

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 1999

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

For the transition period from _____ to _____

COMMISSION FILE NUMBER: 000-23329

C3, Inc.

(Exact name of Registrant as specified in its charter)

North Carolina

56-1928817

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

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

(Address of principal executive offices)

919-468-0399

(Registrant's telephone number, including area code)

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

Yes X No

As of May 9, 1999 there were 7,004,669 shares of the Registrant's Common Stock, no par value per share, outstanding.

C3, Inc.
INDEX

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Condensed Statements of Operations - Three Months Ended March 31, 1999 And 1998

Condensed Balance Sheets - March 31, 1999 And December 31, 1998

Condensed Statements Of Cash Flows - Three Months Ended March 31, 1999 And 1998

Notes To Condensed Financial Statements

Item 2. Management's Discussion And Analysis Of Financial Condition And Results Of Operations

Item 3. Quantitative and Qualitative Disclosures About Market Risk

PART II. OTHER INFORMATION

Item 2. Changes In Securities And Use Of Proceeds

Item 5. Other Information

Item 6. Exhibits And Reports On Form 8-K

Signatures

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

C3, Inc.
Condensed Statements Of Operations
(Unaudited)

	Three Months Ended March 31,	
	1999	1998
	-----	-----
Net sales	\$ 3,229,464	\$ 250,555
Cost of goods	2,095,578	155,076
	-----	-----
Gross profit	1,133,886	95,479
Operating expenses:		
Marketing and sales	603,304	761,136
General and administrative	798,934	627,330
Research and development	803,056	1,322,512
	-----	-----
Total operating expenses	2,205,294	2,710,978
	-----	-----
Operating loss	(1,071,408)	(2,615,499)
Interest income, net	364,977	520,495
	-----	-----
Net loss	\$ (706,431)	\$ (2,095,004)
	=====	=====
Basic and diluted net loss per share	\$ (0.10)	\$ (0.30)
	=====	=====
Weighted-average common shares, basic and diluted	6,997,726	6,938,476
	=====	=====

See notes to Condensed Financial Statements.

C3, Inc.
Condensed Balance Sheets

	March 31, 1999	December 31, 1998
	-----	-----
ASSETS	(Unaudited)	
Current Assets:		
Cash and equivalents	\$ 30,304,859	\$ 32,004,045
Accounts receivable, net	440,965	546,921
Interest receivable	106,264	121,276
Inventories	4,224,844	3,092,448
Prepaid expenses and other assets	306,875	294,797
	-----	-----
Total current assets	35,383,807	36,059,487
Equipment, net	3,783,747	3,832,019
Patent and license rights, net	285,781	276,817
	-----	-----
Total assets	\$ 39,453,335	\$ 40,168,323
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable:		
Cree Research, Inc.	\$ 1,483,764	\$ 1,679,600
Other	343,319	250,157
Accrued expenses	236,226	223,248
Deferred revenue	1,110	18,986
	-----	-----
Total current liabilities	2,064,419	2,171,991
Commitments		
Shareholders' Equity:		
Common stock	48,179,964	48,149,406
Additional paid-in capital - stock options	1,978,825	1,910,368
Accumulated deficit	(12,769,873)	(12,063,442)
	-----	-----
Total shareholders' equity	37,388,916	37,996,332
	-----	-----
Total liabilities and shareholders' equity	\$ 39,453,335	\$ 40,168,323
	=====	=====

See notes to Condensed Financial Statements

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

	Three Months Ended March 31,	
	1999	1998
OPERATING ACTIVITIES:		
Net loss	\$ (706,431)	\$ (2,095,004)
Adjustments:		
Depreciation and amortization	130,467	15,499
Compensation expense related to stock options	68,457	50,879
Change in operating assets and liabilities:		
Net change in assets	(1,023,506)	(512,308)
Net change in liabilities	(107,572)	420,152
Net cash used by operating activities	(1,638,585)	(2,120,782)
INVESTING ACTIVITIES:		
Purchase of equipment	(77,744)	(114,181)
Patent costs	(13,415)	(22,479)
Net cash used by investing activities	(91,159)	(136,660)
FINANCING ACTIVITIES:		
Stock options exercised	30,558	----
Net cash provided by financing activities	30,558	----
Net change in cash and equivalents	(1,699,186)	(2,257,442)
Cash and equivalents, beginning of period	32,004,045	43,980,385
Cash and equivalents, end of period	\$ 30,304,859	\$ 41,722,943

See notes to Condensed Financial Statements.

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

1. BASIS OF PRESENTATION

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

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

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

2. INVENTORIES

Inventories are stated at the lower of cost or market determined on a first in, first out basis. At March 31, 1999 finished goods includes \$850,398 of test instruments, net of a \$244,000 reserve for excess inventory. At December 31, 1998 finished goods includes \$1,018,465 of test instruments, net of a \$132,000 reserve for excess inventory. Inventories consisted of the following:

	March 31, 1999	December 31, 1998
	-----	-----
Raw materials	\$ 855,347	\$ 140,411
Work in process	1,299,836	819,953
Finished goods	2,069,661	2,132,084
	-----	-----
Total inventory	\$ 4,224,844	\$ 3,092,448
	=====	=====

3. NON-CASH OPERATING EXPENSES

During the quarter ended March 31, 1999, in accordance with Accounting Principles Board Opinion No. 25, the Company recorded compensation expense of approximately \$68,457 relating to stock options. Compensation expense related to stock options for the quarter ended March 31, 1998 was approximately \$51,000. 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 is effective for all fiscal quarters of all fiscal years beginning after June 15, 1999. The Company has not evaluated the impact of the adoption of this Statement on the financial statements.

5. SUBSEQUENT EVENT

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

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

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

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

OVERVIEW

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

The Company began shipping moissanite to authorized retail jewelers in Atlanta and Miami/Ft. Lauderdale during the second quarter of 1998, and, in July 1998, launched consumer-focused advertising and promotion activities in those areas. Since mid-1998 the Company has expanded the number of authorized retail jewelers primarily located in the southeastern states of North Carolina, South Carolina, Georgia and Florida and increased the number of exclusive international distributors. To date marketing and promotion activities have been focused primarily in these southeastern states. Domestically, during 1999, the Company will focus on the market introduction of moissanite in other areas of the United States and as a result of these efforts expects moissanite may be available in as many as 500 retail locations by the end of 1999, although there can be no assurance that the Company will be successful in its efforts to expand its domestic distribution. As the Company develops a sufficient network of authorized retail jewelers, it expects to begin a national advertising campaign, which could begin as early as the second half of 1999. The Company will seek to expand the international distribution of moissanite and believes international sales could represent 2/3 of total sales for 1999.

The Company believes that its sales volumes will increase as the yield of salable gemstones from each crystal provided by Cree increases, additional crystal growth capacity is added, and as the market introduction of moissanite gemstones expands geographically. As distribution of moissanite expands, the Company will incur increasing spending levels as it continues to make investments in development efforts with Cree to increase production volumes and yields, as it makes investments in receivables, inventory and manufacturing equipment, and as it increases advertising, marketing and personnel expenditures. The Company expects to continue operating at a loss through at least part of 1999. Moreover, there can be no assurance that the Company will ever achieve the expected sales increases or profitability or that if profitability is achieved, that such profitability can be sustained.

RESULTS OF OPERATIONS

THREE MONTHS ENDED MARCH 31, 1999 COMPARED WITH THREE MONTHS ENDED MARCH 31, 1998.

Net sales increased by \$2,978,909 from \$250,555 for the three months ended March 31, 1998 to \$3,229,464 for the three months ended March 31, 1999. The Company generated net sales of approximately \$2,952,000 from moissanite for the three months ended March 31, 1999. During the first three months of 1998, prior to emerging from the development stage, the Company generated net sales of approximately \$81,000 from gemstones, which have been netted against research and development expenses on the operating statement because many of the gemstones sold were associated with the Company's research and development program. Net sales from the Company's proprietary test instrument decreased from approximately \$250,555 for the three months ended March 31, 1998 to \$162,000 for the three months ended March 31, 1999.

Gross profit increased by \$1,038,407 from \$95,479 or 38% of sales for the three months ended March 31, 1998 to \$1,133,886 or 35% of sales for the three months ended March 31, 1999. Gross profit for the three months ended March 31, 1998 related entirely to sales of the Company's proprietary test instrument. The Company will seek to increase gross margins for moissanite gemstones as the Company realizes improved yields from each SiC crystal produced by Cree. Gross margins for test instruments will likely decrease over time as the Company enters into additional volume distribution agreements and if it experiences pricing pressures on its testers from competitive test instruments.

Marketing and sales expenses decreased by \$157,832 from \$761,136 for the three months ended March 31, 1998 to \$603,304 for the three months ended March 31, 1999. The decrease was primarily due to non-recurring expenditures for market research and initial development of advertising and marketing materials in the first quarter of 1998.

General and administrative expenses increased by \$171,604 from \$627,330 for the three months ended March 31, 1998 to \$798,934 for the three months ended March 31, 1999. The increase resulted primarily from compensation and other expenses related to additional staff, occupancy expenses and investor relations expenses associated with business expansion and SEC compliance obligations incurred as a public company.

Research and development expenses decreased by \$519,456 from \$1,322,512 for the three months ended March 31, 1998 to \$803,056 for the three months ended March 31, 1999. The decrease resulted primarily from the more focused development effort under the Company's July 1998 Amended and Restated Development Agreement with Cree Research, Inc. The July 1998 agreement replaced the June 1997 Development Agreement and the January 1998 Supplemental Development Agreement between C3 and Cree and provides both parties increased flexibility to pursue further color and yield improvements on both 2-inch and 3-inch diameter crystals.

Net interest income decreased by \$155,518 from \$520,495 for the three months ended March 31, 1998 to \$364,977 for the three months ended March 31, 1999. This decrease resulted from lower interest income earned on lower cash balances due primarily to the use of the invested proceeds from the Company's initial public offering in November 1997. See Part II, Item 2.

LIQUIDITY AND CAPITAL RESOURCES

The Company has financed its operations since inception primarily through the net proceeds of its initial public offering of Common Stock in November 1997 and, prior to such offering, through private equity sales. Net proceeds from the Company's initial public offering were \$41,072,982. During the first quarter of 1999, the Company used \$1,638,585 to fund operations and \$91,159 to fund capital expenditures and patent expenses. At March 31, 1999, the Company had \$30,304,859 of cash and cash equivalents and \$33,319,388 of working capital. The Company anticipates that its existing capital resources will be adequate to satisfy its capital requirements for at least the next 12 months.

The Company has entered into a number of agreements with specialty retail jewelry stores in the United States and with international distributors. See Item 5 of Part II of this Quarterly Report. To support this expansion of its distribution network, the Company has begun to build inventory levels and intends to significantly increase its advertising and marketing expenditures as it develops and implements a national advertising campaign. The advertising campaign could aggregate \$1-1.5 million in the second half of 1999. The Company intends to fund these inventories and advertising and marketing expenditures from its existing cash and equivalents.

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

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

YEAR 2000 COMPLIANCE

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

As part of its evolution to an operating company, the Company has selected and is in the process of implementing an enterprise-wide information technology system to support the long-term information

needs of the Company. The Company has received written confirmation from the software vendor that the information technology system selected by the Company is fully Year 2000 compliant. The Company anticipates that the implementation of this system and testing of the Year 2000 compliance of the system will be completed by mid 1999 and that the Year 2000 issue will not pose significant operational problems for its computer systems. The Company is in the process of reviewing its non-information technology systems for Year 2000 compliance and expects this review to be complete by mid 1999. The Company believes the Year 2000 exposure with respect to those systems is not material.

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

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

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

ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company believes that its exposure to market risk for changes in interest rates is not significant because the Company's investments are limited to highly liquid instruments with maturities of three months or less. At March 31, 1999 the Company has approximately \$29.6 million of short-term investments classified as cash and equivalents. All of the Company's transactions with international customers and suppliers are denominated in US dollars.

PART II - OTHER INFORMATION

ITEM 2: CHANGES IN SECURITIES AND USE OF PROCEEDS

On November 14, 1997, the Securities and Exchange Commission declared the Company's Registration Statement on Form S-1 (File No. 333-36809) to be effective. The net proceeds of this offering were \$41,072,982. As of March 31, 1999, the Company had approximately \$22,530,600 of the remaining net proceeds of the offering invested in money market accounts, debt instruments having an original maturity of three months or less and other highly liquid investments. Approximately \$5,594,800 of the proceeds has been used in research and development, of which \$173,225 was paid to officers, directors or shareholders owning more than ten percent (10%) of the Common Stock outstanding. The Company has also used approximately \$5,475,100 to fund sales, marketing and administrative expenses, of which \$383,000 was paid to officers, directors or shareholders owning more than ten percent (10%) of the Common Stock outstanding. The Company also expended approximately \$3,517,500 to build inventory of its products. In addition, the Company acquired \$3,955,000 of production equipment, including \$3,375,000 of crystal growth systems from Cree, certain computerized wafering and preform development equipment, and other equipment.

ITEM 5: OTHER INFORMATION

The Company has entered into a number of agreements with specialty retail jewelers with an aggregate of over 150 locations in 31 states. Additionally, the Company has entered into 21 international agreements for distribution of moissanite gemstones in 27 countries and various areas in the Caribbean. The international agreements require aggregate annual moissanite purchases of approximately \$16 million during calendar 1999 and approximately \$18 million during calendar 2000.

In May 1999, the Company announced the addition of Mary Katherine Rafferty as Director of Marketing and Public Relations. Ms. Rafferty has 20 years of marketing and public relations experience primarily in the jewelry and cosmetics industries.

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

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

Consistent with the Company's efforts to improve and secure its products, the Company has obtained certain rights for manufacturing gemstone products and gemological instrumentation which may arise from inventions made by C. Eric Hunter related to wide-band gap compound semiconductor materials. Mr. Hunter is the lead author on U.S. patents owned by the Company for synthetic SiC gemstones. Under a Licensing Agreement effective as of October 10, 1998, C. Eric Hunter granted the Company an irrevocable, exclusive and perpetual license to utilize certain new patent applications for compound semiconductor materials that potentially have use in the manufacture of synthetic gemstones and gemological instrumentation. Under the Licensing Agreement, the Company agreed to pay for the cost of filing, prosecuting and maintaining those patent applications in the United States and to indemnify C. Eric Hunter from any claims made against Mr. Hunter relating to any patent infringement for gemstone and gemological instrumentation or relating to his involvement with C3 through December 31, 2003.

Mr. Hunter has filed a number of patent applications on technology covered under the Licensing Agreement, one of which has been issued (US Patent Number 5858086), and the Company has paid or reimbursed legal expenses relating to the patent and patent applications of approximately \$58,000 to date. The Company also has the right to license other technology developed by Mr. Hunter through December 31, 2003 under the same terms and conditions.

The Company entered into the License Agreement in order to assure itself of rights to future gemstone technology developed by C. Eric Hunter. The technologies are covered by existing patent applications and are in the very early stages of development. Based on the development to date, the Company is unable to assess the extent to which these technologies may enable the Company to pursue new gemstone products or improve existing products. Should the Company ever use any of these technologies in its products, the Company has agreed to pay Mr. Hunter a royalty based on net sales of those products. If Mr. Hunter manufactures gemstone materials or gemological instrumentation using the inventions, he has agreed to sell those materials or instruments exclusively to C3 at his cost plus an agreed upon margin. The Company believes the terms of the royalty and product purchases to be no less favorable than they could obtain from a third party. The Company has no obligation to fund any development expenses other than legal fees, including filing, prosecuting and maintaining said patents and patent applications.

C. Eric Hunter is the brother of Jeff N. Hunter, the Chairman and Chief Executive Officer of the Company, and according to information obtained from his Schedule 13G dated January 18, 1999 was also the beneficial owner of approximately 9.4% of the Company's common stock.

ITEM 6: EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

Exhibit No. -----	Description -----
10.33	Employment Agreement, dated May 1, 1999, between Mary Katherine Rafferty and C3, Inc.+
10.34	Letter Agreement, dated May 3, 1999 between Cree Research, Inc. and C3, Inc.*
10.35	Licensing Agreement, dated October 10, 1998, between C. Eric Hunter and C3, Inc.*
27.1	Financial Data Schedule

* The Company has requested that certain portions of this exhibit be given confidential treatment. An unredacted version of this Exhibit has been filed with the Commission.

+ Denotes a management contract or compensatory plan or arrangement.

(b) Report on Form 8-K

The Company filed a current Report on Form 8-K on March 11, 1999 to report the Company's adoption of a Shareholder Rights Agreement.

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 17, 1999

/s/ Jeff N. Hunter

Jeff N. Hunter

Chief Executive Officer and Chairman of the Board
and Director

(Principal Executive Officer)

Date: May 17, 1999

/s/ Mark W. Hahn

Mark W. Hahn

Chief Financial Officer

(Principal Financial and

Accounting Officer)

EMPLOYMENT AGREEMENT

This Employment Agreement (the "Agreement"), dated as of May 1, 1999 is entered into by and between C3, Inc, a North Carolina corporation with its principal office at 3800 Gateway Boulevard, Suite 310 Morrisville, NC 27560 (the "Company") and Mary Katherine Rafferty an individual currently residing at 16 West 16th Street, Apt. 12HS, New York, New York, 10011 ("Employee").

Statement of Purpose

The Company wishes to obtain the services of the 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 April 30, 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 existing term, renew for successive one year terms.
3. Position and Duties. The Employee shall serve as Director of Marketing and Public Relations of the Company. Employee will, under the direction of the President and COO of the Company, faithfully and to the best of her ability perform the duties as may be reasonably assigned by the President and COO. Employee agrees to devote her 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 \$100,000 per year, payable in regular and equal semi-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 three weeks paid vacation annually (the "Employee Benefits").
 - C) INCENTIVE COMPENSATION. Employee will receive a cash bonus of \$30,000 if the net revenues of the company equal or exceed \$30 million for the year ending December 31, 1999. Employee shall receive a cash bonus of \$20,000 if the net revenues of the company are equal to or in excess of \$20 million, and less than \$30 million for the year ending December 31, 1999. If the net revenues of the company are less than \$20 million for the year ending

16

December 31, 1999, any cash bonus awarded the employee shall be at the sole discretion of the President of the company. For all periods after December 31, 1999, Employee shall participate in such incentive plans as may be approved by the Board of Directors for the senior management of the company from time-to-time.

- D) RELOCATION EXPENSES. Employee shall receive a one time \$20,000 payment in compensation for all costs associated with the relocation of employee's domicile from New York, New York to the Raleigh, North Carolina area. This payment will be subject to income tax withholding and other taxes as provided by federal and state statute. The payment will be due and payable on May 30, 1999. Additionally, the Company will pay the brokerage commission payable on the sale of Employee's current residence if sold during the term of this agreement or any extension thereof for an additional one-year period. The company will provide temporary housing for the Employee for a period not to exceed six months beginning May 15, 1999.
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 of the Employee of the services under the 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 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 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 Base Salary for the remainder of the then existing term, or for a period of seven calendar months, whichever is greater, regardless of the contract term ("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, not withstanding any provision in any applicable plan. 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 the 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 employee benefit plans or programs 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 offices of Company, then at the date of 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. The Company shall pay any such benefits 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 the 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 the Employee was eligible in the preceding 12 months; or
- (iii) An involuntary relocation of the Employee more than fifty (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 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 proxy contest, merger, consolidation or sale of assets, or as a result of any combination for 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 which 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 the 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 at the time of termination. 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 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, 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 Company, its successors or assigns all of the 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. 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 of this Agreement, and the remaining terms, covenants, restrictions, or provisions in such paragraph and in the Agreement shall remain in full force and effect and any court of competent jurisdiction may so modify the objectionable provision to make it valid, reasonable and enforceable.
12. 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.
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. Amendment. This Agreement may be amended only by an agreement in writing signed by each of the parties hereto.
15. Entire Agreement. This Agreement contains the entire agreement of the parties with respect to Employee's employment with the Company and supercedes any prior agreements between them, whether written or oral.
16. 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.
17. 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.
18. Benefit. This Agreement shall be binding upon and inure to the benefit of and shall be enforceable by and against the Company, it's 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: _____

Robert S. Thomas, President

Mary Katherine Rafferty

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 MAY 3, 1997
BETWEEN CREE RESEARCH, INC. AND C3, INC.

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

May 3, 1999

Robert S. Thomas
President
C3, Inc.
P.O. Box 13533
Research Triangle Park, NC
27709-3533

This letter, if accepted by C3, will serve as an agreement between Cree and C3 to the following terms:

1. Cree agrees to supply production crystals and C3 agrees to purchase production crystals according to the terms outlined in this letter agreement for a period of one year beginning July 1, 1999.
2. C3 agrees to purchase ***** 3" production crystal growth systems according to the terms outlined in the June 6, 1997 Amended and Restated Exclusive Supply Agreement (the "Supply Agreement") with a condition that the maximum price per system will not exceed \$*****. C3 will issue a purchase order for these ***** systems concurrently with the execution of this agreement. The systems are being built as new for use by Cree on behalf of C3 in accordance with the Supply Agreement. These ***** systems represent the growth systems in excess of ***** as outlined in section *****. The first ***** systems will be brought on-line as 3" systems and the second ***** systems will be brought on-line as 2" systems.
3. C3 will purchase the output of crystal growers according to the following schedule:

DATE	# OF CRYSTAL GROWTH SYSTEMS
July 1, 1999 - August 31, 1999	*****
August 31, 1999 - September 30, 1999	*****
October 1, 1999 - June 30, 2000	*****

4. Cree will supply crystals from the systems outlined in Section 3 according to the pricing schedule outlined in Exhibit A.
5. C3 will continue funding of the development program at Cree under the July 1, 1998 Amended and Restated Development Agreement (the "Development Agreement") at the current funding level of \$240,000 per month until ***** new 3" systems are on line or October 1, 1999, whichever is sooner, and thereafter, at \$120,000 per month.
6. C3 may switch growers from 2" to 3" diameter crystals or from 3" to 2" diameter crystals provided it gives Cree at least 30 days notice and such additional time as reasonably required to address any conversion and ramp-up issues. C3 agrees to pay for any upgrade costs, not to exceed \$***** associated with converting systems owned by C3.
7. As used in Exhibit A, 'usable mm' means light or medium light material, as previously defined by both parties, judged versus the master crystal. Any discrepancies in usable material will be mutually resolved by Cree and C3. All grading will be concluded in a timely manner consistent with past practice.

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

8. During the term of this agreement, the parties will negotiate in good faith a mutually acceptable method and process for quantifying micropipe defects in the crystals. The parties will then negotiate a mutually acceptable means to include these defects in the grading specifications for production crystals.
9. Except as provided above, purchases will be subject to the terms and conditions of the Supply Agreement and the development program will be subject to the terms and conditions of the Development Agreement.
10. If the parties do not agree in writing, prior to July 1, 2000, on a mutually acceptable definition of "Repeatable Process" for purposes of Sections 1.1 and 2.4 of the Supply Agreement, then unless otherwise agreed in writing by the parties, thereafter C3 will purchase from Cree and Cree will sell to C3, material in accordance with the pricing and other terms and conditions set forth in the Supply Agreement and no minimum specifications shall be applicable to such material.
11. 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 acceptable, please sign below and date to indicate C3's binding agreement to these terms.

/s/ Charles M. Swoboda

Charles M. Swoboda
President & COO

/s/ Robert S. Thomas

Robert S. Thomas
President & COO

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.

LICENSING AGREEMENT
DATED OCTOBER 10, 1998
BETWEEN C. ERIC HUNTER AND C3, INC.

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

LICENSING AGREEMENT

This LICENSING AGREEMENT is entered into effective as of the 10th day of October 1998 by and between C. Eric Hunter ("Eric Hunter") and C3, Inc. ("C3").

Whereas, Eric Hunter has filed United States (U.S.) patent applications regarding inventions related to wide-band gap semiconductors that have potential advantages in certain gemstone applications ("THE TECHNOLOGY") and C3 is a manufacturer of synthetic gemstones and gemological instrumentation, both parties agree to the following terms and conditions:

1. Eric Hunter agrees to grant C3 an irrevocable, exclusive and perpetual license to manufacture gemstone products and gemological instrumentation utilizing the following pending U.S. patent applications (as titled):
 - o *****
 - o *****
 - o *****
 - o *****
 - o *****
2. C3 agrees to pay the cost for filing, prosecution and maintenance of the patent applications in the U.S. C3 may at its own expense file the patent applications in foreign countries if Eric Hunter elects not to pursue foreign filings for any of the patent applications.
3. Eric Hunter agrees not to grant licenses to any other entity to use THE TECHNOLOGY for the manufacture of gemstone products and gemological instrumentation. Eric Hunter retains the right to use the inventions to manufacture gemstone material for C3. In this circumstance, Eric Hunter agrees to sell material manufactured for use as gemstones or gemological instrumentation exclusively to C3 at *****% gross margins (***** times manufacturing cost).
4. C3 may elect to use the inventions itself or sublicense the inventions to another supplier. C3 agrees to pay Eric Hunter a royalty of *****% of its net sales of gemstone products and gemological instrumentation manufactured by C3 or its suppliers utilizing THE TECHNOLOGY.
5. C3 agrees to indemnify against and pay the cost of defending Eric Hunter from any infringement claims related to C3's use of THE TECHNOLOGY for gemstone and gemological instrumentation or any other claim made against Eric Hunter related to his involvement (including any unpaid non-contractual work) and ownership of C3 at any time previously and through December 31, 2003.

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

6. Eric Hunter agrees to license to C3 under the same terms and conditions all technology he develops that relates to the manufacture of gemstones and gemological instrumentation through December 31, 2003.
7. Eric Hunter agrees to assign this agreement to any designee as requested in writing by an officer of C3.

Agreed and acknowledged by:

C3, Inc.

Eric Hunter

/s/ Robert S. Thomas

/s/ C. Eric Hunter

Robert S. Thomas

C. Eric Hunter

This Schedule Contains Summary Financial Information Extracted From The Condensed Balance Sheet As Of March 31, 1999 And The Condensed Statement Of Operations For The Three Months Ended March 31, 1999 And Is Qualified In Its Entirety By Reference To Such Financial Statements.

3-MOS	DEC-31-1999	
	JAN-01-1999	
	MAR-31-1999	
		30,304,859
		0
		440,965
		0
		4,224,844
		35,383,807
		4,141,776
		358,029
		39,453,335
		2,064,419
		0
		0
		48,179,964
		(10,791,048)
39,453,335		3,229,464
		3,229,464
		2,095,578
		2,095,578
		0
		0
		0
		(706,431)
		0
		(706,431)
		0
		0
		0
		(706,431)
		(.10)
		(.10)