



CHARLES & COLVARD™

To our valued shareholders,

I hope this letter finds you well during these unprecedented times. The past six months have been challenging in so many ways due to the COVID-19 pandemic. I stepped into the role of President and CEO in the midst of the coronavirus crisis and had to take immediate action to fortify our foundation in order to weather the immediate effects of the situation and to stabilize the business.

My first initiative was to right-size the business across all functional areas from personnel to expenses to contracts to obligations. We had to contract in order to expand.

Next, we secured and closed on a \$965,000 loan pursuant to the Paycheck Protection Program to help absorb the impact COVID-19 had on our cash position related to salaries and expenses.

We also restructured our supply agreement for premium Silicon Carbide (SiC) material that allowed us to better balance our raw material supply against demand over the next five years.

Once these critical elements of our foundation were in place, we were able to focus on our core strengths and make data-driven decisions to generate revenue.

Despite the impact of COVID-19, we reported net sales of \$29.2 million for the fiscal year ended June 30, 2020. In the fourth fiscal quarter, we were able to generate positive operating cash flow, ending fiscal 2020 with a strong \$14.6 million in cash.

Before all of this, our teams were able to accomplish key initiatives that are important to the overall business. The merchandising team brought forward a beautiful assortment of platinum jewelry and introduced lab-created colored sapphires and

rubies via our drop-ship strategic partners. Additionally, we continued to elevate our patented Signature Collection containing our iconic floret logo with new designs.

We launched our Virtual Bridal Ring Consultation service which proved to be an instrumental element of customer engagement, especially during a time when most people were home and unable to shop in person.

Within our Online Channels segment, we added iconic retailer Hudson's Bay to our esteemed list of strategic partners and further expanded the selection of Charles & Colvard fine jewelry with multiple drop-ship retail partners. Our Traditional segment represented 43% of our business in fiscal 2020, where we were able to continue to sell and elevate our premium Forever One™ brand. Also in the Traditional segment, we launched additional shapes and sizes in our Moissanite by Charles & Colvard® product offering in order to support our wholesale distribution customers domestically and internationally.

In the third fiscal quarter of 2020, Charles & Colvard adjusted inventory carrying costs with the write-off of approximately \$5.3 million of inventory net realizable value associated with the Company's legacy SiC material.

During fiscal 2020, we launched our "Sparkle That Saves Lives" campaign, which allowed us to donate more than \$20,000 to support the development of vaccines and treatments for COVID-19.

Heading into our fiscal 2021, I'm encouraged by the momentum of what we call the "lab grown movement" in the jewelry industry. Over the past year, awareness of lab created gems has grown and the demand has increased. The expanded availability of gem quality lab grown diamonds has sparked changes within the jewelry world and in the minds of consumers.

This shift has further bolstered our core Forever One moissanite business. Our ability to elevate this premium moissanite brand has helped us differentiate ourselves further from lower quality moissanite in the market.

On September 14, 2020, we launched Caydia™ lab grown diamonds as a complement to our Forever One moissanite offering. We believe this product expansion enables us to have a broader reach and larger voice in the lab grown gemstone conversation within the fine jewelry industry.

Looking forward, we plan to execute new strategies focused on driving shareholder value.

Our four key initiatives in fiscal 2021 include: expanding our digital presence, enhancing customer engagement, regaining focus on product offerings, and concentrating on disciplined growth.

We plan to be more visible to our customers on social media platforms and on our website through live streaming and live events. This will allow us to showcase our product in real time.

We intend to continue to scale our Virtual Consultation Services for the holiday season. We want to capitalize on what has proven to be a viable revenue driver. And, we're planning to develop a digital ambassadors program to incentivize our loyal customers to promote Charles & Colvard to their broader communities.

We intend to increase overall brand awareness as we continue to elevate our exceptional Forever One moissanite brand and patented Signature Collection. By offering our customers an additional premium lab grown gem offering with Caydia, we can reach a broader audience, specifically one that is predisposed to diamond jewelry.

As for disciplined growth, we plan to continue to engage in strategic partnerships within the industry and expand our omnichannel reach by securing additional retail partners. Our recent launch into 50 Macy's retail stores is an excellent example of how we are offering our customers more opportunities to experience our products firsthand.

We truly believe that fine jewelry can be accessible, beautiful, and conscientious. We have a long-standing commitment to and passion for this endeavor, having just

celebrated the 25th anniversary of Charles & Colvard in June 2020. We feel that the Company is better positioned now than ever before. As the new President and CEO, I'm committed to delivering financial performance through operational excellence and timely strategic actions to enable Charles & Colvard to become a globally recognized fine jewelry brand with quality products and beautiful designs.

A handwritten signature in black ink, appearing to read 'Don O'Connell', with a large, stylized initial 'D'.

Don O'Connell
President & CEO

Cautionary Note:

This document contains forward-looking statements relating to the company's business. Our business is subject to numerous risks and uncertainties, which could cause actual results to differ materially from those expressed or implied by these forward-looking statements. We refer you to our Annual Report on Form 10-K for the fiscal year ended June 30, 2020 for a discussion of such risks and uncertainties.