporting schedules and source documents) disclosed during the audit process.

3. Term and Termination

3.1 Unless earlier terminated pursuant to Section 3.2 or Section 5.6, or unless extended by the mutual consent of the parties hereto, this Agreement shall terminate on June 30, 2002.

3.2 C3 shall have the option to terminate this Agreement prior to June 30, 2002 under the following conditions:

(i) If, prior to January 1, 1998, Cree does not produce from ***** crystal growers, in a 30-day period, an aggregate of at least ***** SiC boules having an average volume of ***** height and ***** diameter (or equivalent), with a minimum ***** height, comprised of material in the comparable diamond color grade range of GHIJ, with no less than ***** in the GH range, or better, according to the standards generally accepted by the diamond industry for color using pregraded master color stones (it being understood that while such specifications do not require the absence of inclusions, blemishes or other defects affecting clarity, Cree shall use its best commercially reasonable efforts to minimize such defects since such defects can have an impact on the final color grade), C3 shall have the option of terminating this Agreement by giving notice to Cree; provided, that such option to terminate, if not sooner exercised by C3, shall expire at 11:59 p.m. eastern time on January 10, 1998.

(ii) During each year beginning July 1, 1998 through the year beginning July 1, 2001 (the "Subject Years"), if Cree does not develop by July 1 of each Subject Year a Repeatable Process for producing SiC boules that meet the initial applicable Specifications for such Subject Year, C3 shall have the option of terminating the Agreement by giving notice to Cree; provided, that such termination option, if not sooner exercised by C3, shall expire at 11:59 p.m. eastern daylight savings time on the tenth day following the termination of the applicable deadline for establishing the Repeatable Process.

(iii) If the price charged to C3 for an SiC boule ordered under the Supply Agreement as a standard product meeting the Specifications noted below (as more specifically defined in Section 1.3) exceeds the amount shown for such Specifications below, C3 may terminate this Agreement at any time by giving notice to Cree:

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

Diameter	Height	%G-J Grade	Price
*****	*****	*****	*****
*****	*****	*****	*****
*****	*****	*****	*****
*****	*****	*****	*****
*****	*****	*****	*****

If C3 exercises its option to terminate this Agreement pursuant to Section 3.2(i) or 3.2(ii), Cree shall not be entitled to payment for any work done or any expenses incurred during the period from the time C3's option to terminate became exercisable to the time such option is exercised.

4. Intellectual property

4.1 All inventions developed by Cree personnel in performing work under this Agreement shall be the sole property of Cree.

4.2 Except for inventions related to the bulk growth of silicon carbide or gallium nitride, C3 shall have a perpetual, irrevocable, royalty-free, exclusive (including exclusive of Cree) license to use, manufacture, sell and otherwise practice (including the right to sublicense) all inventions developed by Cree pursuant to this Agreement for all gemstone applications and applications for gemological instrumentation; provided that Cree shall have the right to use and practice the invention to manufacture or process material for C3 for the licensed applications. References in this Agreement to "gemstones" are understood to mean "gems" (and vice versa).

5. General.

5.1 This Agreement shall not be amended, modified or altered except pursuant to a document signed by both parties.

5.2 This Agreement is made in and shall be construed in accordance with and governed by the laws of the State of North Carolina.

5.3 This Agreement shall inure to the benefit of and be binding upon the parties and their respective successors and permitted assigns.

5.4 The invalidity or unenforceability of any particular provision of this Agreement shall not affect the other provisions hereof, and this Agreement shall be construed in all respects as if such invalid or unenforceable provisions were omitted.

5.5 This Agreement may not be assigned by either party without the other party's prior written consent, which consent shall not be unreasonably withheld except that either party may, in its sole discretion, withhold consent to assignment of this Agreement to anyone other than a permitted

assignee of all rights under the Supply Agreement. Any attempted assignment in violation of this Section 5.5 is void and shall constitute a breach of this Agreement.

5.6 In the event of a material breach by either party of any obligation under this Agreement to the other party, the other party may terminate this Agreement upon written notice if the breach is not cured within thirty (30) days after giving written notice to the party in breach, setting out the nature of the breach in reasonable detail; provided, however, that no cure period shall apply to a termination pursuant to the terms of the Agreement by C3 pursuant to Section 3.2 (it being understood that the grounds for termination specified in Section 3.2 do not constitute a breach) or in the event of a material breach by a party that has breached this Agreement and been given notice of similar material breaches on two prior occasions. In addition, this Agreement shall automatically terminate upon any termination of the Supply Agreement under Section 3.3 thereof.

5.7 Neither party shall issue any press release nor otherwise make any public announcement concerning this Agreement without the prior consent of the other party, except as may be required by law. The parties further agree that the terms of this Agreement shall be treated as Confidential Information of each other subject to Section 5 of the Supply Agreement; provided, however, that either party may, upon notice to the other, make such public disclosures regarding this Agreement as in the opinion of counsel for such party are required by applicable securities laws or regulations or other applicable law. Neither party shall use the name of the other party in any advertising, marketing or similar material without the other party's prior written consent.

5.8 The parties acknowledge and agree that in the event of a breach of the Agreement, in addition to any other rights and remedies available to it at law or otherwise, the parties shall be entitled to seek equitable relief in the form of a temporary restraining order ("TRO") from any court of competent jurisdiction; provided however, that in the event a TRO is obtained, the parties shall request that any hearing on the merits of the dispute shall be stayed pending arbitration of the dispute as provided in this Section 5.8. In the event a party seeks a TRO or in the event of any other controversy or claim (including, without limitation, any claim based on negligence, misrepresentation, strict liability or other basis) arising out of or relating to this Agreement or its performance or breach, a party shall give the other party notice of the dispute, setting out the circumstance in reasonable detail, and requesting a meeting of the representatives of the parties to attempt to resolve the dispute or to reduce the scope of the issues subject to dispute. The chief executive officers of the parties, and such other representatives as each may desire to have attend, shall meet at a mutually agreeable time within five business days from the date the meeting request was received and shall hold such meeting at the offices of the party not requesting the same, or at some mutually agreeable alternative location. In the event the parties do not resolve the dispute at such meeting, or any mutually agreed upon adjournment thereof, the dispute shall be settled exclusively by arbitration in the City of Raleigh, North Carolina pursuant to the expedited procedures of the Commercial Arbitration Rules of the American Arbitration Association (other than notice requirements which shall be as provided in Section 5.9 below and the expedited procedures for selection of arbitrators which shall be as provided in Sections 14 and 15 of such Rules). There shall be three arbitrators, one selected by each of C3 and Cree and a third selected by the arbitrators selected by the parties. The arbitrators shall in no event make any damage award that contravenes Section 5.10 of this Agreement, but shall order the losing party to pay all of the charges of the American Arbitration Association for such arbitration and all of the prevailing party's costs of the arbitration, including reasonable attorneys' fees. The decision in such

arbitration shall be final and binding and judgment on any award rendered therein may be entered in any court having jurisdiction.

5.9 All notices under this Agreement shall be in writing and addressed to the other party at the address shown below or to such other addresses as the party may hereafter designate by notice under this Agreement. All notices so addressed shall be deemed given five (5) days after mailing if sent by certified mail, return receipt requested, postage prepaid, or when sent via facsimile if receipt is acknowledged in writing or otherwise when actually received.

5.10 In no event shall either party be liable to the other for incidental, consequential or special loss or damages of any kind, however caused, or any punitive damages.

IN WITNESS WHEREOF, the parties have executed this Agreement by and through their duly authorized representatives.

CREE RESEARCH, INC.	C3, INC.
By:/s/ Charles M. Swoboda	By:/s/ Jeff N. Hunter
Charles M. Swoboda, Vice President and Chief Operating Officer	Jeff N. Hunter, President
Address for Notices:	Address for Notices:
Cree Research, Inc. 2810 Meridian Parkway, Suite 144 Durham, North Carolina 27713 Attention: President Fax No. (919) 361-5415	C3, Inc. P.O. Box 13533 Research Triangle Park, NC 27709-3533 Attention: President Fax No.: (919) 468-0486

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

EXHIBIT A

A Proposal Submitted to:

C3, INC.
P.O. Box 13533
Research Triangle Park, NC 27009-3533

entitled:

DEVELOPMENT OF COLORLESS SILICON CARBIDE BOULE MANUFACTURING TECHNOLOGY

by:

CREE RESEARCH, INC.
2810 Meridian Parkway
Durham, NC 27713
Tel: (919) 361-5709

7 Month Proposed Cost: *****
12 Month Proposed Cost: *****

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

Use or disclosure of proposal data is subject to the restriction on the Cover Page of this proposal.

A. PERSONNEL

*****

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

Use or disclosure of proposal data is subject to the restriction on the Cover Page of this proposal.

B. BUDGET

NOTE: CREE RESERVES THE RIGHT TO ADJUST THE SPENDING AS IT DEEMS APPROPRIATE IN ORDER TO MEET TILE OBJECTIVES OF THE DEVELOPMENT PROGRAM AND WITHIN THE TOTAL AMOUNT OF THE BUDGET.

	JUN-97	JUL-97	AUG-97	SEP-97	OCT-97	NOV-97	DEC-97	MONTHLY STARTING JAN-98
EQUIPMENT COSTS								
*****	*****	*****	*****	*****	*****	*****	*****	*****
*****	*****	*****	*****	*****	*****	*****	*****	*****
*****	*****	*****	*****	*****	*****	*****	*****	*****
PEOPLE COSTS								
C3 Focused Team	*****	*****	*****	*****	*****	*****	*****	*****
Cree Resources	*****	*****	*****	*****	*****	*****	*****	*****
OTHER PROCESSING								
Analytical	*****	*****	*****	*****	*****	*****	*****	*****
Wafering	*****	*****	*****	*****	*****	*****	*****	*****
Polishing	*****	*****	*****	*****	*****	*****	*****	*****
Total	*****	*****	*****	*****	*****	*****	*****	*****

EQUIPMENT - The equipment is outlined above and the cost reflects a ***** margin. Please note that *****.

C3 FOCUSED TEAM - This team will be led by ***** and will include *****.

CREE RESOURCES - These resources will support the C3 development effort on a part time basis. This team will work under the direction of ***** and include *****. In addition, ***** will provide equipment design support.

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

Use or disclosure of proposal data is subject to the restriction on the Cover
Page of this proposal.

C. MILESTONES/GOALS

The goals and milestones for the proposed program are listed below in Table 1.

5 YEAR DEVELOPMENT PLAN (TABLE 1)

DATE	MILESTONE	DEMONSTRATION
January 1, 1998	***** Diameter Crystal, ***** Height, ***** Yield, GHIJ grade material	*****crystals (per the milestone specification) from ***** system in a single month
July 1, 1998	***** Diameter Crystal,***** Height, ***** Yield, GHIJ grade material	***** crystals (per the milestone specification) from ***** system in a single month
July 1, 1999	***** Diameter Crystal, ***** Height, ***** Yield, GHIJ grade material	***** crystals (per the milestone specification) from ***** system in a single month
July 1, 2000	***** Diameter Crystal, ***** Height, ***** Yield, GHIJ grade material	***** crystals (per the milestone specification) from ***** system in a single month
July 1, 2001	***** Diameter Crystal, ***** Height, ***** Yield, GHIJ grade material	***** crystals (per the milestone specification) from ***** system in a single month

EXHIBIT 10.13

THE REGISTRANT HAS REQUESTED THAT CERTAIN PORTIONS OF THIS EXHIBIT BE GIVEN CONFIDENTIAL TREATMENT. AN UNREDACTED VERSION OF THIS EXHIBIT HAS BEEN FILED WITH THE COMMISSION.

LETTER AGREEMENT, DATED JULY 14, 1997, BETWEEN CREE RESEARCH, INC. AND C3, INC.

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

July 14, 1997

C3, Inc.
One Dominion Drive, Suite 106
Morrisville. NC 25670

Re: Development Agreement Dated as of June 6, 1997 (the "Development Agreement"), and Amended and Restated Supply Agreement Dated as of June 6, 1997 (the "Supply Agreement"), between C3, Inc. and Cree Research, Inc.

Gentlemen:

This letter confirms the following representations made by, and understandings reached between, C3, Inc. ("C3") and Cree Research, Inc. ("Cree") in connection with the execution of the Development Agreement and Supply Agreement referenced above:

1. Notwithstanding any other provision of the Supply Agreement, the price to C3 for ***** diameter production silicon carbide (SIC) boules purchased under the Supply Agreement on an "as is" basis prior to July 1, 1998 shall not exceed ***** per boule, including the cost of removal of the seed.

2. C3 acknowledges that it has not given Cree any notice under Section 1.2 of the Supply Agreement prior to the date of this letter.

3. C3 acknowledges and agrees that, except as provided otherwise in the letter agreements between C3 and Cree dated January 31, 1996, and February 12, 1996, the Assignment Agreement dated June 28, 1995 (as amended September 15, 1995), and Section 5.8 of the Supply Agreement, nothing in any agreement, purchase order or other arrangement between Cree and C3 gives C3 ownership rights in or any license with respect to any invention made or conceived by Cree personnel prior to the date hereof, whether alone by Cree personnel or jointly with Cree and C3 personnel.

4. Cree shall have ***** as the lead scientist (100% of his effort) for the work to be performed for C3 pursuant to the Development Agreement through June 30, 1998, provided that ***** remains an employee of Cree and C3 does not reduce its funding obligations under Section 2.3 of the Development Agreement.

5. C3 acknowledges that the license granted pursuant to the letter agreement between C3 and Cree dated January 31, 1996 does not include a license to any invention other than that claimed in U.S. Patent Application Serial No. 08/596,526, entitled "Growth of Colorless Silicon Carbide Crystals," and, in particular, does not include a license to practice the methods claimed in U.S. Patent No. Re34,861, entitled "Sublimation of Silicon Carbide to Produce Large, Device Quality Single Crystals of Silicon Carbide."

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

If you agree that the foregoing accurately states our understanding regarding the subject matter addressed above, please indicate your agreement on behalf of C3 by signing below.

Very truly yours,

CREE RESEARCH, INC.

By:/s/ Charles M. Swoboda

Charles M. Swoboda, Vice President
and Chief Operating Officer

Agreed:

C3, INC.

By:/s/ Jeff N. Hunter

Jeff N. Hunter, President

EXHIBIT 10.14

THE REGISTRANT HAS REQUESTED THAT CERTAIN PORTIONS OF THIS EXHIBIT BE GIVEN CONFIDENTIAL TREATMENT. AN UNREDACTED VERSION OF THIS EXHIBIT HAS BEEN FILED WITH THE COMMISSION.

LETTER AGREEMENT, DATED JANUARY 31, 1996, BETWEEN CREE RESEARCH, INC. AND C3, INC.

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

January 31, 1996

C3 Diamante, Inc.
3104 Hillsborough St., Suite 216
Raleigh, North Carolina 27607-5458
Attention: C. Eric Hunter, President

Re: Invention Relating to ***** for
Growth of Highly-Transparent Silicon Carbide Crystals

Gentlemen:

This letter will serve to evidence the agreement between C3 Diamante, Inc. ("C3") and Cree Research, Inc. ("Cree") concerning the invention made by Cree employees relating to ***** for growth of highly-transparent silicon carbide crystals (the "Invention").

C3 and Cree have agreed as follows:

1. Cree and C3 will cooperate in the preparation, filing and prosecution of a U.S. patent application or applications claiming the Invention and applications in such foreign countries as may be mutually agreed. All applications filed claiming the Invention (the "Applications"), and all filings made in the prosecution of the Applications, will be subject to review and approval by the parties and their respective counsel prior to filing. All information disclosed by either party to the other party or its counsel in connection with the Applications will be subject to the confidentiality provisions of the Exclusive Supply Agreement dated September 15, 1995 between C3 and Cree.

2. C3 will reimburse Cree for all fees and expenses of Cree's counsel incurred in connection with the Applications and for all filing fees, issue fees, maintenance fees, annuities and other out-of-pocket expenses paid by on or behalf of Cree in connection with the preparation, filing and prosecution of the Applications and the maintenance of any patents issued therein. C3 will be solely responsible for all fees and expenses of its own counsel.

3. Cree will grant C3 an irrevocable, royalty-free nonexclusive license, without the right to sublicense, to use the Invention to make, have made, use and sell silicon carbide gemstones. The license will be evidenced by a License Agreement reflecting the foregoing terms and such other provisions as are customary or may be mutually agreed. If the parties do not execute a License Agreement within 30 days from the date hereof, the license will be considered granted on the terms and conditions contained in this letter agreement.

If the foregoing accurately states our agreement, please have a copy of this letter agreement signed on behalf of C3 below and returned to Cree.

Very truly yours,

CREE RESEARCH, INC.

/s/ F. Neal Hunter

F. Neal Hunter, President

ACCEPTED AND AGREED TO:

C3 DIAMANTE, INC.

By: /s/Jeff Hunter

Secretary/Treasurer

Date: 1/31/96

EXHIBIT 10.15

1996 STOCK OPTION PLAN

OF

C3, INC.

1996 STOCK OPTION PLAN

OF

C3, INC.

1. PURPOSE

This plan (the "plan") is intended to encourage and enable selected key employees, directors and independent contractors in the service of C3, Inc. (the "Corporation") to acquire or to increase their holdings of common stock of the Corporation (the "shares") in order to promote a closer identification of their interests with those of the Corporation and its shareholders, thereby further stimulating their efforts to enhance the efficiency, soundness, profitability, growth and shareholder value of the Corporation. This purpose will be carried out through the granting of incentive stock options ("incentive options") and nonqualified stock options ("nonqualified options"). Incentive options and nonqualified options shall be referred to herein collectively as "options." To the extent that any option is designated as an incentive stock option and such option does not qualify as an incentive stock option, it shall constitute a nonqualified stock option.

2. ADMINISTRATION OF THE PLAN

(a) The plan shall be administered by the Board of Directors of the Corporation (the "Board").

(b) Any action of the Board may be taken by a written instrument signed by all of the members of the Board and any 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 Board shall have full and final authority, in its discretion, to take any action with respect to the plan including, without limitation, the following: (i) to determine the individuals to receive options, the nature of each option as an incentive option or nonqualified option, the times when options shall be granted, the number of shares to be subject to each option, the option price (determined in accordance with Paragraph 6), the option period, the time or times when each option shall be exercisable and the other terms, conditions, restrictions and limitations of an option; (ii) to prescribe the form or forms of the agreements evi dencing any options granted under the plan; (iii) to establish, amend and rescind rules and regulations for the administration of the plan; and (iv) to construe and interpret the plan, the rules and regulations, and the agreements evidencing options granted under the plan, and to make all other determinations deemed necessary or advisable for administering the plan.

3. EFFECTIVE DATE

The effective date of the plan shall be June 1, 1996. Options may be granted under the plan on and after the effective date, but not after May 31, 2006.

4. SHARES OF STOCK SUBJECT TO THE PLAN

Both incentive options and nonqualified options, as designated by the Board, may be granted under the plan. The shares of stock that may be issued and sold pursuant to options shall not exceed in the aggregate 85,000 shares of authorized but unissued shares of the Corporation. The Corporation

hereby reserves sufficient authorized shares to provide for the exercise of options granted hereunder. Any shares subject to an option which, for any reason, expires or is terminated unexercised as to such shares may again be subject to an option granted under the plan.

5. ELIGIBILITY

An option may be granted only to an individual who satisfies the following eligibility requirements on the date the option is granted:

(a) The individual is either (i) a key employee of the Corporation or a related corporation, (ii) a member of the Board, or (iii) an independent contractor providing services to the Corporation or a related corporation. For this purpose, an individual shall be considered to be an "employee" only if there exists between the individual and the Corporation or a related corporation the legal and bona fide relationship of employer and employee. In determining whether such a relationship exists, the regulations of the United States Treasury Department relating to the determination of the employment relationship for the purpose of collection of income tax on wages at the source shall be applied. Also, for this purpose, a "key employee" is an employee of the Corporation whom the Board determines is in a position to affect materially the profits of the Corporation or a related corporation by reason of the nature and extent of such employee's duties, responsibilities, personal capabilities, performance and potential.

(b) With respect to the grant of an incentive option, the individual as an employee does not own, immediately before the time that the incentive option is granted, stock possessing more than ten percent of the total combined voting power of all classes of stock of the Corporation or a related corporation; provided, that an individual owning more than ten percent of the total combined voting power of all classes of stock of the Corporation or a related corporation may be granted an incentive option if the price at which such option may be exercised is greater than or equal to 110 percent (110%) of the fair market value of the shares on the date the option is granted and the period of the option does not exceed five years. For this purpose, an individual will be deemed to own stock which is attributed to him under Section 424(d) of the Internal Revenue Code of 1986, as amended (the "Code").

(c) The individual, being otherwise eligible under this Paragraph 5, is selected by the Board as an individual to whom an option shall be granted (an "optionee").

6. OPTION PRICE

The price per share at which an option may be exercised (the "option price") shall be established by the Board at the time the option is granted and shall be set forth in the terms of the agreement evidencing the grant of the option; provided that, in the case of an incentive option, the option price shall be equal to or greater than the fair market value per share of the shares on the date the option is granted. For this purpose, the following rules shall apply:

(a) An option shall be considered to be granted on the date that the Board acts to grant the option, or on any later date specified by the Board as the effective date of the option.

(b) The fair market value of the shares shall be determined in good faith by the Board in accordance with the applicable provisions of Section 20.2031-2 of the Federal Estate Tax Regulations, or in any other manner consistent with the Code and accompanying regulations; provided, that if the shares are listed for trading on the New York Stock Exchange or American Stock Exchange or included in the NASDAQ National Market System, fair market value shall be the closing sales price of the shares on the New York Stock Exchange or the American Stock Exchange (as applicable) or as reported in the NASDAQ National Market System on the date immediately preceding the date the option is granted, or, if there is no transaction on such date, then on the trading date nearest preceding the date the option is granted for which closing price information is available; and, provided further, if the shares are quoted on the NASDAQ System but are not included in the NASDAQ National Market System, the fair market value shall be the mean between the high bid and low asked quotations in the NASDAQ System on the date immediately preceding the date the option is granted for which such information is available.

(c) In no event shall there first become exercisable by an optionee in any one calendar year incentive stock options granted by the Corporation or any related corporation with respect to shares having an aggregate fair market value (determined at the time an option is granted) greater than $100,000.

7. OPTION PERIOD AND LIMITATIONS ON THE RIGHT TO EXERCISE OPTIONS

(a) The period during which an option may be exercised (the "option period") shall be determined by the Board when the option is granted and shall not extend more than ten years from the date on which the option is granted. An option shall be exercisable on such date or dates, during such period, for such number of shares, and subject to such conditions as shall be determined by the Board and set forth in the agreement evidencing such option, subject to the rights granted herein to the Board to accelerate the time when options may be exercised. Any option or portion thereof not exercised before the expiration of the option period shall terminate.

(b) An option may be exercised by giving written notice of at least ten days to the Secretary of the Corporation at the Corporation's principal office. Such notice shall specify the number of shares to be purchased pursuant to an option and the aggregate purchase price to be paid therefor, and shall be accompanied by the payment of such purchase price. Such payment shall be in the form of (i) cash, (ii) certified check, (iii) shares owned by the optionee at the time of exercise, (iv) shares of common stock withheld upon exercise, or (iv) any combination of cash and shares. Shares tendered or withheld in payment upon the exercise of an option shall be valued at their fair market value on the date of exercise, as determined by the Board by applying the provisions of Paragraph 6(b). Notwithstanding the foregoing, the Board, in its sole discretion and subject to such terms and conditions as it determines, may also permit all or a portion of the purchase price of an option to be paid by the optionee by delivery of a properly executed 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.

(c) No option granted to an optionee who was an employee at the time of grant shall be exercised unless the optionee is, at the time of exercise, an employee as described in Paragraph 5(a), and has been an employee continuously since the date the option was granted, subject to the following:

(i) An option shall not be affected by any change in the terms, conditions or status of the optionee's employment, provided that the optionee continues to be an employee of the Corporation or a related corporation.

(ii) The employment relationship of an optionee shall be treated as continuing intact for any period that the optionee is on military or sick leave or other bona fide leave of absence, provided that the period of such leave does not exceed ninety days, or, if longer, as long as the optionee's right to reemployment is guaranteed either by statute or by contract. The employment relationship of an optionee shall also be treated as continuing intact while the optionee is not in active service because of disability. For purposes of this Paragraph 7(c)(ii), "disability" shall mean the inability of the optionee to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death, or which has lasted or can be expected to last for a continuous period of not less than twelve months. The Board shall determine whether an optionee is disabled within the meaning of this paragraph.

(iii) If the employment of an optionee is terminated because of disability within the meaning of subparagraph (ii), or if the optionee dies while he is an employee or dies after the termination of his employment because of disability, the option may be exercised only to the extent exercisable on the date of the optionee's termination of employment or death while employed (the "termination date"), except that the Board may in its discretion accelerate the date for exercising all or any part of the option which was not otherwise exercisable on the termination date. The option must be exercised, if at all, prior to the first to occur of the following, whichever shall be applicable: (A) the close of the period of twelve months next succeeding the termination date; or (B) the close of the option period. In the event of the optionee's death, such 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.

(iv) If the employment of the optionee is terminated for any reason other than disability (as defined in subparagraph (ii)), his option may be exercised to the extent exercisable on the date of such termination of employment, except that the Board may in its discretion accelerate the date for exercising all or any part of the option which was

not otherwise exercisable on the date of such termination of employment. The option must be exercised, if at all, prior to the first to occur of the following, whichever shall be applicable: (A) the close of the period of 90 days next succeeding the termination date; or (B) the close of the option period. If the optionee dies following such termination of employment and prior to the earlier of the dates specified in (A) or (B) of this subparagraph (iv), the optionee shall be treated as having died while employed under subparagraph (iii) immediately preceding (treating for this purpose the optionee's date of termination of employment as the termination date). In the event of the optionee's death, such 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.

(d) No option granted to a member of the Board (a "director") who is not an employee shall be exercised unless the director either (i) is, at the time of exercise, a member of the Board and has been a director continuously since the date the option was granted, or (B) was, within ninety days prior to the time of exercise, a member of the Board, and, prior to such termination from service as a director, had been a director continuously since the date the option was granted; provided, that if the director's membership on the Board is terminated because of death, the option shall be exercisable by such person or persons who shall have acquired the right to exercise the option by will or the laws of intestate succession, and such option shall be exercisable at any time prior to the earlier of: (A) the close of the period ending twelve months after the death of the director, or (B) the close of the option period.

(e) An optionee or his legal representative, legatees or distributees shall not be deemed to be the holder of any shares subject to an option unless and until certificates for such shares are issued to him or them under the plan.

(f) Nothing in the plan shall confer upon the optionee any right to continue in the employment or service of the Corporation or a related corporation, or to interfere in any way with the right of the Corporation or a related corporation to terminate the optionee's employment or service at any time.

8. NONTRANSFERABILITY OF OPTIONS AND SHARES

Except to the extent, if any, as may be permitted by the Code or other applicable law, an option shall not be transferable (including by pledge or hypothecation) other than by will or the laws of intestate succession, and an option shall be exercisable during the optionee's lifetime only by him.

9. DILUTION OR OTHER ADJUSTMENTS

If there is any change in the outstanding shares of common stock of the Corporation as a result of a merger, consolidation, reorganization, stock dividend, stock split to holders of shares that is distributable in shares, or other change in the capital stock structure of the Corporation, the Board shall

make such adjustments to options, to the number of shares reserved for issuance under the plan, and to any provisions of this plan or an agreement as the Board deems equitable to prevent dilution or enlargement of options or otherwise advisable to reflect such change.

10. WITHHOLDING

To the extent that an option is treated as a nonqualified stock option, the Corporation shall require any recipient of shares pursuant to the exercise of such an option to pay to the Corporation in cash the amount of any 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 such optionee.

11. CERTAIN DEFINITIONS

For purposes of the plan, the following terms shall have the meaning indicated:

(a) "Related corporation" means any parent, subsidiary or predecessor of the Corporation.

(b) "Parent" or "parent corporation" shall mean any corporation (other than the Corporation) in an unbroken chain of corporations ending with the Corporation if, at the time that the option is granted, each corporation other than the Corporation owns stock possessing fifty percent or more of the total combined voting power of all classes of stock in another corporation in the chain.

(c) "Subsidiary" or "subsidiary corporation" means any corporation (other than the Corporation) in an unbroken chain of corporations beginning with the Corporation if, at the time that the option is granted, each corporation other than the last corporation in the unbroken chain owns stock possessing fifty percent or more of the total combined voting power of all classes of stock in another corporation in the chain.

(d) "Predecessor" or "predecessor corporation" means a corporation which was a party to a transaction described in Section 424(a) of the Code (or which would be so described if a substitution or assumption under that section had occurred) with the Corporation, or a corporation which is a parent or subsidiary of the Corporation, or a predecessor of any such corporation.

(e) In general, terms used in the plan shall, where appropriate, be given the meaning ascribed to them under the provisions of the Code applicable to incentive stock options.

12. STOCK OPTION AGREEMENT

The grant of any option under the plan shall be evidenced by the execution of an agreement (the "Agreement") between the Corporation and the optionee. Such Agreement shall set forth the date of

grant of the option, the option price, the option period, the designation of the option as an incentive option or nonqualified option, and the time or times when and the conditions upon the happening of which the option shall become exercisable. Such Agreement shall also set forth the restrictions, if any, with respect to which the shares to be purchased thereunder shall be subject and such other terms and conditions as the Board shall determine which are consistent with the provisions of the plan and applicable law and regulations.

13. RESTRICTIONS ON SHARES

The Corporation may impose such restrictions on any shares acquired upon exercise of options granted under the plan as it may deem advisable, including, without limitation, restrictions pursuant to any agreements between the Corporation and the optionee and restrictions necessary to ensure compliance with the Securities Act of 1933, as amended, and any blue sky or securities laws applicable to such shares. The Corporation may cause a restrictive legend to be placed on any certificate issued pursuant to the exercise of an option in such form as may be prescribed from time to time by applicable laws and regulations or as may be advised by legal counsel.

14. AMENDMENT OR TERMINATION

The plan may be amended or terminated by action of the Board; provided, that:

(a) Any amendment that would (i) materially increase the aggregate number of shares which may be issued under the plan (subject to Paragraph 9 herein) or (ii) materially change the requirements for eligibility to receive options under the plan shall be made only with the approval of the shareholders of the Corporation.

(b) No option shall be adversely affected by a subsequent amendment or termination of the plan.

(c) No option shall be amended (i) without the consent of the optionee, and (ii) if the option is an incentive option, without the opinion of legal counsel to the Corporation that such amendment will not constitute a "modification" within the meaning of Section 424 of the Code if the Board determines such an opinion is necessary.

15. SHAREHOLDER APPROVAL

The plan shall be submitted to the shareholders of the Corporation for approval by a majority of the shares of common stock of the Corporation that are entitled to vote thereon, which approval must occur, if at all, within twelve months following the effective date of the plan. All options granted prior to shareholder approval of the plan shall be conditional upon such approval, and no option shall be exercisable prior to such approval.

16. APPLICABLE LAW

Except as otherwise provided herein, the plan shall be construed and enforced according to the laws of the State of North Carolina.

IN WITNESS WHEREOF, this 1996 Stock Option Plan of C3, Inc. has been executed in behalf of the Corporation effective as of the 1st day of June, 1996.

C3, INC.

By /s/ Jeff Hunter

Jeff Hunter
President

Attest:

/s/ Paula Berardinelli
- ---
Paula Berardinelli
Secretary

[Corporate Seal]

1996 STOCK OPTION AGREEMENT
OF
C3, INC.

THIS AGREEMENT, made the _____ day of _____, 19__, between C3, INC., a North Carolina corporation (the "Corporation"), and _____ (the "Optionee");

R E C I T A L S :

In furtherance of the purposes of the 1996 Stock Option Plan of C3, Inc. (the "plan"), the Corporation and the Optionee hereby agree as follows:

1. The rights and duties of the Corporation and the Optionee under this Agreement shall in all respects be subject to and governed by the provisions of the plan, a copy of which is attached to this Agreement and the terms of which are incorporated herein by reference.

2. The Corporation hereby grants to the Optionee pursuant to the plan, as a matter of separate inducement and agreement in connection with his employment with or service to the Corporation or related corporation, and not in lieu of any salary or other compensation for his services, the right and option (the "option") to purchase all or any part of an aggregate of _____ (_____) shares (the "shares") of the common stock of the Corporation, at the purchase price of _____ Dollars ($_____) per share. The option to purchase _____ (_____) of the shares shall be designated as an incentive option. The option to purchase _____ (_____) of the shares shall be designated as a nonqualified option. To the extent that any option is designated as an incentive option and such option does not qualify as an incentive option, it shall be treated as a nonqualified option. Except as otherwise provided in the plan, the option will expire if not exercised in full before _____, _____.

3. The option shall become exercisable on the date or dates set forth on Schedule A attached hereto. To the extent that an option which is exercisable is not exercised, such option shall accumulate and be exercisable by the Optionee in whole or in part at any time prior to expiration of the option. Upon the exercise of an option in whole or in part, the Optionee shall pay the option price to the Corporation in accordance with the provisions of Paragraph 7 of the plan, and the Corporation shall as soon thereafter as practicable deliver to the Optionee a certificate or certificates for the shares purchased.

4. Nothing contained in this Agreement or the plan shall require the Corporation or a related corporation to continue the employment or service of the Optionee for any particular period of time, nor shall it require the Optionee to remain in the employment of or in service to the Corporation or such related corporation for any particular period of time. Except as otherwise expressly provided in the plan, all rights of the Optionee under the plan with respect to the unexercised portion of his option shall

terminate upon termination of the employment or service of the Optionee with the Corporation or a related corporation.

5. This option shall not be transferable (including by pledge or hypothecation) other than by will or the laws of intestate distribution, and this option shall be exercisable during the Optionee's lifetime only by the Optionee.

6. This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective executors, administrators, next-of-kin, successors and assigns. This paragraph shall not be construed to authorize any transfer in violation of Paragraph 5.

7. This Agreement may be modified or amended only by the written agreement of the parties hereto.

8. This Agreement shall be construed and enforced according to the laws of the State of North Carolina.

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

C3, INC.

By:

President

Attest:

- ---

- ---
Secretary

[Corporate Seal]

OPTIONEE

(SEAL)

1996 STOCK OPTION AGREEMENT
OF
C3, INC.

SCHEDULE A

Date option granted: _____, 19__
Date option expires: _____, 19__
Number of shares subject to option: _____ shares
Option price (per share): $_____

Date Installment First Exercisable	Number of Shares in Installment	Incentive or Nonqualified Option

EXHIBIT 10.16

1997 OMNIBUS STOCK PLAN

OF

C3, INC.

1997 OMNIBUS STOCK PLAN
OF
C3, INC.

1. PURPOSE

The purpose of the 1997 Omnibus Stock Plan of C3, Inc. (the "Plan") is to encourage and enable selected employees, directors and independent contractors of C3, Inc. (the "Corporation") and its related corporations to acquire or to increase their holdings of common stock of the Corporation (the "Common Stock") and other proprietary interests in the Corporation in order to promote a closer identification of their interests with those of the Corporation and its shareholders, thereby further stimulating their efforts to enhance the efficiency, soundness, profitability, growth and shareholder value of the Corporation. This purpose will be carried out through the granting of benefits (collectively referred to herein as "Awards") to selected employees, independent contractors and directors, including but not necessarily limited to the granting of incentive stock options ("Incentive Options"), nonqualified stock options ("Nonqualified Options"), stock appreciation rights ("SARs"), restricted stock awards ("Restricted Stock Awards"), and restricted units ("Restricted Units") to such participants. Incentive Options and Nonqualified Options shall be referred to herein collectively as "Options." Restricted Stock Awards and Restricted Units shall be referred to herein collectively as "Restricted Awards."

2. ADMINISTRATION OF THE PLAN

(a) The Plan shall be administered by the Board of Directors of the Corporation, or upon its delegation to the Compensation Committee of the Board of Directors, by the Committee (in either case hereinafter the "Committee"). The Committee shall include no fewer than the minimum number of "non-employee directors," as such term is defined in Rule 16b-3 promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and as may be required by Rule 16b-3.

(b) 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, and unless authority is granted to the Chief Executive Officer as provided in Section 2(c), the Committee shall have full and final authority in its discretion to take any action with respect to the Plan including, without limitation, the authority (i) to determine all matters relating to Awards, including selection of individuals to be granted Awards, the types of Awards, the number of shares of the Common Stock, if any, subject to an Award, and all terms, conditions, restrictions and limitations of an Award; (ii) to prescribe the form or forms of the Agreements evidencing any Awards granted under the Plan; (iii) to establish, amend and rescind rules and regulations for the administration of the Plan; and (iv) to construe and interpret the Plan and 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. In addition, the Committee shall have authority, in its sole discretion, to accelerate the date that any Award which 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.

(c) Notwithstanding Section 2(b), the Committee may delegate to the Chief Executive Officer of the Corporation the authority to grant Awards, and to make any or all of the determinations reserved for the Committee in the Plan and summarized in subsection (b) (i) with respect to such Awards,

to any individual who, at the time of said grant or other determination, (i) is not deemed to be an officer or director of the Corporation within the meaning of Section 16 of the Exchange Act; (ii) is not deemed to be a Covered Employee; and (iii) is otherwise eligible under Section 5. To the extent that the Committee has delegated authority to grant Awards pursuant to this Section 2(c) to the Chief Executive Officer, references to the Committee shall include references to the Chief Executive Officer, subject, however, to the requirements of the Plan, Rule 16b-3 and other applicable law.

3. EFFECTIVE DATE

The effective date of the Plan shall be October 1, 1997 (the "Effective Date"). Awards may be granted under the Plan on and after the effective date, but no awards will be granted after September 30, 2007.

4. SHARES OF STOCK SUBJECT TO THE PLAN; AWARD LIMITATIONS

(a) The number of shares of Common Stock that may initially be issued pursuant to Awards shall be 477,979 shares of authorized but unissued shares of the Corporation, subject to adjustments and increases as provided in this Section 4. The maximum number of shares authorized for issuance under the Plan shall be increased at any time and from time to time by an amount (the "Adjustment Amount") so that the maximum number of shares authorized for issuance under the Plan shall be equal to (i) twenty percent (20%) of the authorized and issued shares of Common Stock as of such date less (ii) the number of shares of Common Stock subject to outstanding options granted under the 1996 Stock Option Plan of C3, Inc. or any other prior stock option plan (the "Prior Plans").

(b) The Corporation hereby reserves sufficient authorized shares of Common Stock to meet the grant of Awards hereunder. Any shares subject to an Award which is subsequently forfeited, expires or is terminated may again be the subject of an Award granted under the Plan. To the extent that any shares of Common Stock subject to an Award are not delivered to a Participant (or his beneficiary) because the Award is forfeited or canceled or because the Award is settled in cash, such shares shall not be deemed to have been issued for purposes of determining the maximum number of shares of Common Stock available for issuance under the Plan. If the option price of an Option granted under the Plan (or any Prior Plan) is satisfied by tendering shares of Common Stock, only the number of shares issued net of the shares of Common Stock tendered shall be deemed issued for purposes of determining the maximum number of shares of Common Stock available for issuance under the Plan.

(c) If there is any change in the shares of Common Stock because of a merger, consolidation or reorganization involving the Corporation or a related corporation, or if the Board of Directors of the Corporation declares a stock dividend or stock split distributable in shares of Common Stock, or if there is a change in the capital stock structure of the Corporation or a related corporation affecting the Common Stock, the number of shares of Common Stock reserved for issuance under the Plan shall be correspondingly adjusted, and the Committee shall make such adjustments to Awards or to any provisions of this Plan as the Committee deems equitable to prevent dilution or enlargement of Awards.

(d) Subject to the terms of this Section 4, the following limitations upon Awards shall apply:

(i) The maximum number of shares of Common Stock that may be issued pursuant to Incentive Options shall be 1,187,695 shares, which number shall be equal to twenty percent (20%) of the number of outstanding shares of Common Stock as of the effective date of the consummation of the initial public offering of the Common Stock.

(ii) In no event shall an employee be granted Awards under the Plan for more than 100,000 shares of Common Stock (or the equivalent value thereof based on the fair market value of the Common Stock on the date of grant of the Award) during any calendar year.

5. ELIGIBILITY

An Award may be granted only to an individual who satisfies the following eligibility requirements on the date the Award is granted:

(a) The individual is either (i) an employee of the Corporation or a related corporation, (ii) a director of the Corporation or a related corporation, or (iii) an independent contractor, consultant or advisor (collectively, "independent contractors") providing services to the Corporation or a related corporation. For this purpose, an individual shall be considered to be an "employee" only if there exists between the individual and the Corporation or a related corporation the legal and bona fide relationship of employer and employee.

(b) With respect to the grant of Incentive Options, the individual does not own, immediately before the time that the Incentive Option is granted, stock possessing more than ten percent of the total combined voting power of all classes of stock of the Corporation. For this purpose, an individual will be deemed to own stock which is attributable to him under Section 424(d) of the Internal Revenue Code of 1986, as amended (the "Code").

(c) The individual, being otherwise eligible under this Section 5, is selected by the Committee as an individual to whom an Award shall be granted (a "Participant").

6. OPTIONS

(a) Grant of Options: Subject to the limitations of the Plan, the Committee may in its sole and absolute discretion grant Options to such eligible individuals in such numbers, upon such terms and at such times as the Committee shall determine. Both Incentive Options and Nonqualified Options may be granted under the Plan. To the extent necessary to comply with Section 422 of the Code and related regulations, (i) if an Option is designated as an Incentive Option but does not qualify as such under Section 422 of the Code, the Option (or portion thereof) shall be treated as a Nonqualified Option; and (ii) the provisions relating to the grant and terms of Incentive Options (including but not limited to the provisions in Section 4(d)(i) herein regarding the maximum number of shares available for issuance pursuant to such Incentive Options) shall be deemed to be a separate plan.

(b) Option Price: The price per share at which an Option may be exercised (the "Option Price") shall be established by the Committee at the time the Option is granted and shall be set forth in the terms of the agreement evidencing the grant of the Option; provided, that in the case of an Incentive

Option, the Option Price shall be no less than the fair market value per share of the Common Stock on the date the Option is granted. In addition, the following rules shall apply:

(i) An Incentive Option shall be considered to be granted on the date that the Committee acts to grant the Option, or on any later date specified by the Committee as the effective date of the Option. A Nonqualified Option shall be considered to be granted on the date the Committee acts to grant the Option or any other date specified by the Committee as the date of grant of the Option.

(ii) The fair market value of the shares shall be determined in good faith by the Committee in accordance with the following provisions: (i) if the shares of Common Stock are listed for trading on the New York Stock Exchange or the American Stock Exchange or included in The Nasdaq National Market, the fair market value shall be the closing sales price of the shares on the New York Stock Exchange or the American Stock Exchange or as reported in The Nasdaq National Market (as applicable) on the date immediately preceding the date the Option is granted, or, if there is no transaction on such date, then on the trading date nearest preceding the date the Option is granted for which closing price information is available and, provided further, if the shares are quoted on The Nasdaq System but are not included in The Nasdaq National Market, the fair market value shall be the mean between the high bid and low asked quotations in The Nasdaq System on the date immediately preceding the date the Option is granted for which such information is available; or (ii) if the shares of Common Stock are not listed or reported in any of the foregoing, then fair market value shall be determined by the Committee in accordance with the applicable provisions of Section 20.2031-2 of the Federal Estate Tax Regulations, or in any other manner consistent with the Code and accompanying regulations.

(iii) In no event shall there first become exercisable by an employee in any one calendar year Incentive Options granted by the Corporation or any related corporation with respect to shares having an aggregate fair market value (determined at the time an Incentive Option is granted) greater than $100,000.

(c) Option Period and Limitations on the Right to Exercise Options

(i) The period during which an Option may be exercised (the "Option Period") shall be determined by the Committee at the time the Option is granted. With respect to Incentive Options, such period shall not extend more than ten years from the date on which the Option is granted. Any Option or portion thereof not exercised before expiration of the Option Period shall terminate.

(ii) An Option may be exercised by giving written notice to the Corporation at such place as the Corporation shall direct. Such notice shall specify the number of shares to be purchased pursuant to an Option and the aggregate purchase price to be paid therefor, and shall be accompanied by the payment of such purchase price. Such payment shall be in the form of (A) cash; (B) shares of Common Stock owned by the Participant at the time of exercise; (C) shares of Common Stock withheld upon exercise; (D) 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; or (E) a combination of the foregoing methods, as elected by the Participant. Shares tendered or withheld in payment on the exercise of an Option shall be valued at their fair market value on the date of exercise, as determined by the Committee by applying the provisions of Section 6(b)(ii).

(iii) No Option granted to a Participant who was an employee at the time of grant shall be exercised unless the Participant is, at the time of exercise, an employee as described in Section 5(a), and has been an employee continuously since the date the Option was granted, subject to the following:

(A) An Option shall not be affected by any change in the terms, conditions or status of the Participant's employment, provided that the Participant continues to be an employee of the Corporation or a related corporation.

(B) The employment relationship of a 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 ninety days, or, if longer, as long as the Participant's right to reemployment is guaranteed either by statute or by contract. The employment relationship of a Participant shall also be treated as continuing intact while the Participant is not in active service because of disability. The Committee shall determine whether a Participant is disabled within the meaning of this paragraph.

(C) If the employment of a Participant is terminated because of disability within the meaning of subparagraph (B), or if the Participant dies while he is an employee or dies after the termination of his employment because of disability, the Option may be exercised only to the extent exercisable on the date of the Participant's termination of employment or death while employed (the "termination date"), except that the Committee may in its discretion accelerate the date for exercising all or any part of the Option which was not otherwise exercisable on the termination date. The Option must be exercised, if at all, prior to the first to occur of the following, whichever shall be applicable: (X) the close of the period of twelve months next succeeding the termination date; or (Y) the close of the Option Period. In the event of the Participant's death, such 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.

(D) If the employment of the Participant is terminated for any reason other than disability (as defined in subparagraph (B)) or death or for "cause," his Option may be exercised to the extent exercisable on the date of such termination of employment, except that the Committee may in its discretion accelerate the date for exercising all or any part of the Option which was not otherwise exercisable on the date of such termination of employment. The Option must be exercised, if at all, prior to the first to occur of the following,

whichever shall be applicable: (X) the close of the period of 90 days next succeeding the termination date; or (Y) the close of the Option Period. If the Participant dies following such termination of employment and prior to the earlier of the dates specified in (X) or (Y) of this subparagraph (D), the Participant shall be treated as having died while employed under subparagraph (C) immediately preceding (treating for this purpose the Participant's date of termination of employment as the termination date). In the event of the Participant's death, such 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) If the employment of the Participant is terminated for "cause," his Option shall lapse and no longer be exercisable as of the effective time of his termination of employment, as determined by the Committee. For purposes of this subparagraph (E) and subparagraph (D), the Participant's termination shall be for "cause" if such termination results from the Participant's personal dishonesty, gross incompetence, willful misconduct, breach of a fiduciary duty involving personal profit, intentional failure to perform stated duties, willful violation of any law, rule, regulation (other than traffic violations or similar offences), written Company policy or final cease-and-desist order, conviction of a felony or of a misdemeanor involving moral turpitude, unethical business practices in connection with the Company's business, or misappropriation of the Company's assets. The determination of "cause" shall be made by the Committee and its determination shall be final and conclusive.

(F) Notwithstanding the foregoing, the Committee shall have authority, in its discretion, to extend the period during which an Option may be exercised; provided that, in the event that any such extension shall cause an Incentive Option to be designated as a Nonqualified Option, no such extension shall be made without the prior written request and consent of the Participant.

(iv) An Option granted to a Participant who was an independent contractor or director of the Corporation or a related corporation at the time of grant (and who does not thereafter become an employee, in which case he shall be subject to the provisions of Section 6(c)(iii) herein) may be exercised only to the extent exercisable on the date of the Participant's termination of service to the Corporation or a related corporation (unless the termination was for cause), and must be exercised, if at all, prior to the first to occur of the following, as applicable: (X) the close of the period of 90 days next succeeding the termination date; or (Y) the close of the Option Period. If the services of such a Participant are terminated for cause (as defined in Section 6(c)(iii)(E) herein), his Option shall lapse and no longer be exercisable as of the effective time of his termination of services, as determined by the Committee. Notwithstanding the foregoing, the Committee may in its discretion accelerate the date for exercising all or any part of an Option which was not otherwise exercisable on the termination date or extend the period during which an Option may be exercised, or both.

(v) A Participant or his legal representative, legatees or distributees shall not be deemed to be the holder of any shares subject to an Option unless and until certificates for such shares are delivered to him or them under the Plan.

(vi) Nothing in the Plan shall confer upon the Participant any right to continue in the service of the Corporation or a related corporation as an employee, director, or independent contractor or to interfere in any way with the right of the Corporation or a related corporation to terminate the Participant's employment or service at any time.

(vii) A certificate or certificates for shares of Common Stock acquired upon exercise of an Option shall be issued in the name of the Participant and distributed to the Participant (or his beneficiary) as soon as practicable following receipt of notice of exercise and payment of the purchase price.

(d) Nontransferability of Options

(i) Options shall not be transferable other than by will, the laws of intestate succession or pursuant to a qualified domestic relations order. The designation of a beneficiary does not constitute a transfer. An Option shall be exercisable during the Participant's lifetime only by him or by his guardian or legal representative.

(ii) If a Participant is subject to Section 16 of the Exchange Act, shares of Common Stock acquired upon exercise of an Option may not, without the consent of the Committee, be disposed of by the Participant until the expiration of six months after the date the Option was granted.

7. STOCK APPRECIATION RIGHTS

(a) Grant of SARs: Subject to the limitations of the Plan, the Committee may in its sole and absolute discretion grant SARs to such eligible individuals, in such numbers, upon such terms and at such times as the Committee shall determine. SARs may be granted to an optionee of an Option (hereinafter called a "related Option") with respect to all or a portion of the shares of Common Stock subject to the related Option (a "Tandem SAR") or may be granted separately to an eligible key employee (a "Freestanding SAR"). Subject to the limitations of the Plan, SARs shall be exercisable in whole or in part upon notice to the Corporation upon such terms and conditions as are provided in the Agreement relating to the grant of the SAR.

(b) Tandem SARs: A Tandem SAR may be granted either concurrently with the grant of the related Option or (if the related Option is a Nonqualified Option) at any time thereafter prior to the complete exercise, termination, expiration or cancellation of such related Option. Tandem SARs shall be exercisable only at the time and to the extent that the related Option is exercisable (and may be subject to such additional limitations on exercisability as the Committee may provide in the Agreement), and in no event after the complete termination or full exercise of the related Option. For purposes of determining the number of shares of Common Stock that remain subject to such related Option and for purposes of determining the number of shares of Common Stock in respect of which other Awards may be granted, upon the exercise of Tandem SARs, the related Option shall be considered to have been

surrendered to the extent of the number of shares of Common Stock with respect to which such Tandem SARs are exercised. Upon the exercise or termination of the related Option, the Tandem SARs with respect thereto shall be canceled automatically to the extent of the number of shares of Common Stock with respect to which the related Option was so exercised or terminated. Subject to the limitations of the Plan, upon the exercise of a Tandem SAR, the Participant shall be entitled to receive from the Corporation, for each share of Common Stock with respect to which the Tandem SAR is being exercised, consideration equal in value to the excess of the fair market value of a share of Common Stock (as determined in accordance with Section 6(b)(ii) herein) on the date of exercise over the related Option Price per share; provided, that the Committee may, in any Agreement granting Tandem SARs, establish a maximum value payable for such SARs.

(c) Freestanding SARs: The base price of a Freestanding SAR shall be not less than 100% of the fair market value of the Common Stock (as determined in accordance with Section 6(b)(ii) herein) on the date of grant of the Freestanding SAR. Subject to the limitations of the Plan, upon the exercise of a Freestanding SAR, the Participant shall be entitled to receive from the Corporation, for each share of Common Stock with respect to which the Freestanding SAR is being exercised, consideration equal in value to the excess of the fair market value of a share of Common Stock on the date of exercise over the base price per share of such Freestanding SAR; provided, that the Committee may, in any Agreement granting Freestanding SARs, establish a maximum value payable for such SARs.

(d) Exercise of SARs:

(i) Subject to the terms of the Plan, SARs shall be exercisable in whole or in part upon such terms and conditions as are provided in the Agreement relating to the grant of the SAR. The period during which an SAR may be exercisable shall not exceed ten years from the date of grant or, in the case of Tandem SARs, such shorter Option Period as may apply to the related Option. Any SAR or portion thereof not exercised before expiration of the period stated in the Agreement relating to the grant of the SAR shall terminate.

(ii) SARs may be exercised by giving written notice to the Corporation at such place as the Committee shall direct. The date of exercise of the SAR shall mean the date on which the Corporation shall have received notice from the Participant of the exercise of such SAR.

(iii) No SAR may be exercised unless the Participant is, at the time of exercise, an eligible Participant, as described in Section 5, and has been a Participant continuously since the date the SAR was granted, subject to the provisions of Section 6(c)(iii) herein.

(e) Consideration; Election: The consideration to be received upon the exercise of the SAR by the Participant shall be paid in cash, shares of Common Stock (valued at fair market value on the date of exercise of such SAR in accordance with Section 6(b)(ii) herein) or a combination of cash and shares of Common Stock, as elected by the Participant, subject to the terms of the Plan and the applicable Agreement. The Corporation's obligation arising upon the exercise of the SAR may be paid currently or on a deferred basis with such interest or earnings equivalent as the Committee may determine. A certificate or certificates for shares of Common Stock acquired upon exercise of an SAR for shares shall be issued in the name of the Participant (or his beneficiary) and distributed to the Participant (or his beneficiary) as soon as practicable following receipt of notice of exercise. No fractional shares of

Common Stock will be issuable upon exercise of the SAR and, unless otherwise provided in the applicable Agreement, the Participant will receive cash in lieu of fractional shares.

(f) Limitations: The applicable Agreement shall contain such terms, conditions and limitations consistent with the Plan as may be specified by the Committee. Unless otherwise so provided in the applicable Agreement or the Plan, any such terms, conditions or limitations relating to a Tandem SAR shall not restrict the exercisability of the related Option.

(g) Nontransferability:

(i) SARs shall not be transferable other than by will, the laws of intestate succession or pursuant to a qualified domestic relations order. The designation of a beneficiary does not constitute a transfer. SARs may be exercised during the Participant's lifetime only by him or by his guardian or legal representative.

(ii) If the Participant is subject to Section 16 of the Exchange Act, shares of Common Stock acquired upon exercise of an SAR may not, without the consent of the Committee, be disposed of by the Participant until the expiration of six months after the date the SAR was granted.

8. RESTRICTED AWARDS

(a) Grant of Restricted Awards: Subject to the limitations of the Plan, the Committee may in its sole and absolute discretion grant Restricted Awards to such eligible key employees in such numbers, upon such terms and at such times as the Committee shall determine. A Restricted Award may consist of a Restricted Stock Award or a Restricted Unit, or both. Restricted Awards shall be payable in cash or whole shares of Common Stock (including Restricted Stock), or partly in cash and partly in whole shares of Common Stock, in accordance with the terms of the Plan and the sole and absolute discretion of the Committee. The Committee may condition the grant or vesting, or both, of a Restricted Award upon the continued service of the Participant for a certain period of time, attainment of such performance objectives as the Committee may determine, or upon a combination of continued service and performance objectives. The Committee shall determine the nature, length and starting date of the period during which the Restricted Award may be earned (the "Restriction Period") for each Restricted Award, which shall be as stated in the Agreement to which the Award relates. In the case of Restricted Awards based upon performance criteria, or a combination of performance criteria and continued service, the Committee shall determine the performance objectives to be used in valuing Restricted Awards and determine the extent to which such Awards have been earned. Performance objectives may vary from participant to participant and between groups of participants and shall be based upon such Corporation, business unit and/or individual performance factors and criteria as the Committee in its sole discretion may deem appropriate, including, but not limited to, earnings per share, return on equity, return on assets or total return to shareholders. The Committee shall determine the terms and conditions of each Restricted Award, including the form and terms of payment of Awards. The Committee shall have sole authority to determine whether and to what degree Restricted Awards have been earned and are payable and to interpret the terms and conditions of Restricted Awards and the provisions herein.

(b) Earning of Restricted Awards: Unless the applicable Agreement provides otherwise, a Restricted Award granted to a Participant shall be deemed to be earned as of the first to occur of the completion of the Restriction Period, retirement, displacement, death or disability of the Participant, or acceleration of the Restricted Award, provided that, in the case of Restricted Awards based upon performance criteria or a combination of performance criteria and continued service, the Committee shall have sole discretion to determine if, and to what degree, the Restricted Awards shall be deemed earned at the end of the Restriction Period or upon the retirement, displacement, death or disability of the Participant. In addition, the following rules shall also apply to the earning of Restricted Awards:

(i) Completion of Restriction Period: For this purpose, a Restricted Award shall be deemed to be earned upon completion of the Restriction Period (except as otherwise provided herein for performance-based Restricted Awards). In order for a Restricted Award to be deemed earned, the Participant must have been continuously employed or in service during the Restriction Period. Continuous employment or service shall mean employment with or service to any combination of the Corporation and one or more related corporations, and a temporary leave of absence with consent of the Corporation shall not be deemed to be a break in continuous employment or service.

(ii) Retirement of the Participant: For this purpose, the Participant shall be deemed to have retired as of the earlier of (A) his normal retirement date under the retirement plan established by the Corporation for its employees which is applicable to the Participant, or (B) his retirement date under a contract, if any, between the Participant and the Corporation providing for his retirement from the employment of the Corporation or a related corporation prior to such normal retirement date, or (C) a mutually agreed upon early retirement date under such retirement plan of the Corporation between the Participant and the Corporation.

(iii) Displacement of the Participant: For this purpose, the Participant shall be deemed to have been displaced in the event of the termination of the Participant's employment or service due to the elimination of the Participant's job or position without fault on the part of the Participant.

(iv) Death or Disability of the Participant: Except as otherwise provided herein for performance-based Restricted Awards, if the Participant shall terminate continuous employment or service because of death or disability before a Restricted Award is otherwise deemed to be earned pursuant to this Section 8(b), the Participant shall be deemed to have earned a percentage of the Award (rounded to the nearest whole share in the case of Restricted Awards payable in shares) determined by dividing the number of his full years of continuous employment or service then completed during the Restriction Period with respect to the Award by the number of years of such Restriction Period.

(v) Acceleration of Restricted Awards by the Committee: Notwithstanding the provisions of this Section 8(b), in the event of the termination of employment or service of a Participant for reasons other than retirement, displacement, death or disability, the Committee, in its sole and absolute discretion, may accelerate the date that any Restricted Award granted to the Participant shall be deemed to be earned in whole or in part, without any obligation to accelerate such date with respect to other Restricted Awards granted to the Participant or to

accelerate such date with respect to Restricted Awards granted to any other Participant, or to treat all Participants similarly situated in the same manner.

(c) Forfeiture of Restricted Awards: If the employment or service of a Participant shall be terminated for any reason, and the Participant has not earned all or part of a Restricted Award pursuant to the terms herein, such Award to the extent not then earned shall be forfeited immediately upon such termination and the Participant shall have no further rights with respect thereto.

(d) Dividend and Voting Rights; Share Certificates: A Participant shall have no dividend rights or voting rights with respect to shares reserved in his name pursuant to a Restricted Award payable in shares but not yet earned pursuant to Section 8(b). A certificate or certificates for shares of Common Stock representing a Restricted Award payable in shares shall be issued in the name of the Participant and distributed to the Participant (or his beneficiary) as soon as practicable following the date that the shares subject to the Award are earned as provided in Section 8(b). No certificate shall be issued hereunder in the name of the Participant (or his beneficiary) except to the extent the shares represented thereby have been earned.

(e) Nontransferability:

(i) The recipient of a Restricted Award shall not sell, transfer, assign, pledge or otherwise encumber shares subject to the Award until the Restriction Period has expired or until all conditions to vesting have been met.

(ii) Restricted Awards shall not be transferable other than by will, the laws of intestate succession or pursuant to a qualified domestic relations order. The designation of a beneficiary does not constitute a transfer.

(iii) If a Participant of a Restricted Award is subject to Section 16 of the Exchange Act, shares of Common Stock subject to such Award may not, without the consent of the Committee, be sold or otherwise disposed of within six months following the date of grant of such Award.

9. WITHHOLDING

The Corporation shall withhold all required local, state and federal taxes from any amount payable in cash with respect to an Award. The Corporation shall require any recipient of an Award payable in shares of the Common Stock to pay to the Corporation in cash the amount of any 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 such recipient. Notwithstanding the foregoing, the recipient may satisfy such obligation in whole or in part, and any other local, state or federal income tax obligations relating to such an Award, by electing (the "Election") to have the Corporation withhold shares of Common Stock from the shares to which the recipient is entitled. The number of shares to be withheld shall have a fair market value (determined in accordance with Section 6(b)(ii)) as of the date that the amount of tax to be withheld is determined (the "Tax Date") as nearly equal as possible to (but not exceeding) the amount of such obligations being satisfied. Each Election must be made in writing to the Committee prior to the Tax Date.

10. PERFORMANCE-BASED COMPENSATION

It is the general intent of the Corporation that Awards conferred under the Plan to Covered Employees, as such term is defined in Section 14(b) herein, shall comply with the qualified performance-based compensation exception to employer compensation deductions set forth in Section 162(m) of the Code, and the Plan generally shall be construed in favor of meeting the requirements of Section 162(m) of the Code and the regulations thereunder to the extent possible.

11. SECTION 16(B) COMPLIANCE

It is the intention of the Corporation that the Plan shall comply in all respects with Rule 16b-3 under the Exchange Act, and, if any Plan provision is later found not to be in compliance with Section 16 of the Exchange Act, the provision shall be deemed null and void, and in all events the Plan shall be construed in favor of it meeting the requirements of Rule 16b-3. Notwithstanding anything in the Plan to the contrary, the Committee, in its sole and absolute discretion, may bifurcate the Plan so as to restrict, limit or condition the use of any provision of the Plan to participants who are officers or directors subject to Section 16 of the Exchange Act without so restricting, limiting or conditioning the Plan with respect to other participants.

12. NO RIGHT OR OBLIGATION OF CONTINUED EMPLOYMENT

Nothing contained in the Plan shall require the Corporation or a related corporation to continue the employment or service of a Participant, nor shall any such individual be required to remain in the employment or service of the Corporation or a related corporation. Except as otherwise provided in the Plan, Awards granted under the Plan to employees of the Corporation shall not be affected by any change in the duties or position of the participant, as long as such individual remains an employee of, or in service to, the Corporation or a related corporation.

13. RETIREMENT PLANS

In no event shall any amounts accrued, distributable or payable under the Plan be treated as compensation for the purpose of determining the amount of contributions or benefits to which any person shall be entitled under any retirement plan sponsored by the Corporation or a related corporation that is intended to be a qualified plan within the meaning of Section 401(a) of the Code.

14. CERTAIN DEFINITIONS

For purposes of the Plan, the following terms shall have the meaning indicated:

(a) "Agreement" means any written agreement or agreements between the Corporation and the recipient of an Award pursuant to the Plan relating to the terms, conditions and restrictions of Options, SARs, Restricted Awards and any other Awards conferred herein.

(b) "Covered employee" shall have the meaning given the term in Section 162(m) of the Code or the regulations thereunder.

(c) "Disability" shall mean the inability to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death, or which has lasted or can be expected to last for a continuous period of not less than twelve months.

(d) "Parent" or "parent corporation" shall mean any corporation (other than the Corporation) in an unbroken chain of corporations ending with the Corporation if each corporation other than the Corporation owns stock possessing 50% or more of the total combined voting power of all classes of stock in another corporation in the chain.

(e) "Predecessor" or "predecessor corporation" means a corporation which was a party to a transaction described in Section 424(a) of the Code (or which would be so described if a substitution or assumption under that Section had occurred) with the Corporation, or a corporation which is a parent or subsidiary of the Corporation, or a predecessor of any such corporation.

(f) "Related corporation" means any parent, subsidiary or predecessor of the Corporation.

(g) "Restricted Stock" shall mean shares of Common Stock which are subject to Restricted Awards payable in shares, the vesting of which is subject to restrictions set forth in the Plan or the Agreement relating to such Award.

(h) "Subsidiary" or "subsidiary corporation" means any corporation (other than the Corporation) in an unbroken chain of corporations beginning with the Corporation if each corporation other than the last corporation in the unbroken chain owns stock possessing 50% or more of the total combined voting power of all classes of stock in another corporation in the chain.

15. AMENDMENT AND TERMINATION OF THE PLAN

The Plan may be amended or terminated at any time by the Board of Directors of the Corporation; provided, that such amendment or termination shall not, without the consent of the recipient of an Award, adversely affect the rights of the recipient with respect to an outstanding Award; and provided further, that approval by the shareholders of the Corporation shall be required for any amendment which would (i) increase the number of shares of Common Stock which may be issued under the Plan, except to the extent of adjustments pursuant to Section 4; or (ii) materially change the requirements for eligibility to be a recipient of an Award, unless shareholder approval of any such amendments is not required by applicable law, rule or regulation.

16. RESTRICTIONS ON SHARES

The Committee may impose such restrictions on any shares representing Awards hereunder as it may deem advisable, including without limitation restrictions under the Securities Act, under the requirements of any stock exchange or similar organization and under any blue sky or state securities laws applicable to such shares. The Corporation may cause a restrictive legend to be placed on any certificate issued pursuant to an Award 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.

17. APPLICABLE LAW

The Plan shall be governed by and construed in accordance with the laws of the State of North Carolina.

18. SHAREHOLDER APPROVAL

The Plan is subject to approval by the shareholders of the Corporation, which approval must occur, if at all, within 12 months of the effective date of the Plan. Awards granted prior to such shareholder approval shall be conditioned upon and shall be effective only upon approval of the Plan by such shareholders on or before such date.

19. CHANGE OF CONTROL

(a) Notwithstanding any other provision of the Plan to the contrary, in the event of a Change of Control (as defined in Section 19(b) herein):

(i) All Options and SARs outstanding as of the date of such Change of Control shall become fully exercisable, whether or not then otherwise exercisable.

(ii) Any restrictions including but not limited to the Restriction Period applicable to any Restricted Award shall be deemed to have expired, and such Restricted Awards shall become fully vested and payable to the fullest extent of the original grant of the applicable Award.

(iii) Notwithstanding the foregoing, in the event of a merger, share exchange, reorganization or other business combination affecting the Corporation or a related corporation, the Committee may, in its sole and absolute discretion, determine that any or all Awards granted pursuant to the Plan shall not vest or become exercisable on an accelerated basis, if the Board of Directors of 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 as Awards granted under the Plan), as in the opinion of the Committee is equitable or appropriate to protect the rights and interests of participants under the Plan. For the purposes herein, the Committee authorized to make the determinations provided for in this Section 19(a)(iii) 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 merger, share exchange, reorganization or other business combinations affecting the Corporation or a related corporation.

(b) For the purposes herein, a "Change of Control" shall be deemed to have occurred on the earliest of the following dates:

(i) The date any person or group of persons (as defined in Section 13(d) and 14(d) of the Exchange Act) together with its affiliates, excluding employee benefit plans of Corporation, becomes, directly or indirectly, the "beneficial owner" (as defined in Rule 13d-3 promulgated under the Exchange Act) of securities of the Corporation representing

20% or more of the combined voting power of the Corporation's then outstanding securities;

(ii) The date upon which, as a result of a tender offer or exchange offer for the purchase of securities of Corporation (other than such an offer by the Corporation for its own securities), or as a result of a proxy contest, merger, consolidation or sale of assets, or as a result of any combination of the foregoing, individuals who at the beginning of any year period during such term constitute the Corporation's Board of Directors, plus new directors whose election by the Corporation's shareholders is approved by a vote of at least two-thirds of the outstanding voting shares of the Corporation, cease for any reason during such year period to constitute at least two-thirds of the members of such Board of Directors;

(iii) The date the shareholders of the Corporation approve a merger or consolidation of the Corporation with any other corporation or entity regardless of which entity is the survivor, other than a merger or consolidation which would result in the voting securities of the Corporation outstanding immediately prior thereto continuing to represent (either by remaining outstanding or being converted into voting securities of the surviving entity) at least 60% of the combined voting power of the voting securities of the Corporation or such surviving entity outstanding immediately after such merger or consolidation;

(iv) The date the shareholders of the Corporation approve a plan of complete liquidation or winding-up of the Corporation or an agreement for the sale or disposition by the Corporation of all or substantially all of the Corporation's assets; or

(v) The occurrence of any other event which the Corporation's Board of Directors determines should constitute a Change of Control.

IN WITNESS WHEREOF, this 1997 Omnibus Stock Plan of C3, Inc., is, by the authority of the Board of Directors of the Corporation, executed in behalf of the Corporation, the 25th day of September, 1997.

C3, INC.

By: /s/ Jeff N. Hunter

Jeff N. Hunter
President

ATTEST:

/s/ Mark W. Hahn
- ---
Mark W. Hahn, Secretary

[Corporate Seal]

EXHIBIT 10.17

RESTRICTED STOCK AGREEMENT
OF
C3 DIAMANTE, INC.

THIS AGREEMENT, dated as of the 30th day of June, 1995, between C3 DIAMANTE, INC., a North Carolina corporation (the "Corporation"), and PAULA K. BERARDINELLI ("Berardinelli") and JEFFREY NEAL HUNTER ("Hunter").

RECITALS:

In consideration for Berardinelli's and Hunter's service to the Corporation as executive officers, the Corporation and Berardinelli and Hunter hereby agree as follows:

1. Grant of Award. The Corporation hereby grants to Berardinelli and Hunter, as joint tenants with right of survivorship, as a matter of separate inducement and agreement in connection with their service to the Corporation as executive officers 10,000 shares of the common stock (the "Common Stock") of the Corporation (the "Award"). The grant of the Award is subject in all respects to and governed in all respects by this Agreement.

2. No Right or Obligation of Continued Service. Nothing contained in this Agreement shall require the Corporation or a related corporation to continue the services of Berardinelli or Hunter.

3. Nonassignability of Award. This Award is not transferable (including by pledge or hypothecation) other than by will or the laws of intestate succession.

4. Restrictions on Shares. The Corporation may impose such restrictions on any share(s) issued pursuant to the Award as it may deem advisable, including, without limitation, restrictions on transfer pursuant to the Securities Act of 1933, as amended, any blue sky or securities laws applicable to such shares or any shareholder agreement to which Berardinelli or Hunter is a party. The Corporation may cause a restrictive legend to be placed on any certificate issued pursuant to the Award in such form as may be prescribed from time to time by applicable laws and regulations or as it may be advised by legal counsel.

5. Parties. This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective executors, administrators, next-of-kin, successors and assigns.

6. Amendment or Termination. This Agreement may be amended or terminated only upon the written consent thereto by the parties to the Agreement.

7. Applicable Law. This Agreement shall be governed by and construed in accordance with the laws of the State of North Carolina.

IN WITNESS WHEREOF, this Agreement has been executed on behalf of the Corporation and Berardinelli and Hunter as of the day and year first above written.

C3 DIAMANTE, INC.

By: /s/ Paula K. Berardinelli

Paula K. Berardinelli
President

Attest:

/s/ Jeff N. Hunter
- ---
Jeff N. Hunter
Secretary

[Corporate Seal]

/s/ Paula K. Berardinelli (SEAL)

Paula K. Berardinelli

/s/ Jeffrey Neal Hunter (SEAL)

Jeffrey Neal Hunter

EXHIBIT 10.18

SHAREHOLDERS AGREEMENT

THIS SHAREHOLDERS AGREEMENT ("the Agreement") is entered into as of the 18th day of March, 1997 by and between C3, INC., a North Carolina corporation (the "Company"), C. ERIC HUNTER ("Hunter") and GENERAL ELECTRIC PENSION TRUST ("GEPT").

WHEREAS, GEPT desires to purchase certain shares of 1997 Series B Preferred Stock ("the Series B Preferred Stock") pursuant to the Summary of the Offering of the Company dated January 3, 1997, which Series B Preferred Stock is convertible into shares of common stock of the Company ("Common Stock") as set out in the Company's Articles of Incorporation; and

WHEREAS, Hunter is the sole and direct owner of 592,680 shares of common stock of the Company, which shares constitute a majority of the issued and outstanding voting shares of the Company; and

WHEREAS, the Company, Hunter and GEPT believe that it would be in the best interests of the Company if they agree, as provided in this Agreement, on certain matters relating to the Company and its management.

NOW, THEREFORE, in consideration of the premises hereto and of the mutual covenants and agreements contained herein, the parties agree as follows:

1. Election of Directors.

(a) At all times before (i) the Company effects its initial public offering pursuant to the Securities Act of 1933, as amended (the "Act"), and, (ii) for so long as GEPT shall be the beneficial owner of any Series B Preferred Stock or Common Stock issued upon conversion of the Preferred Stock, Hunter shall (i) vote all of his shares of Common Stock in person or by proxy to cause the Company not to increase the size of the Board of Directors of the Company without the consent of GEPT and (ii) vote all his shares of Common Stock in person or by proxy for the election of one person designated by GEPT to serve as director. IF GEPT fails to designate a person for election as director in any specific election, Hunter agrees to vote all of his shares to re-elect the person previously designated by GEPT. GEPT shall have the right, upon written request to Hunter, to require Hunter to request that the Company call a special meeting of shareholders at any time and from time to time, for the sole purpose of removing from the Board of Directors of the Company, such director originally designated by it, and in such event, Hunter shall vote all of his Common Stock in person or by proxy to effect the removal from the Board of Directors of the Company of the person designated for such removal from the Board of Directors by GEPT and to elect as director of the Company the person designated by GEPT as replacement thereof. Hunter agrees that for so long as the provisions of this Section 1(a) are effective, he will not transfer his Common Stock without requiring the transferee to be bound to the provisions of this Section 1(a). The Company agrees that it will not issue after the date hereof, any new voting securities without first obtaining

the written consent of the purchaser or transferee of such voting securities to be bound by the terms hereof, as if a party hereto, if as a result of such issuances of voting securities, the aggregate shares of voting securities owned by Hunter would represent less than a majority of the outstanding voting securities of the Company.

(b) At any time after (i) the Company effects its initial registered public offering pursuant to the Act, and, (ii) for so long as GEPT shall be the beneficial owner of any Preferred Stock or Common Stock issued upon the conversion of the Preferred Stock, the Company (a) will nominate and recommend as candidate for election to the Board of Directors of the Company one person designated by GEPT and reasonably acceptable to the Board of the Company (the "Designee") and (b) will not increase the size of the Board of Directors of the Company without the consent of GEPT, which consent shall not be unreasonably withheld. If at any time such Designee is not a member of the Board of Directors of the Company, (i) the Company will notify such Designee, concurrently with notice given to members of the Board of Directors of the Company, of all meetings of the Board of Directors, and, as soon as available, will provide to such Designee all reports, financial statements or other information distributed to the Board of Directors of the Company, (ii) the Company will permit such Designee to attend all such meetings of the Board of Directors as an observer and to participate as an elected member with all rights of an elected member, voting excepted, and (iii) the Company will permit GEPT, or any person designed by GEPT in writing to be acting on its behalf, to visit and inspect any of the properties of the Company and to discuss the affairs, finances and accounts of the Company with the principal officers and the auditors of the Company, all at such reasonable time during business hours and as often as GEPT may reasonably request.

2. Proposed Amendments to the Articles of Incorporation. The Company shall submit the amendment to the Articles of Incorporation set out on Exhibit A for approval by the shareholders as soon as possible after the date hereof. Hunter shall vote all of his shares of Common Stock in favor of amending the Articles of Incorporation of the Company as set out on Exhibit A attached hereto.

3. Binding Effect and Benefit. This Agreement shall be binding upon, and inure to the benefit of the Company, Hunter and GEPT and their respective successor and assigns. The stock certificates representing the shares owned by Hunter shall bear a legend acknowledging the existence of the voting provisions set forth in this Agreement.

4. Waivers, Entire Agreement, Modifications. No party shall be deemed to waive any rights hereunder, unless such waiver be in writing and signed by him. A waiver in writing on one occasion shall not be construed as a consent to or a waiver of any right or remedy on any future occasion. This writing contains the full, final and exclusive statement of the agreement of the parties hereto with respect to the matters contained herein, and no promises, agreements or representations shall be binding upon any of the parties unless set forth herein. This Agreement may be amended or modified in whole or in part only by an instrument in writing signed by the Company, Hunter, and by GEPT.

5. Governing law, Construction. This Agreement shall be governed by and construed and enforced in accordance with the law of North Carolina. Wherever possible, each provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision thereof shall be prohibited by or invalid under any such law, such provision shall be ineffective to the extent of such prohibition or invalidity, without invalidating or nullifying the remainder of such provision or any other provisions of this Agreement.

6. Termination. This Agreement shall terminate upon the first to occur of (a) the date upon which GEPT ceases to be the beneficial owner of any Preferred Stock or Common Stock, or (b) the tenth anniversary of the date of this Agreement.

IN WITNESS WHEREOF, the undersigned hereby execute this Shareholders Agreement as of the 18th day of March, 1997.

C3, INC.

By: /s/ Jeff N. Hunter

Jeff N. Hunter, President

THE TRUSTEES OF THE GENERAL ELECTRIC PENSION TRUST

By: /s/ Alan M. Lewis

Alan M. Lewis, Trustee

/s/ C. Eric Hunter

C. Eric Hunter

EXHIBIT 10.19

REGISTRATION RIGHTS AGREEMENT

THIS REGISTRATION RIGHTS AGREEMENT, (the "Agreement") dated as of March 18th, 1997, is made by and among C3, INC., a North Carolina corporation (the "Company"), and the General Electric Pension Trust ("GEPT").

WHEREAS, the Company intends to issue, in the aggregate, 682,500 shares of the Company's 1997 Series B Convertible Preferred Stock (the "Preferred Stock") to certain investors (the "Investors") pursuant to the Company's Summary of the Offering dated January 3, 1997; and

WHEREAS, in order to induce General Electric Pension Trust to purchase from the Company certain shares of the Preferred Stock, the Company desires to grant registration rights to the Investors for shares of its Common Stock which the Investors will have the right to acquire pursuant to conversion of the Preferred Stock;

NOW, THEREFORE, in consideration of the premises hereto and of the mutual covenants and agreements contained herein, the parties agree as follows:

1. Definitions.

As used herein the following defined terms shall have the following respective meanings:

(a) The term "Holders" means any holder or holders of shares of Registrable Securities.

(b) The terms "register", "registered" and "registration" refer to a registration effected by preparing and filing a registration statement in compliance with the Securities Act (as defined below) and the declaration or ordering of the effectiveness of such registration statement.

(c) The term "Registrable Securities" means all shares of Common Stock issued or issuable upon the conversion of Preferred Stock.

(d) The term "Securities Act" means the Securities Act of 1933, as amended.

2. Requested Registration.

(a) If at any time after one year from the date hereof, the Company shall receive from the Holders of at least forty percent (40%) of the Registrable Securities a written request that the Company effect a registration under the Securities Act with respect to not less than twenty percent (20%) of the Registrable Securities, and having an expected aggregate offering price to the public of not less than $15,000,000, the Company will, as expeditiously as possible, notify in writing all the Holders of such request and use its diligent best efforts to effect all such registrations

(including, without limitation, the execution of an undertaking to file post-effective amendments and appropriate qualifications and approvals under the laws and regulations applicable to the Company of any applicable governmental agencies and authorities, including the applicable blue sky or other state securities laws) as may be so requested and as would permit or facilitate the sale and distribution of all or such portion of the Registrable Securities as are specified in such request, together with any Registrable Securities held by the other Holders who may desire to participate in such registrations; provided, however, that before filing any such registration statement or any amendments or supplements thereto, the Company will (x) furnish to the Holders of Registrable Securities which are to be included in such registration, copies of all such documents proposed to be filed, which documents will be subject to the review of such Holders and their counsel, and (y) give the Holders of Registrable Securities to be included in such registration statement and their representatives the opportunity to conduct a reasonable investigation of the records and business of the Company and to participate in the preparation of any such registration statement or any amendments or supplements thereto; provided, further, that the Company shall not be obligated to take any action to effect such registration pursuant to this subparagraph 2(a), (i) after (A) the Company has effected two such registrations pursuant to this subparagraph 2(a) at the request of the Holders and (B) each of such registrations have been declared or ordered effective; (ii) during the ninety (90) day period commencing with the closing date of the Company's initial public offering, or (iii) if it delivers notice to the Holders of the Registerable Securities within thirty (30) days of any registration request of its intent to file a registration statement for such initial public offering within ninety (90) days. With respect to any registration requested pursuant to this subparagraph 2(a), the Company may include in such registration any other shares of its capital stock, subject to the restrictions set forth in subparagraph 2(c).

(b) Subject to subparagraph 2(a) above and the other terms and conditions contained herein, the Company shall file a registration statement covering the Registrable Securities so requested to be registered as soon as practical, but in any event within ninety (90) days after (i) receipt of the request or requests of the Holders or (ii) the date in which the Holders of Registrable Securities to be included in such registration agree, pursuant to subparagraph 2(c), on the terms and conditions of an underwriting, if applicable, as evidenced by its letter of intent describing such terms and conditions, whichever is later; provided, however, that if the Company shall furnish to the Holders a certificate signed by the President of the Company stating that in the good faith judgment of the Board of Directors it would be seriously detrimental to the Company and its stockholders for such registration statement to be filed at the date filing would be required hereunder and it is therefore essential to defer the filing of such registration statement, the Company shall have an additional period of not more than ninety (90) days within which to file such registration statement (which additional period may be extended to one hundred eighty (180) days if such deferral will materially reduce the expenses of such registration due to the elimination of the need for any special audits to be performed in connection with such registration).

(c) If the Holders intend to distribute the Registrable Securities covered by their request by means of an underwriting, they shall so advise the Company as a part of their request made pursuant to subparagraph 2(a). In such event, if so requested in writing by the Company, the Holders shall negotiate in good faith with a nationally recognized underwriter or underwriters or

major regional underwriter or underwriters acceptable to the Holders, selected by the Company with regard to the underwriting of such requested registration; provided, however, that if the Holders have not agreed with such underwriter(s), in their discretion, as to the terms and conditions of such underwriting within thirty (30) days following commencement of such negotiations, the Holders may select an underwriter of their choice; and, provided further that any underwriter selected hereunder, shall not be an underwriter in which the General Electric Company has a direct or indirect interest of 5% or more, without the consent of GEPT. The right of the Holders to registration pursuant to this Paragraph 2 shall be conditioned upon the Holder's participation in such underwriting to the extent provided herein. The Company shall (together with all Holders proposing to distribute their Registrable Securities through such underwriting) enter into an underwriting agreement in customary form with the underwriter or underwriters selected pursuant to this Paragraph 2. Notwithstanding any other provision of this Paragraph 2, if the underwriter advises the Company in writing with a copy to the Holders that marketing factors require a limitation of the number of shares to be underwritten, the Company shall so advise all Holders, and the Company will include in such registration up to the maximum allowed by such underwriter (x) first, as many shares as possible of Registrable Securities requested to be included by the applicable Holders, which shall be allocated among all Holders thereof in proportion, as nearly as practicable, to the respective amounts of Registrable Securities requested by such Holders to be registered and (y) second, shares to be sold by the Company or other holders of the Company's capital stock. If any Holder of Registrable Securities disapproves of the terms of the underwriting, he or it may elect to withdraw therefrom by written notice to the Company, the underwriter and the other Holders. In the event of any such withdrawal, the Company will include in any such registration in lieu thereof any additional shares of Registrable Securities which were requested to be included by a Holder and which were excluded pursuant to the above-described underwriter limitation up to the maximum set by such underwriter.

(d) The Company will use its best efforts to do any and all other acts which may be necessary or advisable to enable each selling Holder to dispose of the Registrable Securities being sold including, without limitation, (i) furnishing to each such Holder (x) the number of copies of the registration statement and of the exhibits and the prospectus contained therein reasonably requested by each such Holder, and (y) signed counterparts, addressed to each such Holder, of an opinion of the Company's counsel and a "cold comfort" letter of the Company's independent certified public accountants with respect to the matters customarily covered in such documents delivered to underwriters in underwritten public offerings, (ii) registering or qualifying the Registrable Securities under the blue sky laws of any state in which the Registrable Securities are to be sold or obtaining exemptions therefrom; provided, however, that no blue sky filing shall be required in any state if to do so would require the Company to qualify to do business or to file a general consent to service of process in such state and (iii) listing the Registrable Securities to be sold on a national securities exchange or equivalent.

3. Company Registration.

(a) In addition to the registration rights set forth in Paragraph 2, if at any time or from time to time, the Company shall determine to register any of its securities, either for its own

account or the account of a security holder or holders, in a registration statement covering the sale of Common Stock to the general public pursuant to an underwritten public offering (except with respect to any registration filed on Form S-8, Form S-4 or any successor forms thereto), the Company will: (x) give to each Holder written notice thereof at least ninety (90) days before the initial filing of such registration (which shall include a list of the jurisdictions in which the Company intends to attempt to qualify such securities under the applicable blue sky or other state securities laws), or forty-five (45) days before filing if such registration is a subsequent registration; provided, however, in the case of a registration statement on Form S-3, the Company shall give each Holder written notice of the proposed filing thereof promptly after a decision to make such filings has been made and in no event less than ten (10) business days prior to filing; and (y) use its best efforts to include in such registration (and any related qualification under blue sky laws) and in any underwriting involved therein, all the Registrable Securities specified in a written request or requests, made within thirty (30) days after receipt of such written notice from the Company, by any Holder or Holders, except as set forth in subparagraph 3(b) below.

(b) The right of any Holder to registration pursuant to this Paragraph 3 shall be conditioned upon such Holder's participation in the underwriting to the extent provided herein. All Holders proposing to distribute their securities through such underwriting shall (together with the Company) enter into an underwriting agreement in customary form with the underwriter or underwriters selected for such underwriting by the Company, and may, at their option, require that any or all the representations and warranties by, and the covenants and other agreements on the part of, the Company to and for the benefit of such underwriter shall also be made to and for the benefit of such Holders; provided however, that any underwriter selected hereunder shall not be an underwriter in which the General Electric Company has a direct or indirect interest of 5% or more without the consent of GEPT. Such Holders shall not be required to make any representations or warranties to or agreements with the Company or the underwriter other than those relating to such Holders and such Holders' intended methods of distribution. Notwithstanding any other provision of this Paragraph 3, if the underwriter determines that marketing factors require a limitation of the number of Registrable Securities to be underwritten, the underwriter may limit the number of Registrable Securities to be included in the registration and underwriting; provided, however, that with respect to any such registration of securities for the account of the Company, the underwriter may not limit the amount of Registrable Securities included in such registration and underwriting if other holders of the Company's securities are permitted to include their securities in such registration and underwriting. The Company shall so advise all Holders, and the number of shares of Registrable Securities that may be included in the registration and underwriting shall be allocated among all Holders thereof in proportion, as nearly as practicable, to the respective amounts of Registrable Securities requested by such Holders to be registered. If any Holder disapproves of the terms of any such underwriting, he may elect to withdraw therefrom by written notice to the Company and the underwriter. In the event of any such withdrawal, the Company will include, on a proportionate basis (determined in accordance with the preceding sentence), in any such registration in lieu thereof any additional Registrable Securities which were requested to be included by a Holder and which were excluded pursuant to the above-described underwriter limitation up to the maximum set by such underwriter.

4. Expenses of Registration.

All expenses incurred in connection with any registration or qualification pursuant to this Agreement, including, without limitation, all registration, filing and qualification fees, printing expenses, fees and disbursements of counsel for the Company and counsel for the Holders, and expenses and fees of any special audits incidental to or required by such registration, shall be borne by the Company; provided, however, that (x) the Company shall not be required to pay for expenses of any registration begun pursuant to Paragraph 2, the request for which has been subsequently withdrawn by the Holders and which the Company or any other stockholders do not wish to continue, in which case, such expenses shall be borne by the Holders requesting such withdrawal; provided, however, that the Company shall be required to pay for such expenses if such registration was begun pursuant to Paragraph 2(a) and the Holders deem such registration to satisfy the Company's obligation with respect to registering such offering; and (y) the Company in any event shall not be required to pay fees of legal counsel of the Holders (except for the fees of one legal counsel of the Holders) or underwriters' discounts or commissions relating to Registrable Securities (such underwriters' fees, discounts, commissions or other fees or expenses to be borne by the Holders, on a pro rata basis, based on the number of Registrable Securities sold by each of them), except where a partner or employee of a Holder is a director of the Company and incurs expenses on behalf of the Company with respect to any registration or qualification in his or her capacity as a director of the Company. In the event that expenses are to be paid by the Holders, such expenses shall not include (x) costs of preparing any financial statements or other information normally prepared by or for the Company in the ordinary course or (y) general overhead expenses of the Company, including, without limitation, salaries.

5. Registration Procedures.

In the case of each registration effected by the Company pursuant to this Agreement, the Company will keep each Holder participating therein advised in writing as to the initiation of such registration (and any state qualifications) and as to the completion thereof. The Company will: (x) keep such registration or qualification pursuant to Paragraphs 2 or 3 effective for a period of ninety (90) days or until all the Holders have completed the distribution described in the registration statement relating thereto, whichever last occurs, and (y) furnish such number of prospectuses and other documents incident thereto as a Holder from time to time may reasonably request.

6. Indemnification.

(a) The Company will indemnify each Holder of Registrable Securities, each of the Holder's officers, directors, partners and employees, and each person controlling such Holder, with respect to such registration or qualification effected pursuant to this Agreement and in which Registrable Securities are included, against all claims, losses, damages, and liabilities (or actions in respect thereto) arising out of or based on any untrue statement (or alleged untrue statement) of a material fact contained in any prospectus, registration statement or other document incident to any such registration or qualification, or based on any omission (or alleged omission) to state therein a

material fact required to be stated therein or necessary to make the statements therein not misleading, or any violation by the Company of any rule or regulation promulgated pursuant to any Federal, state or common law rule or regulation including, without limitation, the Securities Act, applicable to the Company and relating to action or inaction required of the Company in connection with any such registration, qualification or compliance and will reimburse each such Holder, each of such Holder's officers, directors, partners and employees, and each person controlling such Holder, for any legal and any other expenses incurred in connection with investigating or defending any such claim, loss, damage, liability or action, including reasonable attorneys' fees; provided, however, that the Company will not be liable in any such case to the extent that any such claim, loss, damage or liability arises out of or is based on any untrue statement or omission based upon and in conformity with written information furnished to the Company by such Holder, in a signed document stating that such information is specifically for use therein. Such indemnity shall be effective notwithstanding any investigation made by or on behalf of any Holder, or any such officer, director, partner, employee or controlling person, and shall survive any transfer by the same of any of the Registrable Securities.

(b) Each Holder will, if Registrable Securities held by or issuable to such Holder are included in the securities as to which such registration or qualification is being effected, severally and not jointly, indemnify the Company, each of its directors, officers and employees, against all claims, losses, damages and liabilities (or actions in respect thereto) arising out of or based on any untrue statement (or alleged untrue statement) of a material fact contained in any such registration statement, prospectus or other document, or any omission (or alleged omission) to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, and will reimburse the Company, such Holders, such directors, officers, partners, employees, persons or underwriters for any legal or any other expenses incurred in connection with investigating or defending any such claim, loss, damage, liability or action, including reasonable attorneys' fees, in each case to the extent, but only to the extent, that such untrue statement (or alleged untrue statement) or omission (or alleged omission) is made in such registration statement, prospectus or other document in reliance upon and in conformity with written information furnished to the Company by such Holder in a signed document stating that such information is specifically for use therein. Notwithstanding the foregoing, the liability of any such Holder shall not exceed an amount equal to the proceeds realized by each such Holder of Registrable Securities sold as contemplated herein. Such indemnity shall be effective notwithstanding any investigation made by or on behalf of the Company, any such director, officer, partner, employee, or controlling person and shall survive the transfer of such securities by such seller.

(c) Each party entitled to indemnification under this Paragraph 7 (the "Indemnified Party") shall give notice to the party required to provide indemnification (the "Indemnifying Party") promptly after such Indemnified Party has actual knowledge of any claim as to which indemnity may be sought. Unless in the reasonable judgment of the Indemnified Party a conflict of interest may exist between the Indemnifying Party and the Indemnified Party, the Indemnifying Party shall be permitted to assume the defense of any such claim or any litigation resulting therefrom; provided, however, that in any event counsel for the Indemnifying Party or Indemnified Party who shall conduct the defense of such claim or litigation as provided above shall

be approved by the other Party (whose approval shall not be unreasonably withheld), and such other Party may participate in such defense at such Party's expense; provided, further, that the failure of any Indemnified Party to give notice as provided herein shall not relieve the Indemnifying Party of its obligations under this Paragraph 6.

(d) The Indemnified Party shall make no settlement of any claim or litigation which would give rise to liability on the part of the Indemnifying Party under an indemnity contained in this Paragraph 6 without the written consent of the Indemnifying Party, which consent shall not be unreasonably withheld or delayed, and no Indemnifying Party shall make any settlement of any such claim or litigation without the consent of the Indemnified Party. If a firm offer is made to settle a claim or litigation defended by the Indemnified Party and the Indemnified Party notifies the Indemnifying Party in writing that the Indemnified Party desires to accept and agree to such offer, but the Indemnifying Party elects not to accept or agree to such offer within ten (10) days after receipt of written notice from the Indemnified Party of the terms of such offer, then, in such event, the Indemnified Party shall continue to contest or defend such claim or litigation and, if such claim or litigation is within the scope of the Indemnifying Party's indemnity contained in this Paragraph 6, the Indemnified Party shall be indemnified pursuant to the terms hereof. If a firm offer is made to settle a claim or litigation defended by the Indemnifying Party and the Indemnifying Party notifies the Indemnified Party in writing that the Indemnifying Party desires to accept and agree to such offer, but the Indemnified Party elects not to accept or agree to such offer within 10 days after receipt of written notice from the Indemnifying Party of the terms of such offer, then, in such event, the Indemnified Party may continue to contest or defend such claim or litigation and, in such event, the total maximum liability of the Indemnifying Party to indemnify or otherwise reimburse the Indemnified Party in accordance with this Agreement with respect to such claim or litigation shall be limited to and shall not exceed the amount of such settlement offer, plus reasonable out-of-pocket costs and expenses (including reasonable fees and disbursements of counsel) to the date of notice that the Indemnifying Party desired to accept such settlement offer.

(e) The indemnification payments required pursuant to this Paragraph 6 for expenses of the investigation or defense of a claim or lawsuit shall be made from time to time during the course of the investigation or defense, as the case may be, upon submission of reasonably sufficient documentation that any such expenses have been incurred.

7. Information by Holder.

The Holder or Holders of Registrable Securities included in any registration shall furnish to the Company such written information regarding such Holder or Holders and the distribution proposed by such Holder or Holders as the Company may reasonably request in writing and as shall be required in connection with any registration or qualification referred to in this Agreement. The Company agrees to include in any such registration statement all information concerning the Holders and their distribution which the Holders shall reasonably request.

8. Securities Act Registration Statements.

The Company shall not file any registration statement under the Securities Act covering any securities unless it shall first have given the Holders written notice thereof. The Company further covenants that the Holders shall have the right, at any time when they may be deemed to be a controlling person of the Company, to participate in the preparation of such registration statement and to request the insertion therein of material furnished to the Company in writing which in the Holders' judgment should be included. In connection with any registration statement referred to in this subsection, the Company will indemnify, to the extent permitted by law, the Holders, their officers, directors, partners and employees and each person, if any, who controls the Holders within the meaning of Section 15 of the Securities Act, against all losses, claims, damages, liabilities and expenses caused by any untrue statement or alleged untrue statement of a material fact contained in any registration statement or prospectus or any preliminary prospectus or any amendment thereof or supplement thereto or caused by any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, except insofar as such losses, claims, damages, liabilities or expenses are caused by any untrue statement or alleged untrue statement or omission or alleged omission contained in written information furnished to the Company by the Holders expressly for use in such registration statement. If, in connection with any such registration statement, the Holders shall furnish written information to the Company expressly for use in the registration statement, the Holders, severally and not jointly, will indemnify, to the extent permitted by law, the Company, its directors, each of its officers who sign such registration statement and each person if any, who controls the Company within the meaning of the Securities Act against all losses, claims, damages, liabilities and expenses caused by any untrue statement or alleged untrue statement of a material fact or any omission or alleged omission of a material fact required to be stated in the registration statement or prospectus or any preliminary prospectus or any amendment thereof or supplement thereto or necessary to make the statements therein not misleading, but only to the extent that such untrue statement or alleged untrue statement or such omission or alleged omission is contained in information so furnished in writing by the Holders for use therein.

9. Filing of Reports Under The Exchange Act.

The Company shall give prompt notice to the Holders of (a) the filing of any registration statement (an "Exchange Act Registration Statement") pursuant to the Securities Exchange Act of 1934, as amended (the "Exchange Act"), relating to any class of equity securities of the Company, and (b) the effectiveness of such Exchange Act Registration Statement and the number of shares of such class of equity securities outstanding as reported in such Exchange Act Registration Statement, in order to enable the Holders to comply with any reporting requirements under the Exchange Act or the Securities Act. The Company shall, at any time after the Company shall register any shares of Common Stock under the Securities Act and upon the written request of the Holders, file an Exchange Act Registration Statement relating to any class of equity securities of the Company then held by the Holders or issuable upon conversion or exercise of any class of debt or equity securities or warrants or options of the Company then held by the Holders, whether or not the class of equity securities with respect to which such request is made shall be held by at

least the number of persons which would require the filing of a registration statement under Section 12(g) of the Exchange Act.

10. Rule 144 Reporting.

With a view to making available to the Holders benefits of certain rules and regulations of the Securities and Exchange Commission (the "SEC") which may permit the sale of the Registrable Securities to the public without registration, the Company agrees that if it becomes subject to the reporting requirements of either Section 13 of Section 15(d) of the Exchange Act, it will:

(a) make and keep public information available, as those terms are understood and defined in SEC Rule 144, or any successor provision thereto, at all times;

(b) use its best efforts to file with the SEC in a timely manner all reports and other documents required of the Company under the Securities Act and the Exchange Act;

(c) so long as a Holder owns any Registrable Securities (or other securities of the Company), to furnish to such Holder forthwith upon its request a written statement by the Company as to the Company's compliance with the reporting requirements of Rule 144 and of the Securities Act and the Exchange Act, a copy of the most recent annual or quarterly report of the Company, and such other reports and documents so filed by the Company as such Holder may reasonably request in availing itself of any rule or regulation of the SEC allowing such Holder to sell any such securities without registration; and take any further action reasonably requested by a Holder to enable such Holder to sell its Registrable Securities without registration under Rule 144, under any successor provision, or any similar rule or regulation promulgated by the SEC from time to time.

11. Consent; Changes.

For purposes of this Agreement, unless otherwise specifically provided for hereby, all approvals and consents of the Holders required or permitted under this Agreement shall be deemed granted by the affirmative vote of the Holders of greater than sixty percent (60%) of the Registrable Securities which have not already been registered. The terms and provisions of this Agreement may not be waived, modified or amended, except that they may be waived, modified or amended with the written consent of (a) the Company and (b) the Holders of greater than sixty percent (60%) of the Registrable Securities which have not already been registered; provided, however, that this Paragraph 11 may not be waived, modified or amended without the written consent of (a) the Company and (b) all of the Holders.

12. Granting of Registration Rights.

The Company shall not, without the prior written consent of holders of sixty percent (60%) of the Registrable Securities with respect to the Holders of the Preferred Stock which have not already been registered, grant any rights to any persons to register any shares of capital stock

or other securities of the Company if such rights could reasonably be expected to conflict with, or be on parity with, the rights of the Holders provided hereunder.

13. "Lock-Up" Agreement.

If required by the Company and an underwriter of Common Stock or other securities of the Company, each Holder shall agree not to sell or otherwise transfer or dispose of any Registrable Securities held by such Holder for a specified period of time (not to exceed one hundred eighty (180) days) following the effective date of a primary offering by the Company; provided that all officers and directors of the Company and all other Holders of 1% of the shares, enter into similar agreements. Such agreement shall be in writing in a form satisfactory to the Company and such underwriter. The Company may impose stop-transfer instructions with respect to the Registrable Securities or other securities subject to the foregoing restriction until the end of the stand-off period.

14. Governing Law.

This Agreement shall be governed by and construed in accordance with the internal laws of the State of North Carolina without reference to the principles of conflicts of law thereof.

15. Notice.

All notices and other communications required or permitted to be given in respect of this Agreement shall be deemed to have been given or made if delivered personally or if mailed by registered or certified mail, return receipt requested, to the parties at the addresses listed on Schedule 1 hereto, or, in each case, at such other address or addresses as any party shall hereafter specify by written notice to the others. All such notices and communications, if mailed, shall be deemed to have been given on the third business day after the mailing thereof.

16. Termination.

This Agreement shall terminate with respect to any Holder 90 days after the effective date of a Registration Statement registering all of such Holder's Shares under Section 12 of the Securities Act; provided, however, that the indemnification provisions in Paragraph 6 shall survive the termination of this Agreement.

17. Third Party Beneficiaries.

It is the intent of the parties hereto that the Investors are third party beneficiaries of the rights provided to Investors by this Agreement.

18. Counterparts.

This Agreement may be executed in counterparts, each of which shall be deemed an original and which together shall constitute a single agreement.

19. Headings.

The headings of the Paragraphs of this Agreement are inserted for convenience only and shall not be deemed to constitute a part hereof.

20. Severability.

If any provision or any portion of any provision of this Agreement shall be held to be void or unenforceable, the remaining portions of this Agreement shall continue in full force and effect.

IN WITNESS WHEREOF, the undersigned have caused this Agreement to be duly executed by their authorized officers as of the day and year first above written.

COMPANY:

C3, INC.

By: /s/ Jeff N. Hunter

Jeff N. Hunter, President

THE TRUSTEES OF THE GENERAL ELECTRIC PENSION TRUST

By: /s/ Alan M. Lewis

Alan M. Lewis, Trustee

EXHIBIT 10.20

THE REGISTRANT HAS REQUESTED THAT CERTAIN PORTIONS OF THIS EXHIBIT BE GIVEN CONFIDENTIAL TREATMENT. AN UNREDACTED VERSION OF THIS EXHIBIT HAS BEEN FILED WITH THE COMMISSION.

AGREEMENT, DATED SEPTEMBER 24, 1997, BETWEEN JOHN M. BACHMAN, INC. AND C3, INC.

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

AGREEMENT

THIS AGREEMENT (this "Agreement") is entered into as of September 24, 1997 by and among C3, INC., a North Carolina corporation ("C3"), JOHN M. BACHMAN, INC. ("JMB").

Statement of Purpose

C3 is engaged in the business of designing, manufacturing, marketing and selling gemstones made of silicon carbide ("Moissanite Gemstones"). JMB, through an affiliate provides stone cutting services. The parties desire to enter into this Agreement to formalize the terms upon which JMB will cut Moissanite Gemstones for C3 in consideration of the payments set forth below.

Therefore, in consideration of the foregoing and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledge, the parties hereby agree as follows:

1. Expansion Funds. Within 10 business days after the date of this Agreement first set forth above, C3 will advance to JMB by certified check delivered to the address set forth in Section 7 funds in the amount of ***** (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 this 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 provided hereunder at the specifications set forth as Exhibit A hereto and at a rate of ***** per stone for round stones less than or equal to ***** in diameter and ***** per carat for stone for round stones greater than ***** in diameter and at the rates as set forth on Exhibit B hereto for other shapes. Together with each shipment of cut stones delivered to C3, JMB will deliver to C3 a detailed invoice itemizing the number and sizes of Moissanite Gemstones cut by its affiliate and included in each such shipment and the amount payable by C3 to JMB for such services. In the event C3 disputes any portion of an invoice, C3 will deliver to JMB a detailed written description of such dispute together with payment of any undisputed portion of the invoice and 75% of the disputed portion, and the parties will cooperate in good faith to resolve any such dispute. If they are unable to do so within 60 days after the date of the invoice giving rise to the dispute, the matter will be submitted to arbitration pursuant to Section 14 of this Agreement. C3 will pay in full all undisputed charges on each invoice within 5 business days after receipt of each invoice by wire transfer to an account specified by JMB. Beginning with the invoice reflecting cutting services provided by JMB from and after May 1, 1998, the amount payable to JMB by C3 reflected on each invoice will be reduced by 25% until the aggregate amount of such reductions equals ***** and C3 has received full credit against production charges for the amount of the Expansion Funds.

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

3. Term; Termination.

(a) The initial term of this Agreement will begin as of the date first set forth above and will continue until December 31, 1998; provided that the Agreement will continue automatically thereafter for calendar year terms until the earlier to occur of (i) the delivery by either party to the other of written notice delivered not less than 60 calendar days before the end of the then current term of the notifying party's desire to terminate this Agreement as of December 31 of such year; or (ii) the termination of this Agreement pursuant to subsection b., below.

(a) Either C3 or JMB may terminate this Agreement upon (i) the breach by the other party of any of its agreements or covenants set forth herein, provided that the terminating party first provides written notice describing such breach and demanding its cure to the other party and permits such party a sixty-day period to cure such breach; (ii) changes in any laws or regulations affecting C3, JMB or its affiliate that render any material aspect of their performance contemplated by this Agreement illegal; (iii) any actions by the other party that materially harm the image or reputation of the terminating party as regarded by its customers, suppliers or the public; or (iv) in accordance with Section 17.

4. Production Procedures; Standards.

(a) C3 will deliver all Moissanite Gemstones C3 desires to have cut together with specifications for the cut of each stone to such location as directed by JMB. It shall be C3's responsibility to ensure that all Moissanite Gemstones it delivers for production are suitable for the specifications provided by C3 and JMB shall not be liable to C3 for the inability to cut to specifications any Moissanite Gemstones not suitable for such specifications.

(b) JMB covenants that the services to be provided hereunder will be performed in accordance with specifications provided by C3. C3 will have the right to return without payment any Moissanite Gemstones received by C3 from JMB that do not satisfy such specifications and JMB will at its own expense re-cut at its expense any such Moissanite Gemstones to the original specifications provided by C3.

(c) For orders placed by C3 under this Agreement JMB will pay all import, export and freight costs C3 for which C3 will pay JMB ***** or more. For orders placed by C3 under this Agreement for which C3 will pay JMB less than *****, C3 will reimburse JMB ***** for any import, export and freight costs. C3 will provide all shipping insurance and JMB or its affiliates shall provide insurance for the Moissanite Gemstones while in their possession. JMB shall cause C3 to be named as an additional insured party on such insurance.

(d) The parties estimate that the volume of Moissanite Gemstones to be cut by JMB from the date of this Agreement through December 1998 will be as set forth on Exhibit C hereto. JMB covenants that it will be able to meet such production volumes

without delay or additional cost to C3 and in accordance with the standards set forth in subsection b., above. JMB will have the right to reject any order by C3 to the extent the volume of any such order exceeds the volume estimates set forth on Exhibit C hereto by providing written notice of such rejection to C3 within 10 business days after receipt by JMB of such an order from C3. Failure to timely reject any excess portion of an order will constitute acceptance of the entire order by JMB. The parties will agree in writing on quarterly volume estimates for any Moissanite Gemstones to be cut pursuant to this Agreement after December 31, 1998.

5. Compliance with Laws. Subject to Section 4.c., above, each party will perform its duties and obligations hereunder in compliance in all material respects with all laws and regulations applicable to such party, including without limitation, those related to the import and export of raw and processed materials, taxes, tariffs and employment.

6. Noncompetition. JMB nor its affiliates shall cut any Moissanite Gemstones for any third parties without the prior written consent of C3.

7. Nonexclusive License. JMB grants, and shall cause its affiliates to grant C3, a perpetual, nonexclusive and royalty-free license to use and otherwise practice (including the right to sublicense) any inventions developed by or for JMB, its affiliates or by their employees, all trade secrets or other proprietary or confidential information, which is applicable or useful in the cutting of Moissanite Gemstones.

8. Indemnification.

(a) By JMB. JMB shall indemnify, defend and hold harmless C3 and its officers, directors, agents, shareholders and representatives from, against, and with respect to any and all loss, damage, claim, obligation, liability, cost and expense (including without limitation reasonable attorneys' fees and costs and expenses incurred in investigating, preparing, defending against or prosecuting any litigation, claim, proceeding or demand), of any kind or character (a "Loss") arising out of or in connection with any failure by JMB to perform or observe, or to have performed or observed, in full, any covenant, agreement or condition to be performed or observed by each pursuant to this Agreement and the operations of the businesses of JMB.

(b) By C3. C3 will indemnify, defend and hold harmless JMB and its officers, directors, agents, shareholders and representatives from, against, and with respect to any Loss arising out of or in connection with any failure by C3 to perform or observe, or to have performed or observed, in full, any covenant, agreement or condition to be performed or observed by it pursuant to this Agreement and the operations of the business of C3.

9. Notices. Any notices required or permitted to be given by the parties hereunder shall be in writing and delivered personally or sent by registered or certified mail, return-receipt requested, or by express courier service, addressed as follows:

If to C3:

C3, Inc.
Post Office Box 13533

Research Triangle Park, NC 27709-3533
Attention: Mr. Jeff N. Hunter, President

Tel: (919) 468-0399
Fax: (919) 468-0486

With a copy (which shall not constitute notice) to:

Womble Carlyle Sandridge & Rice, PLLC
3300 One First Union Center
301 South College Street
Charlotte, North Carolina 28202
Attention: Cyrus M. Johnson, Jr., Esq.
Tel: (704) 331-4900
Fax: (704) 331-4955

If to JMB:

John M. Bachman, Inc.
_____
_____
Tel:_____
Fax:_____

With a copy (which shall not constitute notice) to:

_____
_____
_____
Tel:_____
Fax:_____

10. Counterparts. This Agreement may be executed in one or more counterparts, each of which will be deemed an original, but all of which together shall constitute one and the same instrument.

11. Assignment. This Agreement shall be binding upon and inure to the benefit of the parties to this Agreement and their respective successors and permitted assigns. Neither this Agreement nor any of the rights, interest or obligations hereunder shall be assigned by any of the parties to this Agreement without the prior written consent of all other parties to this Agreement, and any purported assignment without such consent shall be void.

12. Third Party Beneficiaries. JMB shall contract with its affiliate to provide the services required under this Agreement and shall specify in such Agreement that C3 is a third-party beneficiary of such Agreement. Other than as set out herein, none of the provisions of this Agreement or any document contemplated by this Agreement is intended to grant any right or benefit to any other person or entity.

13. Amendment. Any waiver, amendment, modification or supplement of or to any term or condition of this Agreement shall be effective only if in writing and signed by all parties hereto, and the parties to this Agreement waive the right to amend the provisions of this Section orally.

14. Governing Law. This Agreement shall be governed by the laws of the State of North Carolina without regard to conflicts of laws principles.

15. Jurisdiction: Service of Process. Each of the parties to this Agreement submits to the jurisdiction of any state or federal court sitting in North Carolina any action or proceeding arising out of or relating to this Agreement and agrees that all claims in respect of such action or proceeding may be heard and determined in any such court. Each of the parties to this Agreement waives any defense of inconvenient forum to the maintenance of any action or proceeding so brought and waives any bond, surety or other security that may be required of any party with respect thereto. Any party may make service on any other party by sending or delivering a copy of the process to the party to be served at the address and in a manner provided in Section 7 above; provided, however, that nothing in this Section 13 will affect the right of any party to serve legal process in any other manner permitted by law or at equity. Each party agrees that a final judgment in any action or proceeding so brought shall be conclusive and may be enforced by suit on the judgment or in any other manner provided by law or at equity.

16. Resolution of Disputes.

(a) No party to this Agreement shall institute a proceeding in any court or administrative agency to resolve a dispute between the parties arising out of or related to this Agreement before that party has sought to resolve the dispute through direct negotiation with the other party. If the dispute is not resolved within three weeks after a demand for direct negotiation, the parties shall seek relief through arbitration in North Carolina administered by the American Arbitration Association under its commercial arbitration rules and procedures then in effect. The arbitrator(s) shall base its/their award on applicable laws and judicial precedent and include in such award a statement of the reasons upon which the award is based. Judgment on the award rendered by the arbitrator(s) may be entered in any court having jurisdiction thereof. The arbitrator(s) shall in no event make any damage award that contravenes subsection d. of this Section 14, but shall order the losing party to pay all of the charges of the American Arbitration Association for such arbitration and all of the prevailing party's costs of the arbitration, including reasonable attorneys' fees.

(b) All applicable statutes of limitation and defenses based upon the passage of time shall be tolled while the procedures specified in this Section 14 are pending. The parties will take such action, if any, required to effectuate such tolling.

(c) Each party is required to continue to perform its obligations under this Agreement pending final resolution of any dispute arising out of or relating to this Agreement.

(d) In no event shall any party hereunder be liable to any other party for incidental, consequential or special loss or damages of any kind, however caused, or any punitive damages.

17. Severability. In the event that any provision in this Agreement is determined to be invalid, illegal or unenforceable in any respect, the remaining provisions of this Agreement will not be in any way impaired, and the illegal, invalid or unenforceable provision will be fully severed from this Agreement and there will be automatically added a replacement provision as similar in terms and intent to such severed provision as may be legal, valid and enforceable.

18. Entire Agreement. This Agreement and the Exhibits hereto constitute the entire contract between the parties to this Agreement pertaining to the subject matter of this Agreement, and supersede all prior and contemporaneous agreements and understandings between the parties with respect to such subject matter. Notwithstanding the foregoing, the parties agree and acknowledge that they continue to be bound by all terms and provisions of that certain Confidential Disclosure Agreement, dated as of October 10, 1996, and by its execution and delivery of this Agreement JMB hereby becomes a party to and agrees to be bound by the terms of such agreement as a "Promisor" thereunder.

19. Force Majeure.

(a) Neither party shall be liable for delay or failure of performance of this Agreement if the delay or failure is caused by acts of God, war, fire, embargo, strikes or other labor trouble, governmental regulations or actions or any cause beyond the control of the parties.

(b) If a delay or failure of performance caused by force majeure shall continue for a period of more than three (3) months, each of C3 and JMB shall have the right to terminate this Agreement immediately upon written notice to the other.

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

C3, INC.

By: /s/ Jeff N. Hunter

Name: Jeff N. Hunter

Title: President

JOHN M. BACHMAN, INC.

By: /s/ John M. Bachman

Name: John M. Bachman

Title: President

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

EXHIBIT A

SPECIFICATIONS

Stones must be cut according to the engineered cutting diagram supplied by C3.

The diagram specifies all angles and indexes. These angles and indexes will produce a stone that has the following:

ROUND BRILLIANT DESIGN CUTTING SPECIFICATION:

- Table width ***** of stone width
- Pavilion depth measured from girdle to cutlet is ***** of stone width
- Crown depth measured from girdle to table is *****
- Girdle thickness is thin to medium per diamond standards
- Girdle should be round and polished
- The P2 facets should be cut to cause the P1 facets to meet point ***** from girdle to culet.

Other shapes are required to be cut from time to time. For each shape, the cutting requirement will be communicated to JMB by C3 either by engineered diagram or specified angles and indexes.

FINISH SPECIFICATION:

All stones must meet the standards of *****. The finish will show no evidence of polish lines when viewed in a microscope using ***** power. This specification will apply to all shapes cut.

GENERAL:

- - Meet points must not show any undercutting or over cutting *****.
- - Crown depth, Pavilion depth should be within plus or minus *****.
- - This specification will apply to all shapes cut.
- - All shape engineered diagrams may change from time to time.

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

EXHIBIT B

1st. Sept. 1997

Cutting Charges ***** (Using *****)

Small Sizes	Size in mm.	US $ per piece
Round	*****	*****
	*****	*****
Oval	*****	*****
	*****	*****
	*****	*****
Pear	*****	*****
	*****	*****
	*****	*****
Marquise	*****	*****
	*****	*****
	*****	*****
	*****	*****
Trilliant	*****	*****
Heart	*****	*****
Princess	*****	*****
Square	*****	*****
	*****	*****

Large Sizes	Size in mm.	US $ per Carat
Round	*****	*****
Oval	*****	*****
Marquise	*****	*****
Heart	*****	*****
Trillion	*****	*****

For small orders we charge ***** for our import and re-export expenses. For cutting-orders of over ***** we absorb these expenses. Note: small stones we charge per piece, larger stones per carat.

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

EXHIBIT C

PRODUCTION VOLUMES

For the Month of:	Volume of:*
November 1997	*****
December 1997	*****
January 1998	*****
February 1998	*****
March 1998	*****
April 1998	*****
May 1998	*****
June 1998	*****
July 1998	*****
August 1998	*****
September 1998	*****
October 1998	*****
November 1998	*****
December 1998	*****

*Volumes are finished pieces per month.

EXHIBIT 10.21

THE REGISTRANT HAS REQUESTED THAT CERTAIN PORTIONS OF THIS EXHIBIT BE GIVEN CONFIDENTIAL TREATMENT. AN UNREDACTED VERSION OF THIS EXHIBIT HAS BEEN FILED WITH THE COMMISSION.

SUPPLY AGREEMENT, DATED SEPTEMBER 12, 1997, BETWEEN QMD, A DIVISION OF R&M ELECTRONICS, INC., AND C3, INC.

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

SUPPLY AGREEMENT

This Supply Agreement (this "Agreement") is dated this 12th day of September, 1997, between QMD, A DIVISION OF R&M ELECTRONICS, INC. ("QMD") and C3, Inc. ("Customer").

Statement of Purpose

Customer is engaged in the manufacture, marketing, distribution and sale of the gemological testing instrumentation known as the Model 590 (the "Product"). The parties desire to enter into this Agreement to formalize the terms upon which QMD will manufacture the Product and supply it to Customer and upon which Customer will purchase the Product from QMD.

Therefore, in consideration of the foregoing and other good and valuable consideration the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows.

1. Supply of the Product. During the term of this Agreement, QMD agrees to manufacture and supply, and Customer agrees to purchase, the Product pursuant to the terms of this Agreement.

2. Term of Agreement. The initial term of the Agreement (the "Initial Term") shall be one year; provided that the Agreement will continue automatically thereafter for calendar year terms until either party delivers to the other written notice at least 90 days prior to the end of the then current term of the notifying party's desire to terminate the Agreement as of the end of the then current term. At the end of the Initial Term, the parties may agree in writing to new quantity and/or price terms; provided, however, that if no new quantity and/or price terms are agreed upon by the parties, the quantity and/or price terms in effect during the Initial Term pursuant to Paragraph 3 and Paragraph 4 of this Agreement shall remain in effect until the parties agree in writing to new terms.

3. Quantity. QMD agrees that for the Initial Term it will manufacture and supply to Customer a minimum of ***** Products per year, and Customer agrees to purchase the same. QMD further agrees to use its best efforts to manufacture additional Products upon the submission by Customer of a purchase order or purchase orders for such additional Products.

4. Price. Customer agrees to pay QMD ***** for each Product. This price shall remain firm for the Initial Term; provided, however, that if the price of any of the components provided by QMD pursuant to Paragraph 5 changes (increases or decreases), the price paid by Customer for the Product may be adjusted to reflect such changes.

5. Supply of Component Parts. All component parts used in the manufacture of the Model 590 shall be supplied by QMD; except that Customer shall provide to QMD, in amounts sufficient to comply with Paragraph 3 of the attached Terms and Conditions, (i) the chip manufactured by Cree, Inc. and used in the Product and (ii) the casing for the Product.

6. Terms and Conditions. The purchase of the Products by Customer shall be governed by the terms and conditions attached to this Agreement. These terms and conditions may be superseded only by written agreement signed by both C3 and QMD.

7. Counterparts. This Agreement may be executed in one or more counterparts, each of which will be deemed an original, but all of which together shall constitute one and the same instrument.

8. Assignment. This Agreement shall be binding upon and inure to the benefit of the parties to this Agreement and their respective successors and permitted assigns. Neither this Agreement nor any of the rights, interest or obligations hereunder shall be assigned by any of the parties to this Agreement without the prior written consent of all other parties to this Agreement, and any purported assignment without such consent shall be void.

9. Third Party Beneficiaries. None of the provisions of this Agreement or any document contemplated by this Agreement is intended to grant any right or benefit to any person or entity which is not a party to this Agreement.

10. Amendment. Any waiver, amendment, modification or supplement of or to any term or condition of this Agreement shall be effective only if in writing and signed by all parties hereto, and the parties to this Agreement waive the right to amend the provisions of this Agreement orally.

11. Governing Law. This Agreement shall be governed by the laws of the State of North Carolina without regard to conflicts of laws principles.

12. Severability. In the event that any provision in this Agreement is determined to be invalid, illegal or unenforceable in any respect, the remaining provisions of this Agreement will not be in any way impaired, and the illegal, invalid or unenforceable provision will be fully severed from this Agreement and there will be automatically added a replacement provision as similar in terms and intent to such severed provision as may be legal, valid and enforceable.

13. Entire Agreement. This Agreement and the attached Terms and Conditions constitute the entire contract between the parties to this Agreement pertaining to the subject matter of this Agreement, and supersede all prior and contemporaneous agreements and understandings between the parties with respect to such subject matter.

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

C3, INC.

By: /s/Jeff N. Hunter

Name: Jeff N. Hunter
Title: President

QMD, A DIVISION OF
R&M ELECTRONICS, INC.

By: /s/Richard A. O'Bey

Name: Richard A. O'Bey
Title: President

QMD - TERMS AND CONDITIONS

The following Terms and Conditions apply to all Purchase Orders received by QMD, A DIVISION OF R&M ELECTRONICS, INC. (hereinafter "QMD") from C3, Inc. (hereinafter "Customer") for the gemological testing instrument known as the Model 590 (the "Product"). These Terms and Conditions may be superseded only by written agreements signed by both C3 and QMD.

Terms and Conditions.

1. Customer will issue a purchase order for delivery of the Product covering a minimum of 90 days deliveries. Products purchased are non-cancelable and non-reschedulable other than as provided in paragraph 5.

2. Turnkey Warranty: QMD will repair or replace, at its option, any Product found defective in materials (other than materials supplied by Customer) or workmanship (IPC-610B Class 2) within ninety (90) days after delivery to Customer. Customer will return any Product found defective under this warranty to QMD freight prepaid.

QMD MAKES NO OTHER WARRANTIES OR REPRESENTATIONS OF ANY KIND, WHETHER EXPRESS OR IMPLIED, INCLUDING BUT NOT LIMITED TO MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, OR ANY OTHER WARRANTY WITH RESPECT TO THE GOODS OR SERVICES PROVIDED HEREUNDER, WHETHER USED ALONE OR IN CONNECTION WITH ANY OTHER EQUIPMENT OR PRODUCT. CUSTOMER'S SOLE AND EXCLUSIVE REMEDY, AND THE LIMIT OF QMD'S LIABILITY FROM LOSS FROM ANY CAUSE WHATSOEVER SHALL IN NO EVENT EXCEED THE PURCHASE PRICE OF THE GOODS OR SERVICES AS TO WHICH A CLAIM IS MADE. IN NO EVENT SHALL QMD BE LIABLE FOR ANY DAMAGES RESULTING FROM CUSTOMER'S INABILITY OR FAILURE TO PERFORM WORK, OR FOR ANY LOST PROFITS OR OTHER CONSEQUENTIAL EXEMPLARY OR SPECIAL DAMAGES RELATING IN WHOLE OR IN PART TO CUSTOMER'S RIGHTS UNDER THIS AGREEMENT (EVEN IF QMD HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES), OR FOR ANY OTHER INCIDENTAL OR CONSEQUENTIAL DAMAGES, WHETHER CUSTOMER'S CLAIMS ARE BASED UPON CONTRACT, NEGLIGENCE OR OTHERWISE.

3. All material supplied by the Customer will be of acceptable quality and will be provided prior to the beginning of the month in which the material is required for assembly of products. Customer will provide a reasonable oversupply (up to 3%) of these parts to cover manufacturing fallout. All unused components will be returned (or retained for future production) at your request including any damaged parts.

4. Completed Products will be delivered FOB Raleigh, NC.

5. QMD will cancel or reschedule Products to be delivered under the following conditions:

   a. The Product orders to be canceled or rescheduled are not due to be delivered within 90 days of receipt of written notice.

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

b. Customer agrees to pay to QMD all reasonable costs of cancellation and rescheduling including:

1. All restocking charges required by vendors.
2. All return freight and repackaging costs.
3. The cost of all material that cannot be returned to the vendor for credit. Upon receipt of Customer's payment for this material, QMD will make available all material that cannot be returned for disposition by Customer.
4. Material Management fees of 12% of the purchase price for all material canceled or returned to the vendor.
5. All expedited freight costs if required by rescheduling.

c. The material for rescheduled Products can be procured and the products can be manufactured by the rescheduled delivery date.

6. The terms of payment for the Products shipped are 1% 10 net 30 days. Amounts due beyond 35 days will be assessed interest at the highest rate allowed by law as a deterrent to late payment. Customer further agrees to pay all reasonable expenses, including court costs, legal and administrative expenses, and attorney fees paid or incurred by QMD in endeavoring to collect delinquent amounts due and payable from Customer.

7. Neither party shall institute a proceeding in any court or administrative agency to resolve a dispute between the parties arising out of or related to their agreements before that party has sought to resolve the dispute through direct negotiation with the other party. If the dispute is not resolved within three weeks after a demand for direct negotiation, the parties shall seek relief through arbitration in Raleigh, North Carolina administered by the American Arbitration Association under its commercial arbitration rules and procedures then in effect. Judgment on the award rendered by the arbitrator(s) may be entered in any court having jurisdiction thereof.

8. Lead-time on follow on orders based on QMD's fax to K. Flynn, C3 9/09/97.

1. Eight weeks lead-time based on a ***** minimum per tester to purchase power packs from a distributor, rather than the manufacturer's 12 week lead time.

2. Order power packs from manufacturers and stock a safety reserve to cover the difference in lead time.

3. The lead time will be 8 weeks with action taken on item 1 or 2 above.

Our agreement to these Terms and Conditions is evidenced by the signature of a duly authorized officer below:

C3, INC.		QMD, A DIVISION OF R&M ELECTRONICS, INC.	
Name:	Jeff N. Hunter	Name:	Richard A. O'Bey
Title:	President	Title:	President
Date:	9/12/97	Date:	9/15/97

EXHIBIT 23.2

INDEPENDENT AUDITORS' CONSENT

We consent to the use in this Registration Statement of C3, Inc. on Form S-1 of our report dated March 11, 1997, except for Note 9, as to which the date is September 25, 1997, appearing in the Prospectus, which is part of this Registration Statement, and to the reference to us under the headings "Selected Financial Data" and "Experts" in such Prospectus.

/s/ DELOITTE & TOUCHE LLP
DELOITTE & TOUCHE LLP

Raleigh, North Carolina
September 30, 1997

EXHIBIT 23.3

September 25, 1997

C3, Inc.
3800 Gateway Boulevard
Suite 310
Morrisville, North Carolina 27560
Attention: President

Dear Sir:

It is my understanding that I will be nominated for election as a director of C3, Inc., a North Carolina corporation (the "Company"), at the next meeting of the shareholders of the Company. I hereby consent to my nomination as a director of the Company and agree to serve and act as a director if elected. Further, I expressly consent to be named as a director nominee in any registration statement or other document filed in accordance with the Securities Act of 1933, as amended, Securities Exchange Act of 1934, as amended, and any applicable state securities law.

Sincerely,

/s/ Kurt Leutzinger

Kurt Leutzinger

EXHIBIT 23.4

September 25, 1997

C3, Inc.
3800 Gateway Boulevard
Suite 310
Morrisville, North Carolina 27560
Attention: President

Dear Sir:

It is my understanding that pursuant to an agreement between the Company and General Electric Pension Trust, I will be nominated for election as a director of C3, Inc., a North Carolina corporation (the "Company"), at the next meeting of the shareholders of the Company. I hereby consent to my nomination as a director of the Company and agree to serve and act as a director if elected. Further, I expressly consent to be named as a director nominee in any registration statement or other document filed in accordance with the Securities Act of 1933, as amended, Securities Exchange Act of 1934, as amended, and any applicable state securities law.

Sincerely,

/s/ David B. Stewart

David B. Stewart

EXHIBIT 23.5

September 25, 1997

C3, Inc.
3800 Gateway Boulevard
Suite 310
Morrisville, North Carolina 27560
Attention: President

Dear Sir:

It is my understanding that I will be nominated for election as a director of C3, Inc., a North Carolina corporation (the "Company"), at the next meeting of the shareholders of the Company. I hereby consent to my nomination as a director of the Company and agree to serve and act as a director if elected. Further, I expressly consent to be named as a director nominee in any registration statement or other document filed in accordance with the Securities Act of 1933, as amended, Securities Exchange Act of 1934, as amended, and any applicable state securities law.

Sincerely,

/s/ Ollin B. Sykes

Ollin B. Sykes

YEAR	6-MOS	
	DEC-31-1996	DEC-31-1997
	JAN-01-1996	JAN-01-1997
	DEC-31-1996	JUN-30-1997
	1,167,458	5,538,099
	0	0
	0	0
	0	0
	0	0
	1,174,458	5,538,099
	14,081	53,955
	2,352	0
	1,226,134	5,661,920
	12,855	109,874
	0	0
	0	0
	593,271	5,574,647
	1,029,803	1,095,803
	(409,795)	(1,118,404)
1,226,134	5,661,920	
	0	0
	0	0
	0	0
	0	0
	286,684	505,831
	0	0
	0	0
	(382,608)	(708,609)
	0	0
	(382,608)	(708,609)
	0	0
	0	0
	0	0
	(382,608)	(708,609)
	0	0
	(0.14)	(0.17)