SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

# FORM 10-Q

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

For the quarterly period ended March 31, 2000

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

For the transition period from ______________to________________

COMMISSION FILE NUMBER: 000-23329

C3, Inc.
(Exact name of Registrant as specified in its charter)

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

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

3800 Gateway Boulevard, Suite 311, Morrisville, N.C. 27560
(Address of principal executive offices)

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

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

Yes X   No ___

As of May 8, 2000 there were 7,119,471 shares of the Registrant's Common Stock, no par value per share, outstanding.

C3, Inc. dba Charles & Colvard
INDEX

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

C3, Inc. dba Charles & Colvard
Condensed Statements Of Operations
(Unaudited)

| | Three Months Ended March 31, 2000 | Three Months Ended March 31, 1999 |
|---|---|---|
| Net sales | $ 3,011,250 | $ 3,229,464 |
| Cost of goods | 1,376,748 | 2,095,578 |
| Gross profit | 1,634,502 | 1,133,886 |
| Operating expenses: | | |
| Marketing and sales | 2,456,176 | 603,304 |
| General and administrative | 989,329 | 798,934 |
| Research and development | 439,632 | 803,056 |
| Total operating expenses | 3,885,137 | 2,205,294 |
| Operating loss | (2,250,635) | (1,071,408) |
| Interest income, net | 140,474 | 364,977 |
| Net loss | $ (2,110,161) | $ (706,431) |
| Basic and diluted net loss per share | $ (0.30) | $ (0.10) |
| Weighted-average common shares, basic and diluted | 7,109,304 | 6,997,726 |

See Notes to Condensed Financial Statements.

C3, Inc. dba Charles & Colvard
Condensed Balance Sheets

| | March 31, 2000 | December 31, 1999 |
|---|---|---|
| ASSETS | (Unaudited) | |
| Current Assets: | | |
| Cash and equivalents | $ 7,451,580 | $ 13,161,665 |
| Accounts receivable, net | 876,337 | 1,331,528 |
| Interest receivable | 43,845 | 74,999 |
| Inventories | 17,775,598 | 14,767,888 |
| Prepaid expenses and other assets | 406,354 | 659,821 |
| Total current assets | 26,553,714 | 29,995,901 |
| Equipment, net | 6,082,058 | 6,292,221 |
| Patent and license rights, net | 473,173 | 492,780 |
| Total assets | $ 33,108,945 | $ 36,780,902 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current Liabilities: | | |
| Accounts payable: | | |
| Cree, Inc. | $ 998,002 | $ 2,305,218 |
| Other | 346,733 | 627,704 |
| Accrued expenses | 205,853 | 235,107 |
| Deferred revenue | 22,815 | 118,730 |
| Total current liabilities | 1,573,403 | 3,286,759 |
| Commitments | | |
| Shareholders' Equity: | | |
| Common stock | 48,979,750 | 48,757,702 |
| Additional paid-in capital - stock options | 1,881,078 | 1,951,566 |
| Accumulated deficit | (19,325,286) | (17,215,125) |
| Total shareholders' equity | 31,535,542 | 33,494,143 |
| | $ 33,108,945 | $ 36,780,902 |

See Notes to Condensed Financial Statements

C3, Inc. dba Charles & Colvard
Condensed Statements Of Cash Flows
(Unaudited)

| | Three Months Ended March 31, 2000 | 1999 |
|---|---|---|
| OPERATING ACTIVITIES: | | |
| Net loss | $ (2,110,161) | $ (706,431) |
| Adjustments: | | |
| Depreciation and amortization | 256,831 | 130,467 |
| Stock option compensation | 52,666 | 68,457 |
| Loss on disposal of long-term assets | 835 | -- |
| Change in operating assets and liabilities: | | |
| Net change in assets | (2,267,898) | (1,023,506) |
| Net change in liabilities | (1,713,356) | (107,572) |
| Net cash used in operating activities | (5,781,083) | (1,638,585) |
| INVESTING ACTIVITIES: | | |
| Purchase of equipment | (5,127) | (77,744) |
| Patent and license rights costs | (22,769) | (13,415) |
| Net cash used in investing activities | (27,896) | (91,159) |
| FINANCING ACTIVITIES: | | |
| Stock options exercised | 98,894 | 30,558 |
| Net cash provided by financing activities | 98,894 | 30,558 |
| Net change in cash and equivalents | (5,710,085) | (1,699,186) |
| Cash and equivalents, beginning of period | 13,161,665 | 32,004,045 |
| Cash and equivalents, end of period | $ 7,451,580 | $ 30,304,859 |

See Notes to Condensed Financial Statements.

C3, Inc. dba Charles & Colvard
Notes To Condensed Financial Statements
(Unaudited)

## 1. BASIS OF PRESENTATION

The accompanying unaudited financial statements have been prepared in conformity with generally accepted accounting principles for interim financial information. However, certain information or footnote disclosures normally included in complete financial statements prepared in accordance with generally accepted accounting principles have been condensed, or omitted, pursuant to the rules and regulations of the Securities and Exchange Commission. In the opinion of management, the financial statements include all normal recurring adjustments which are necessary for the fair presentation of the results of the interim periods presented. Interim results are not necessarily indicative of results for the year. These financial statements should be read in conjunction with the Company's audited financial statements for the year ended December 31, 1999, as set forth in the Company's Form 10-K, filed with the Securities and Exchange Commission on March 27, 2000.

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

The ability of the Company to successfully develop, manufacture, and market its products is dependent on many factors, including obtaining funds necessary to sustain operations. The Company does not currently have committed capital resources to fund its desired level of expenditures on its planned timetable. To continue pursuing its planned strategy, the Company believes that it will be required to seek additional capital resources during 2000. Management has initiated actions to ensure that the necessary funds will be available on a timely basis. During the first quarter of 2000, the Company has implemented a new domestic distribution strategy that, together with a continuation of its global branding strategy which commenced in the fourth quarter of 1999, is designed to substantially increase the sales volume of Charles & Colvard created moissanite and to allow the Company to slow the growth of inventories. Also, as discussed in Note 5, the Company has entered into an agreement with Cree to sell its crystal growth equipment to Cree for $5 million. In addition, the Company has engaged an investment banking firm to assist the Company in its capital raising efforts. If the Company is not able to secure capital resources on terms acceptable to the Company, it will be necessary for the Company to conserve cash by decreasing advertising expenditures, deferring or decreasing other operating expenditures and attempting to renegotiate its agreements with Cree. There can be no assurance that the Company will be able to secure the required capital resources to execute its new domestic distribution strategy or that its new domestic distribution strategy will be successful.

## 2. INVENTORIES

Inventories are stated at the lower of cost or market determined on a first in, first out basis. Test instruments are shown net of a reserve for excess inventory of approximately $242,000 at March 31, 2000, and December 31, 1999.

| | March 31, 2000 | December 31, 1999 |
|---|---|---|
| Moissanite | | |
| Raw materials | $ 4,892 | $ 371,843 |
| Work-in-process | 6,286,951 | 5,779,326 |
| Finished goods | 11,064,892 | 8,127,119 |
| | 17,356,735 | 14,278,288 |
| Test Instruments | 418,863 | 489,600 |
| Total Inventory | $ 17,775,598 | $ 14,767,888 |

## 3. STOCK BASED COMPENSATION

During the quarter ended March 31, 2000, in accordance with Accounting Principles Board Opinion No. 25, the Company recorded compensation expense of $52,666 relating to stock options. Compensation expense related to stock options for the quarter ended March 31, 1999 was $68,457. This compensation expense is recorded in general and administrative expense in the statements of operations.

## 4. NEWLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

## 5. SUBSEQUENT EVENT

In May 2000, the Company has agreed to sell its crystal growth equipment to Cree, Inc. for $5 million. This transaction will result in a loss on disposal of fixed assets of approximately $125,000 in the second quarter of 2000. The purchase price will be recorded as an account receivable and be payable as a credit against future invoices for the purchase of crystals from Cree, with any remaining balance due in full by June 30, 2001.

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

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements represent the Company's judgment on future events. Because the Company is in the early stages of the establishment, by Cree, Inc. ("Cree"), the Company's key supplier, of manufacturing processes and capacity and of building the Company's own distribution channels and has not yet engaged in significant revenue-producing activities, the Company is subject to risks and uncertainties that could cause the Company's actual performance and results to differ materially from those projected or discussed herein. These and other risks and uncertainties are described under the heading "Business Risks" in the Company's Form 10-K for the year ended December 31, 1999, which was filed with the Securities and Exchange Commission on March 27, 2000. These risks and uncertainties could cause actual results and developments to be materially different from those expressed or implied by any of the forward-looking statements included herein.

OVERVIEW

The Company manufactures, markets and distributes Charles & Colvard created moissanite jewels (hereinafter referred to as moissanite or moissanite jewels) for sale in the worldwide jewelry market. Moissanite, also known by its chemical name, silicon carbide (SiC), is a rare, naturally occurring mineral found primarily in meteorites. As the sole manufacturer of scientifically-made moissanite jewels, the Company is creating a unique brand image which positions moissanite as a jewel in its own right, distinct from all other jewels based on its fire, brilliance, luster, durability and rarity.

From its inception in June 1995 through June 30, 1998, the Company was a development stage enterprise that devoted its resources to fund research and development of colorless, scientifically made moissanite jewels. At the same time, the Company assembled a management team, conducted market research and developed its strategic business plans. The Company began shipping moissanite to authorized retail jewelers in Atlanta and Miami/Ft. Lauderdale during the second quarter of 1998. At that time it launched limited consumer-focused advertising and promotion activities in those areas. In addition, the Company entered into exclusive distribution agreements with a number of international distributors.

Through the first half of 1999, the Company limited its efforts to expand the distribution of moissanite jewels as a result of limited product availability and the lack of confidence the Company had regarding the quality of the SiC crystals it was receiving. Late in the second quarter, the Company began to receive indications that the quality of the SiC crystals it was receiving was improving rapidly. The rate of improvement in the quality of the SiC crystals continued to accelerate through the end of 1999, far exceeding the Company's expectations. At the same time, the Company experienced a decline in shipments of moissanite jewels during the third quarter as a result of a slower than expected rate of adding retailers domestically, lack of targeted retailer-driven marketing programs abroad, and poor overall jewelry market performance in certain international markets. The improved supply of SiC crystals along with the decrease in sales led to a significant increase in inventories of moissanite jewels. In December 1999, the Company and Cree agreed to reschedule approximately 50% of the expected shipments of SiC crystals from Cree to the second half of 2000 from the first half of 2000.

With the improvements in the supply of salable moissanite jewels, the Company launched its strategic global marketing program in the fourth quarter of 1999 to spur consumer awareness of this new category of jewel. In addition, in March 2000, the Company entered into distribution agreements with Stuller Settings, Inc. ("Stuller") and Rio Grande, two of the largest suppliers of jewelry-related products to the jewelry industry, for the North American distribution of moissanite. The Company has also sought and has entered into several agreements with domestic jewelry manufacturers. The Company's decision to enter into agreements with Stuller, Rio Grande and jewelry manufacturers is intended to rapidly increase the introduction of moissanite into the domestic jewelry market.

As discussed below, the shift in the Company's domestic distribution strategy may affect the Company's historical relationships between revenues and expenses as well as the Company's liquidity and capital requirements.

RESULTS OF OPERATIONS

THREE MONTHS ENDED MARCH 31, 2000 COMPARED WITH THREE MONTHS ENDED MARCH 31, 1999.

Net sales were $3,011,250 for the three months ended March 31, 2000 compared to $3,229,464 for the three months ended March 31, 1999, a decrease of $218,214 or 6.8%. The decrease resulted from a reduction in the average selling price of moissanite jewels as the Company began to experience the effects of the volume purchase discounts offered to the Company's new large domestic distributors partially offset by increased shipments. Shipments of moissanite jewels increased in the first quarter of 2000 to approximately 15,000 carats from 14,400 carats in the first quarter of 1999. As our new large distributors begin their marketing efforts, the Company expects carat shipments to dramatically increase. However, the Company does not expect to see a very significant impact in volumes until, at earliest, the third quarter of 2000. As sales to the domestic distributors become a larger percentage of total sales, the Company expects the average selling price to drop in the second quarter and beyond.

The Company's gross profit margin was 54.3% for the three months ended March 31, 2000 compared to 35.1% for the three months ended March 31, 1999. The increase resulted from higher yields of moissanite jewels from SiC crystals purchased from Cree, thereby lowering the cost per carat. Gross margins are expected to vary over the next few quarters as the yield of salable jewels from each crystal fluctuates and as the Company's average selling price per carat decreases due to the volume discounts offered to the Company's large distributors. The Company expects margins to decrease in the short-term and, as yields improve, increase gradually in the long-term.

Marketing and sales expenses were $2,456,176 for the three months ended March 31, 2000 compared to $603,304 for the three months ended March 31, 1999, an increase of $1,852,872 or 307.1%. The increase was due primarily to the continued execution of the strategic global marketing program launched in the fourth quarter of 1999, as well as increased compensation costs. The Company has currently budgeted approximately $4.5 million for advertising and marketing activities for the remainder of 2000.

General and administrative expenses were $989,329 for the three months ended March 31, 2000 compared to $798,934 for the three months ended March 31, 1999, an increase of $190,395 or 23.8%. The increase resulted primarily from an increase in the Company's allowance for uncollectable accounts, increased rent on the Company's expanded facility and increased insurance and taxes on the Company's increased fixed assets.

Research and development expenses were $439,632 for the three months ended March 31, 2000 compared to $803,056 for the three months ended March 31, 1999, a decrease of $363,424 or 45.3%. The decrease resulted primarily from cost savings related to the reduction of development efforts effective September 1, 1999, from a funding level of $240,000 per month to $120,000 per month.

Net interest income was $140,474 for the three months ended March 31, 2000 compared to $364,977 for the three months ended March 31, 1999, a decrease of $224,503 or 61.5%. This decrease resulted from lower interest income earned on lower cash balances due primarily to the use of the invested proceeds from the Company's initial public offering in November 1997.

LIQUIDITY AND CAPITAL RESOURCES

The Company has financed its operations since inception primarily through the net proceeds of its initial public offering of common stock in November 1997 and, prior to such offering, through private equity sales. Net proceeds from the Company's initial public offering were $41,072,982. During the first quarter of 2000, the Company used $5,781,083 to fund operations and $27,896 to fund capital expenditures and patent expenses. At March 31, 2000, the Company had $7,451,580 of cash and cash equivalents and $24,980,311 of working capital.

The 4-year Development Agreement, as amended, between the Company and Cree requires the Company to fund a development program at Cree for $1.44 million annually through June 30, 2002. Either party may terminate the agreement if Cree does not meet the annual performance milestone or if the Company and Cree do not mutually agree on the performance milestones for the ensuing year.

The Company's new domestic distribution strategy, together with a continuation of its global branding strategy which commenced in the fourth quarter of 1999, is designed to substantially increase the sales volume of Charles & Colvard created moissanite and to allow the Company to slow the growth of inventories. The Company does not currently have committed capital resources to fund its desired level of expenditures. To continue pursuing this strategy, the Company believes that it will be required to seek additional capital resources during 2000. Therefore, the Company has engaged Scott & Stringfellow, Inc., a Virginia-based investment banking firm, to assist the Company in its capital raising activities. If the Company is not able to secure capital, it will be necessary for the Company to conserve cash by decreasing advertising expenditures, deferring or decreasing other operating expenditures and attempting to renegotiate its agreements with Cree. There can be no assurance that the Company will be able to secure the required financing to execute its new domestic distribution strategy, or, if available, that it will be available on terms acceptable to the Company. Additionally, there can be no assurance that if the Company does secure the desired capital resources that its new domestic distribution strategy will be successful.

In May 2000, the Company has agreed to sell its crystal growth equipment to Cree, Inc. for $5 million. This transaction will result in a loss on disposal of fixed assets of approximately $125,000 in the second quarter of 2000. The $5 million receivable from Cree will be reduced by future purchases from Cree, with any remaining balance due in full by June 30, 2001.

ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company believes that its exposure to market risk for changes in interest rates is not significant because the Company's investments are limited to highly liquid instruments with maturities of three months or less. At March 31, 2000 the Company has approximately $7.3 million of short-term investments classified as cash and equivalents. All of the Company's transactions with international customers and suppliers are denominated in US dollars.

PART II - OTHER INFORMATION

ITEM 5: OTHER INFORMATION

The Company announced management changes effective May 14, 2000. The Company's press release is attached as Exhibit 99 hereto.

ITEM 6: EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

| Exhibit No. | Description |
|---|---|
| 27.1 | Financial Data Schedule |
| 10.42 | Letter Agreement dated May 14, 2000 between Cree, Inc. and C3, Inc. * |
| 99 | Press Release dated May 15, 2000 |

+ Denotes a management contract or compensatory plan or arrangement.

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

(b) Report on Form 8-K

The Company did not file any reports on Form 8-K during the quarter ended March 31, 2000.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

C3, Inc.

Date: May 15, 2000

/s/ Robert S. Thomas
--------------------
Robert S. Thomas
President and Chief Operating Officer
(Principal Executive Officer)

Date: May 15, 2000

/s/ Mark W. Hahn
----------------
Mark W. Hahn
Chief Financial Officer
(Principal Financial and
Accounting Officer)

Exhibit 10.42

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

May 14, 2000

Charles & Colvard
P.O. Box 13533
Research Triangle Park, NC 27709-3533
Attn: Robert S. Thomas, President

Gentlemen:

This letter, if accepted by C3, Inc., doing business as Charles & Colvard, will serve as an agreement between Charles & Colvard and Cree, Inc. and an amendment to our December 22,1999 letter agreement according to the following terms:

1. Cree agrees to purchase and Charles & Colvard agrees to sell the ** crystal growth systems currently owned by Charles & Colvard for a total price of $5,000,000, subject to paragraphs 3 and 4 below.
   - Cree will issue a purchase order for the systems and Charles & Colvard will sign and deliver to Cree a bill of sale and assignment in mutually acceptable form transferring ownership of the systems, free of any lien or other encumbrance, on May 15, 2000.
   - Charles & Colvard will treat the $5,000,000 as a receivable and apply it against invoices from Cree received after May 15th. The purchase price will be payable as a credit against such invoices except that any balance not previously applied will become due and payable June 30, 2001. Additionally, the outstanding balance of such receivable from Cree will bear interest at an annual rate of 4.75%, accruing pursuant to Charles & Colvard's standard policy in effect from time to time.

2. Charles & Colvard will purchase the production crystals according to the pricing outlined in the December 22,1999 amendment with an additional charge per crystal delivered to Charles and Colvard as follows:

   $*** per 2" crystal
   $*** per 3" crystal

3. Charles & Colvard and Cree each acknowledge and agree that, based on the information available to them as of the date hereof, each has performed their obligations to the other under the agreements, as amended, between the parties. Concurrently with the delivery of the bill of sale and assignment under paragraph 1, Charles & Colvard will sign and deliver to Cree a mutually acceptable form of release of any claim against Cree, its directors, officers, employees or representatives, based on or arising out of any prior circumstance or event known to Charles & Colvard, excluding claims based on intentional and knowingly wrongful actions or obligations due to be performed in the future under written agreements between the parties.



4. The parties' obligations under this letter agreement are subject to the condition that the Board of Directors of Charles & Colvard approve the execution, delivery and performance of this agreement by resolution duly adopted at a meeting duly held, or by unanimous written consent in lieu of a meeting. Concurrently with the delivery of the bill of sale and assignment under paragraph 1, Charles & Colvard will deliver to Cree a certificate of its Secretary, in mutually acceptable form, certifying such approval. Each party represents and warrants to the other that the execution, delivery and performance of this letter agreement and the transactions contemplated herein have been duly and validly authorized by all necessary corporate action.

5. If Cree receives additional orders for production crystals from Charles & Colvard beyond those contemplated by the December 22, 1999 letter agreement, the companies will either negotiate a mutually agreeable delivery schedule and pricing or rely on the provisions set out in the Supply Agreement, as previously amended.

6. Except as provided above, purchases will be subject to the terms and conditions of the Supply Agreement, as previously amended, and the development program will be subject to the terms and conditions of the

Development Agreement, as previously amended.

7. The contents of this letter shall be considered 'Confidential Information' of each party subject to the provisions of Section 5 of the Supply Agreement, as previously amended.

If acceptable, please sign below and date to indicate Charles & Colvard's binding agreement to these terms.

| | |
|---|---|
| - ---------------------- | ----------------------- |
| Charles M. Swoboda | Robert S. Thomas |
| President & COO | President & COO |

This Schedule Contains Summary Financial Information Extracted From The Condensed Balance Sheet As Of March 31, 2000 And The Condensed Statement Of Operations For The Three Months Ended March 31, 2000 And Is Qualified In Its Entirety By Reference To Such Financial Statements.

3-MOS
DEC-31-2000
JAN-01-2000
MAR-31-2000
7,451,580
0
920,182
348,000
17,775,598
26,553,714
7,173,541
1,091,483
33,108,945
1,573,403
0
0
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48,979,750
(17,444,208)
33,108,945
3,011,250
3,011,250
1,376,748
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0
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0
(2,110,161)
(.30)
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EXHIBIT 99

FOR IMMEDIATE RELEASE

CONTACT: JESSICA BLUE, RICHARD FRENCH & ASSOCIATES 919-832-6300

CHARLES & COLVARD SELECTS NEW LEADERSHIP FOR THE NEXT STAGE OF MOISSANITE BRANDING PROGRAM

MORRISVILLE, N.C., May 15, 2000--Charles & Colvard (NASDAQ: CTHR), formerly C3, Inc., the sole source of moissanite--a created jewel available for use in fine jewelry--today announced the resignation of Jeff N. Hunter as chairman, chief executive officer and a director of the company effective May 14, 2000.

The board of directors has appointed Dr. Frederick A. Russ as chairman and Robert S. Thomas as acting chief executive officer, in addition to his existing duties as president. Walter J. O'Brien - former vice chairman of the board of J. Walter Thompson Worldwide and a consultant to the company since 1999 - has been appointed to fill Mr. Hunter's vacant board seat.

The board has also established an executive committee consisting of Richard G. Hartigan, Jr., Mr. O'Brien, Dr. Russ and Ollin B. Sykes to immediately engage an executive search firm and present highly qualified candidates to the full board for the position of chief executive officer. Dr. Russ will chair that committee. Mr. Hunter, a co-founder of Charles & Colvard, will serve as a consultant to the company and remains one of its largest shareholders.

Mr. Hunter, who has served as chairman and CEO since June 1996, said, "Although Charles & Colvard has made great progress during my tenure over the last four years, the board and I believe that the time has come for new leadership. We believe the company now has its production, manufacturing, branding and distribution strategies in place and is positioned to accelerate the introduction of moissanite jewels into the marketplace."

Dr. Russ, chairman, said, "Charles & Colvard appreciates Jeff's dedicated service in helping the company move from a start-up to a publicly traded company with established supply and distribution relationships and growing brand recognition. The entire board of directors has unanimous confidence in the branding strategy, new distribution model and inherent value of Charles & Colvard created moissanite. We believe that our new executive committee and acting CEO can provide effective day-to-day leadership while the company searches for the appropriate executive to become permanent CEO and work with Mr. Thomas and the rest of the management team to implement the company's growth strategies."

-more-





COMPANY SIGNS ADDENDUM AGREEMENT WITH CREE

Charles & Colvard also announced an agreement with Cree, Inc. (NASDAQ: Cree) to sell all of the crystal growth systems owned by the company to Cree for a purchase price of $5 million. The purchase price will be recorded as an account receivable and be payable as a credit against future invoices for the purchase of crystals from Cree with any remaining due and payable on June 30, 2001. Charles & Colvard will record a loss on disposal of fixed assets of approximately $125,000 in the second quarter of 2000.

Robert S. Thomas, acting CEO and president of Charles & Colvard, said, "This agreement significantly improves Charles & Colvard's liquidity and gives the company more flexibility."

Mr. Thomas continued, "This agreement with Cree is part of Charles & Colvard's financing strategy to enable the company to continue its advertising and promotional programs in order to accelerate the introduction of moissanite into the marketplace. The company is also continuing its efforts to raise additional capital through its previously announced engagement of Scott & Stringfellow."

Charles & Colvard, based in the Research Triangle Park area of North Carolina, became a public company in 1997. For more information, please access WWW.MOISSANITE.COM.

THIS PRESS RELEASE CONTAINS FORWARD-LOOKING STATEMENTS THAT RELATE TO THE COMPANY'S FUTURE PLANS AND OBJECTIVES. THESE STATEMENTS ARE SUBJECT TO NUMEROUS RISKS AND UNCERTAINTIES, INCLUDING WITHOUT LIMITATION THE LIMITED OPERATING HISTORY UPON WHICH THE COMPANY AND ITS PROSPECTS CAN BE EVALUATED, THE NEED FOR FURTHER DEVELOPMENT OF THE COMPANY'S PRODUCTS, THE COMPANY'S RELIANCE ON CREE, INC. AS A DEVELOPER AND SUPPLIER OF SILICON CARBIDE CRYSTALS, THE SMALL SIZE OF THE CURRENT MARKET FOR THE COMPANY'S PRODUCTS AND UNCERTAINTY OF MARKET ACCEPTANCE AND DEMAND FOR SUCH PRODUCTS IN THE FUTURE. THESE AND OTHER RISKS AND

UNCERTAINTIES, WHICH ARE DETAILED IN THE COMPANY'S FILINGS WITH THE SEC INCLUDING FORMS 10-K AND 10-Q, (FILED UNDER C3, INC.) COULD CAUSE ACTUAL RESULTS AND DEVELOPMENTS TO BE MATERIALLY DIFFERENT FROM THOSE EXPRESSED OR IMPLIED BY ANY OF THE FORWARD-LOOKING STATEMENTS INCLUDED IN THIS PRESS RELEASE.

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