Risk Factors Comparison 2022-09-02 to 2021-09-03 Form: 10-K

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We operate in a dynamic and rapidly changing business environment that involves substantial risk and uncertainty, and these risks may change over time. The following discussion addresses some of the risks and uncertainties that could cause, or contribute to causing, actual results to differ materially from expectations. In evaluating our business, you should pay particular attention to the descriptions of risks and uncertainties described below. If any of these risks actually occur, our business, financial condition, or results of operations could be materially and adversely affected. Risks Related to our Operations **Our business** ~~The COVID- 19 pandemic~~ and ~~related global economic impacts have~~ **our results of operations could be materially** adversely affected ~~our business and are expected to continue to adversely affect our business, financial condition, and results of operations. The global outbreak of COVID- 19 was declared a pandemic by the World Health Organization and a national emergency by the U. S. Government in March 2020 and has negatively affected the U. S. and global economy. In response to this pandemic, federal, state, county and local governments and public health organizations and authorities around the world have implemented a variety of measures intended to control the spread of the virus including quarantines, " stay- at- home " orders, travel restrictions, school closures, business limitations and closures, social distancing, and hygiene requirements. While some of these measures have been lifted or eased in certain jurisdictions, other jurisdictions have seen increases in new COVID- 19 cases, resulting in restrictions being reinstated or new restrictions being imposed. There continues to be considerable uncertainty regarding such measures and potential future measures. These measures have adversely affected workforces, customers, economies, and global supply chains, and resulted in significant travel and transport restrictions. It has also disrupted the normal operations of many businesses, including ours. In response to the COVID- 19 pandemic, we implemented measures aimed at limiting its spread for the health and safety of our employees, customers, and the communities in which we live and work as well as in accordance with orders and decrees of governmental agencies. These measures included closures of physical offices, employee furloughs, reductions in force, increased social distancing mandates, remote working and prohibiting non- essential travel. Many of these actions remain in effect to varying degrees although we may implement new or revise existing requirements as circumstances require. The actions and reactions to voluntary and involuntary requirements have been highly disruptive to our business and may continue to be disruptive. As physical offices are allowed to reopen, the rules and regulations for reopening will likely increase in complexity, making compliance more difficult. Furthermore, if employees perceive the protocols and requirements we implement to create a safe and effective work environment to be inadequate, overly burdensome or no longer necessary, employees may choose to leave, productivity may decline or we may experience employee absenteeism, unrest, slowdowns, stoppages or other demands, we may fail to timely meet customer demand or fulfill orders, the costs to maintain or implement protective measures or deliver our products may increase, and we may be subject to increased litigation, including occupational safety and condition claims. Additionally, a segment of our employees continues to work remotely~~ as a result of ~~the pandemic~~ **general economic and market conditions** . ~~Remote working arrangements~~ **Our business, including our sales volumes and overall profitability, depends on consumer demand for our products and** could **be adversely impacted by general economic conditions, declines in consumer confidence and consumer disposable income, rising energy and fuel prices, increasing freight costs, recession and fears of recession, consumer debt levels,** ~~increase~~ **increased** ~~operational risks~~ **interest rates, higher tax rates, and rising inflation rates. Our business could also be adversely impacted by possible disruptions in global financial markets** , including **severely diminished liquidity** ~~risks associated with information technology~~ and ~~systems~~ **credit availability, declines in economic growth, increased unemployment levels, and uncertainty about economic stability** , including **the increased risk of global trade tensions and geopolitical unrest such as the current conflict between Russia and Ukraine, and domestic political and geopolitical instability. We are unable to predict the likely duration and severity of the effects of these disruptions in the financial markets and the adverse domestic and global economic conditions, and if these economic conditions deteriorate, our business and results of operations could be materially and adversely affected. Unfavorable economic conditions may lead consumers to delay or reduce purchases of our products and** ~~service~~ **services and consumer demand for our products and services may not grow as we expect. The consequences of such adverse effects could also include** interruptions **or delays in** ~~, misappropriation of data, or~~ **our** ~~breaches~~ **suppliers' performance** of ~~security~~ **our contracts** , **reductions and delays in customer purchases, delays in or the inability of customers to obtain financing to purchase our products, and bankruptcy of customers or suppliers. Prolonged or pervasive economic downturns could also slow the pace of** any **planned future showroom openings that we may have going forward. Luxury products, such as fine jewelry, are discretionary purchases for consumers. Recessionary economic cycles, higher interest rates, higher tax rates, higher fuel and energy costs, higher freight costs, higher inflation rates, higher levels** of ~~which~~ **unemployment, adverse conditions in the residential real estate and mortgage markets, tighter access to consumer credit, increased consumer debt levels, unsettled financial markets, and other economic factors that may affect consumer spending or buying habits could materially and adversely affect demand for our products. In addition, volatility in the financial markets has had and may continue to have a negative impact on consumer spending patterns. A reduction in consumer spending or disposable income may affect us more significantly than companies in other industries and** could have a material adverse effect on our business **, results** ~~. Working outside~~ of **operations,and financial condition** .Our future financial performance depends upon increased consumer acceptance,growth of sales of our products,and operational execution of our strategic initiatives.We believe that most consumers are not generally aware of the existence and attributes of moissanite jewels and lab grown diamonds and that the consumer market for moissanite jewels,lab grown diamonds,and finished jewelry featuring both moissanite and lab grown diamonds remains in the early stages of development **and consumer acceptance** .The degree of future market acceptance and demand is subject to a significant amount of uncertainty.Our future financial performance will depend,in part,upon greater consumer acceptance of moissanite jewels and lab grown diamonds as an ethically sourced,affordable,luxurious alternative to ~~other gemstones,such as a mined diamond the~~ **other** ~~typical work environment~~ **gemstones, such as a mined diamond, and our ability to develop brands and execute strategic initiatives, particularly in our Online Channels segment, to grow our sales and operating income. As we execute our strategy to build and reinvest in our business, significant expenses and investment of cash will be required going forward and this** may ~~also introduce~~ **adversely affect our operating income. If we are unable to execute and achieve desired revenue levels, we may adjust our strategic initiatives in response to the results of our investments. In** ~~additional~~ -- **addition** ~~complexity or inefficiency into~~ **, consumer acceptance may be affected by retail jewelers' and jewelry manufacturers' acceptance of moissanite jewels, lab grown diamonds, and finished jewelry featuring both moissanite and lab grown diamonds. The quality, design, and workmanship of the jewelry settings, whether manufactured by us** ~~our~~ - **or** ~~normal processes for key areas like the~~ **other manufacturers, could affect both consumers'** ~~preparation~~ --- **perception and acceptance** of ~~financial statements or~~ **our products and costs incurred by returns and markdowns. Additionally, as other competitors enter the** ~~marketing~~ --- **market** ~~and sales~~ , ~~which~~ **the lower quality of competitors' gemstones** could negatively impact ~~as other competitors enter the market,the lower quality of competitors' gemstones could negatively impact~~ consumer perception of moissanite jewels and lab grown diamonds,and in turn,acceptance of our jewels.Thus,our future financial performance may be affected by:• Our ability to develop and promote the Charles & Colvard brands,such as Forever One ™,Moissanite by Charles & Colvard ®,and Caydia ®,all of which are used in finished jewelry featuring moissanite and lab grown diamonds,which may in part drive interest and demand for moissanite jewelry at the consumer level;• Our ability to differentiate Charles & Colvard Created Moissanite ® and Caydia ® from competing products,including competitive moissanite and the rapidly emerging lab grown diamond industry;• Our ability to operationally execute our digital marketing strategy for our Online Channels segment;• Our continued ability and the ability of manufacturers,designers,and retail jewelers to select jewelry settings that encourage consumer acceptance of and demand for our moissanite jewels,lab grown diamonds,and finished jewelry;• Our ability to understand our consumer market segment and effectively market to them a compelling value proposition that leads to converted customers;• Our ability to continue our relationship with ~~Cree~~ **Wolfspeed** in order to sustain our supply of high- quality SiC crystals;• The continued willingness and ability of our jewelry distributors and other jewelry suppliers,manufacturers,and designers to market and promote Charles & Colvard Created Moissanite ® and Caydia ® to the retail jewelry trade;• The continued willingness of distributors,retailers,and others in our distribution channels to purchase loose Forever One ™, ~~Charles & Colvard Created~~ Moissanite **by Charles & Colvard** ®,and Caydia ® as well as their continued willingness of manufacturers,designers,and retail jewelers to undertake setting of the loose jewels;• Our continued ability and the ability of jewelry manufacturers and retail jewelers to set loose moissanite jewels and lab grown diamonds in finished jewelry with high- quality workmanship;and • Our continued ability and the ability of retail jewelers to effectively market and sell finished jewelry featuring moissanite and lab grown diamonds to consumers. ~~Our business~~ **The effects of COVID- 19** and **other potential future public health crises,epidemics,pandemics** ~~our~~ - **or similar events on** our business **, operating results, and cash flows are uncertain** . The **global outbreak of the novel strain of coronavirus, known as** COVID- 19 **, was declared a** pandemic ~~has also significantly increased economic uncertainty and has led to continued disruption and volatility in the global capital markets, which could increase the cost of capital and adversely impact access to capital. While unlikely to be drawn upon given our current liquidity position, to maintain this position we have access to our new $ 5. 00 million cash secured credit facility with JPMorgan Chase Bank, N. A., which we entered into in July 2021, or we could incur other indebtedness through the issuance of debt securities. An increase in our outstanding indebtedness will result in additional interest expense. We may also seek to conserve cash~~ by ~~delaying capital expenditures, which could negatively impact our operations~~ **the World Health Organization and a national emergency by the U. S. Government in March 2020** . The pandemic has **and continues** ~~also interfered with general commercial activity related~~ to ~~our supply chain~~ **negatively affect the U. S. and global economy. In response to this pandemic** , **federal, state, county and local governments and public health organizations and authorities around the world from time to time implemented a variety of measures intended to control the spread of the virus** including **quarantines** ~~our raw material and components sources. We experienced instances of suppliers temporarily closing their operations~~ , **" stay-** ~~delaying order fulfillment, or limiting their production, impacting our supply chain and ability to produce finished goods and deliver them to our customers. In our Online Channels segment, our primary transactional website, charlesandcolvard. com, has remained open and shipped products to our consumers throughout the pandemic, but in the early months of the shutdown~~ at ~~the beginning of the pandemic during our fiscal quarter ended June 30, 2020, was restricted to available stock, the limited production capacity of then - functioning suppliers~~ **home " orders** , **travel** ~~and shipping~~ restrictions ~~. Since that period of time~~ , **business limitations** ~~with the change in worldwide consumer shopping habits during the pandemic~~ and **closures** ~~throughout our fiscal year ended June 30 , 2021~~ **social distancing** , **vaccine** ~~charlesandcolvard. com has demonstrated strong sales performance~~ , **and hygiene requirements** ~~which we believe is consistent with the growth in global e- commerce sales~~ . While **some of** ~~we expect consumer shopping patterns to continue to change, there is no guarantee that~~ these **measures have** ~~global online buying habits will continue at the same level or at the same rate of year- over- year growth. In our Traditional segment, our brick- and- mortar customers began closing their stores to foot traffic in March 2020 and the re- opening of these stores has~~ been **lifted** ~~measured and has resulted in a weakening of the retail sector throughout much of our~~ - **or eased in** ~~fiscal year ended June 30, 2021. We have also experienced instances of our distributor network reducing or closing their operations during~~ certain ~~phases of~~ **jurisdictions,** ~~the~~ **other jurisdictions – most recently in China –** ~~pandemic, impacting our ability to maintain significant levels of sales through our wholesale sales customers. While we~~ have seen ~~somewhat of a strengthening in these sectors during the~~

~~fiscal year ended June 30, 2021, there is no assurance this growth will continue in future financial reporting periods. In addition, jewelry and gemstone trade shows, jewelry industry events, and finished jewelry product demonstrations have begun to be re-scheduled in time for the critical production season leading up to the calendar year- end 2021 holiday season. However, with recent~~ increases in new COVID- 19 cases in **recent periods** ~~many jurisdictions and regions around the world~~ , ~~this pattern could result~~ **resulting** in ~~business and travel~~ restrictions being reinstated or new restrictions being imposed. There ~~is no guarantee that this pattern of a return to industry- related events will continue~~ **continues to be** ~~and there is~~ considerable uncertainty regarding such measures and ~~the~~ potential ~~adverse impact that such~~ future measures **. These measures have adversely affected workforces, customers, economies, and global supply chains, and resulted in significant travel and transport restrictions. It has also disrupted the normal operations of many businesses, including ours. The COVID- 19 pandemic continues to present business challenges primarily driven by the emergence of the Omicron variant in November 2021 with a resulting increase in worldwide COVID cases in early 2022. This variant has since split into divergent sub- lineages which now dominate worldwide and U. S. viral infections. We continue to experience impacts related to COVID- 19, primarily in increased coronavirus- related costs, delays in supplier deliveries, travel restrictions, site access and quarantine restrictions, employee absences, remote work, and adjusted work schedules. If governmental or executive orders are reinstated, or new mandates implemented, that result in business suspensions, it is uncertain to what extent compliance with any such mandates** could ~~have~~ **result in adverse impacts for us or our suppliers. If the adverse impacts are significant for us or our suppliers, our operations and ability to execute** on ~~these events and on the retail jewelry industry as a whole. As a result,~~ our ~~selling activities and our ability to convert those activities into sales have been, and we expect may continue to be, adversely impacted by the pandemic. While we have seen~~ business **strategy could** ~~strengthen in both our Online Channels segment and Traditional segment during the fiscal year ended June 30, 2021, our business, financial condition, and results of operations are expected to continue to~~ be adversely affected ~~by the~~ **. The ultimate impact of** COVID- 19 **on our operational and financial performance in future periods, including our ability to execute components of our business strategy in their expected timeframes, remains uncertain and will depend on future** pandemic ~~until~~ **- related developments, including the duration of the pandemic, potential subsequent waves of COVID- 19 infection or potential new variants, such as the emergence of the Omicron subvariant BA. 5, which has proven to be more vaccine- resistant than its previously more- evasive predecessor, and is currently accounting for principally all increased infection rates worldwide and across the U. S. The ultimate impact of COVID- 19 on our** business ~~resumes – and~~ **will also depend upon** the **effectiveness** ~~U. S.~~ and **adoption of COVID** ~~global economies return – to pre -~~ ~~pandemic levels~~ **19 vaccines, boosters, and therapeutics, supplier impacts, and related government actions to prevent and manage disease spread, including the implementation of any federal, state, local or foreign vaccine mandates, all of which are uncertain and cannot be predicted** . The extent to which the COVID- 19 pandemic impacts us will depend on numerous evolving factors and future developments that are uncertain and that we are not able to predict at this time. These factors include: the severity, duration and scope of the pandemic and the governmental, business, individual and other actions taken in response thereto; the effect on our suppliers and distributors, and disruptions to the global supply chain; the impact on **global** economic activity **, including any impact resulting from current geopolitical unrest** ; **the effect on consumer demand and purchasing behavior in our Online Channels segment,** the extent and duration of the impact on Traditional segment partner confidence and order placements; the effect ~~on consumer demand and purchasing behavior~~ as pandemic- related restrictions are curtailed or lifted, remote working declines and discretionary spending patterns shift and our ability to timely and effectively respond to any resulting decreases or increases in demand; the effect of any closures or other changes in operations of our and our suppliers' and distributors' facilities; the health of and the effect on our employees and our ability to meet staffing needs in our manufacturing and distribution facility and other critical functions, particularly if employees become ill, are quarantined as a result of exposure or are reluctant to show up for work; our ability to sell our products worldwide and provide customer support, including as a result of travel restrictions ~~, work from home requirements and arrangements and other restrictions or changes in behavior or preferences for interactions; data privacy and cybersecurity risks from new or expanded use of remote working; the impact of remote working arrangements on our financial reporting systems and internal control over financial reporting; restrictions~~ or disruptions to transportation, including reduced availability of ground, sea or air transport; the ability of our distributors, retailers, third party customers and consumers to pay for our products; the effect of the fair value measurement of certain assets or liabilities; the effect on our ability to access capital on favorable terms and continue to meet our liquidity needs; and the diversion of management as they focus on the short- and long- term ramifications of the pandemic. Even after the COVID- 19 pandemic has subsided, we may continue to experience adverse impacts to our business as a result of any economic recession **, including that from current geopolitical unrest,** that has occurred or may continue for the foreseeable future. The COVID- 19 pandemic could also exacerbate or trigger other risks discussed in this Annual Report on Form 10- K, any of which could have a material and adverse effect on our business, results of operations, and financial condition. Additionally, any comparisons of our financial results for the financial reporting periods of our fiscal year ended June 30, ~~2021~~ **2022** (or future financial reporting periods) to previous financial reporting periods may not be a useful means by which to evaluate the health of our business and our results of operations because of the pandemic' s broad and significant but non- uniform impact to our business. We continue to monitor the pandemic, have actively implemented updated policies and procedures to address the current business and economic environment, and may adjust our current policies and procedures as more information and guidance become available to address the ongoing and evolving situation. We cannot at this time predict the full impact of the COVID- 19 pandemic, but we anticipate that the COVID- 19 pandemic ~~is~~ **and other potential future public health crises, epidemics, pandemics, or similar events, are** likely to continue to impact our business, financial condition, results of operations **,** and ~~/ or~~ cash flows in the fiscal year ending June 30, ~~2022~~ **2023** . Our future financial performance depends upon...... results of operations, and financial condition . We face intense competition in the worldwide jewelry industry. The jewelry industry is highly competitive and we compete with numerous other jewelry products. In addition, we face competition from mined diamonds, lab- created (synthetic) diamonds, other lab grown diamonds, other moissanite products, and simulants. A substantial number of companies supply products to the jewelry industry, many of whom we believe have greater financial resources than we do. Competitors could develop new or improved technologies, including those for lab grown diamonds, that may render the price point for our moissanite and our lab grown diamonds noncompetitive, which could have an adverse effect on our business, results of operations, and financial condition. With the launch of our Caydia ® product line, we believe that our entry into the lab grown diamond market could be a potential threat to- and increase competition for- our core moissanite products. While our moissanite gemstones and finished jewelry set with moissanite generally have different price points than those of our Caydia ® product line, any cannibalization of moissanite product sales resulting from sales of our lab- created diamonds could have an adverse impact on sales of our moissanite jewels and finished jewelry set with moissanite. We have previously relied on our patent rights and other intellectual property rights to maintain our competitive position. Our U. S. product and method patents for moissanite jewels expired in 2015 and most of our patents in foreign jurisdictions expired in 2016 with ~~only~~ one in Mexico that expired in 2021. Since the expiration of our product and method patents we have noted new providers of moissanite and competitive products entering the market. **We** ~~As our pending patent rights and other pending intellectual property rights are approved, we~~ will continue to rely on ~~these patents and~~ our carefully executed brand awareness and digital marketing campaigns to build our consumer relationships and maintain our competitive position going forward. If, however, we are unable to successfully build strong brands for our moissanite jewels, lab grown diamonds, and finished jewelry featuring moissanite and lab grown diamonds or competition grows faster than expected, we may not have commercially meaningful protection for our products or a commercial advantage against our competitors or their competitive products or processes, which may have a material adverse effect on our business, results of operations, and financial condition. **Our** ~~A failure of our~~ information technology, or IT, infrastructure **, and** ~~or~~ **our network may be impacted by** a ~~failure to protect~~ **cyber- attack or other security incident as a result of the rise of cybersecurity events. Our business operations rely on the secure processing, storage, and transmission of certain** confidential **, sensitive, proprietary, and other** information ~~of our customers and our network against security breaches could adversely impact our business and operations. We rely upon the capacity, reliability, and security of our IT infrastructure and our ability to expand and continually update this infrastructure in response to the changing needs of our business related to the deployment, integration, and management of new technology. For example, we regularly implement new IT systems and update payment gateways that support our Online Channels segment. As we implement and integrate new systems~~ , as well as ~~retire~~ **personal information about our customers** and ~~de~~ **employees. Cyber** - ~~integrate existing~~ **attacks, including those associated with the current conflict in Eastern Europe, are rapidly evolving as cyber criminals have become increasingly sophisticated and carry out direct large- scale, complex, and automated attacks against companies or through their vendors. Breaches of our technology** systems, **whether from circumvention of security systems, denial- of- service attacks or** ~~the~~ **other** ~~IT~~ **cyber- attacks, hacking, " phishing " attacks, computer viruses, ransomware or malware, employee or insider error, malfeasance, social engineering, vendor software supply chain compromises, physical breaches or other actions, have and may result in manipulation or corruption of sensitive data, material interruptions or malfunctions in our websites, applications, data processing and certain products and services, or disruption of other business** ~~operating~~ **operations** ~~environment following~~ **. Furthermore, any** such ~~changes~~ **breaches could compromise the confidentiality and integrity of material information held by us (including information about our business, employees, or customers), as well as sensitive information, the disclosure of which could lead to identity theft. Breaches of our product services that rely on technology and internet connectivity can expose us to product and other liability risk and reputational harm. Measures that we take to avoid, detect, mitigate, or recover from material incidents** may **be insufficient, circumvented, or may become ineffective. We are** not ~~perform as expected~~ **able to anticipate or prevent all such cyber- attacks and, to the extent a cyber- attack or other security incident results in a breach of the above- described information, it could disrupt our business operations, harm our reputation, compel us to comply with applicable data breach notification laws, subject us to litigation, regulatory investigation, or otherwise subject us to liability under laws, regulations and contractual obligations. This could result in increased costs to us and result in significant legal and financial exposure and / or reputational harm** . We ~~also face the challenge of supporting our~~ **have invested and continue to invest in risk management and information security and data privacy measures in** ~~older~~ **order to protect our** systems and **data, including employee training, organizational investments, incident response plans, table- top exercises, and technical defenses. The cost and operational consequences of** implementing **, maintaining,** ~~necessary upgrades. If we experience a problem with the functioning of an~~ **and** ~~important IT~~ **enhancing data or** system **protection measures** ~~or a security breach of our IT systems, the resulting disruptions~~ could ~~have~~ **increase significantly to overcome intense, complex,** ~~an~~ **and sophisticated global cyber threats** ~~adverse effect on our business~~ . In addition, we and certain of our third- party vendors receive and store ~~personal~~ **certain** information associated with our sales operations and other aspects of our business. In connection with our e- commerce business, we rely on encryption and authentication technology licensed from third parties to effect secure transmission of confidential information ~~, including credit card numbers~~ . Our disclosure controls and procedures address cybersecurity and include elements intended to ensure that there is an analysis of potential disclosure obligations arising from security breaches. We also maintain compliance programs to address the potential applicability of restrictions against trading while in possession of material, nonpublic information generally and in connection with a cybersecurity breach. The breakdown in existing controls and procedures around our cybersecurity environment may prevent us from detecting, reporting or responding to cyber incidents in a timely manner and could have a material adverse effect on our financial position and value of our Company' s stock. Despite our implementation of security measures, our IT systems and e- commerce business are vulnerable to damages from computer viruses, natural disasters, unauthorized access, cyber- attack, and other similar disruptions. ~~An~~ **Constantly evolving privacy regulatory regimes are**

~~increasing~~ -- **creating** ~~number of websites~~ **new legal compliance challenges. Domestic** and **international privacy and data** ~~Internet companies have reported breaches of their~~ security **laws are complex** ~~. Any such compromise of our security could damage our reputation, business, and brand~~ -- **and** ~~and expose us to~~ **changing rapidly. There are** a ~~risk~~ **variety** of **laws** ~~loss or litigation~~ and **regulations** ~~possible liability~~ , ~~which could substantially harm~~ **including regulation by federal government agencies, including the Federal Trade Commission,** ~~our~~ - **or** ~~business~~ **FTC,** and ~~results of operations~~ **state and local agencies** . In addition ~~, anyone who is able~~ to ~~circumvent our~~ **federal laws such as § 5 of the Federal Trade Commission Act, the Gramm- Leach- Bliley Act, and the Fair Credit Reporting Act, certain states have also enacted laws regulating companies' collection, use, and disclosure of personal information and requiring the implementation of reasonable data** security measures **. Various laws across states** ~~could misappropriate proprietary information or cause interruptions in our operations, damage our computers or those of our customers, or otherwise damage our reputation~~ and **U. S. territories also require** ~~business~~ **businesses** ~~. These issues are likely~~ to **notify affected individuals, governmental entities, and /** ~~become more difficult as we expand the number of countries in which our~~ - **or credit reporting agencies of certain** ~~e- commerce website operates. We may need to expend significant resources to protect against~~ security breaches **affecting personal information** ~~or to address problems caused by breaches~~ . ~~For example~~ **International privacy laws** , **including** in ~~2016,~~ **Canada and** the European Union, or E. U., ~~Parliament approved~~ **pose further challenges. These domestic and international laws are not consistent, and compliance with** ~~the~~ **these** ~~new E~~ **laws in the event of a widespread data breach would be complex and costly** . ~~U~~ **In addition, privacy advocates and industry groups have regularly proposed, and may propose in the future, self- regulatory standards by which we are legally or contractually bound** . **If we fail to comply with these obligations or standards, we may face substantial liability or fines. Despite our efforts to comply with all applicable** data protection **laws and** ~~legal framework known as the General Data Protection Regulation, or GDPR. The GDPR, which became effective in May 2018, replaced previously existing~~ regulations **, any actual or perceived** ~~and thereby extended the scope of E. U. data protection law to all~~ non- **compliance could result in** ~~E. U. companies processing data of E. U. residents. The GDPR contains numerous requirements and changes from prior E. U. law, including more robust obligations~~ --- **litigation** ~~on data processors~~ **and proceedings against us by governmental entities** , ~~greater rights~~ **customers, or others, fines and civil or criminal penalties, limited ability or inability to operate our business, offer services, or market our business in certain jurisdictions, negative publicity and harm to our brand and reputation, and reduced overall demand** for ~~data subjects, and heavier documentation requirements for data protection compliance programs. The GDPR also imposes strict rules on the transfer of personal data out of the E. U., including to the U. S., and recent legal developments in Europe have created complexity and uncertainty regarding such transfers of personal data from the E. U. to the U. S. For example, in July 2020, the Court of Justice of the European Union, or~~ **our products** ~~the CJEU, invalidated the E. U.- U. S. Privacy Shield framework, or Privacy Shield, one of the mechanisms used to legitimize the transfer of personal data from the E. U. to the U. S. The CJEU decision also drew into question the long- term viability of an~~ **and services** ~~alternative means of data transfer, the standard contractual clauses, for transfers of personal data from the E~~ . ~~U. to the U. S. While we were not self- certified under the Privacy Shield, this CJEU decision may lead to increased scrutiny on data transfers from the E. U. to the U. S. generally and increase our costs of compliance with data privacy legislation. The costs of compliance with, and other burdens and any penalties imposed by, such~~ **Such occurrences** ~~international and domestic laws, regulations and policies~~ could ~~have a material adverse~~ **adversely affect** ~~impact on~~ our **business, financial condition, and** results of operations. We are subject to certain risks due to our international operations, distribution channels **,** and vendors. We have continued to expand our direct international sales operations, with international net sales accounting for approximately 5 % of total consolidated net sales during Fiscal ~~2021~~ **2022** . We also currently have numerous international wholesale distributors and retail sales channels covering portions of Canada, the U. K., Western Europe, Australia and New Zealand, Southeast Asia, the Middle East, and ~~the Greater~~ China ~~Region~~ . In addition, we use certain companies based outside the U. S. to facet our moissanite jewels and to manufacture finished jewelry. We plan to continue to increase marketing and sales efforts and anticipate expanding our direct international sales in addition to continuing to serve international distributors. Any international expansion plans we choose to undertake will increase the complexity of our business, require attention from management and other personnel and cause additional strain on our operations, financial resources and our internal financial control and reporting functions. Further, our expansion efforts may be unsuccessful as we have limited experience selling our products in certain international markets and in conforming to the local cultures, standards or policies necessary to successfully compete in those markets. In addition, we may have to compete with retailers that have more experience with local markets. Our ability to expand and succeed internationally may also be limited by the demand for our products, the ability to successfully transact in foreign currencies, the ability of our brand to resonate with consumers globally and the adoption of online or Internet commerce in these markets. Different privacy, censorship and liability standards and regulations, and different intellectual property laws in foreign countries may also prohibit expansion into such markets or cause our business and results of operations to suffer. Through our planned international expansion and our continued reliance on development of foreign markets and use of foreign vendors, we are subject to the risks of conducting business outside of the U. S. These risks include the following: • the adverse effects on U. S.- based companies operating in foreign markets that might result from war; terrorism; changes in diplomatic, trade, or business relationships (including labor disputes); or other political, social, religious, or economic instability; • an outbreak of a contagious disease, such as COVID- 19 **and other potential future public health crises** , which may cause us or our distributors, vendors, ~~and /~~ or customers to temporarily suspend our or their respective operations in the affected city or country; • the continuing adverse economic effects of any global financial crisis; • unexpected changes in, or impositions of, legislative or regulatory requirements; • delays resulting from difficulty in obtaining export licenses; • international regulatory requirements, tariffs and other trade barriers and restrictions, including the consequences of U. S. **or international** led tariff actions; • the burdens of complying with a variety of foreign laws and regulations, including foreign taxation and varying consumer and data protection laws, and other factors beyond our control, and the risks of non- compliance; • longer payment cycles and greater difficulty in collecting accounts receivable; • our reliance on third- party carriers for product shipments to our customers; • risk of theft of our products during shipment; • limited payment, shipping and insurance options for us and our customers; • difficulties in obtaining export, import or other business licensing requirements; • customs and import processes, costs or restrictions; • the potential difficulty of enforcing agreements with foreign customers and suppliers; and • the complications related to collecting accounts receivable through a foreign country' s legal or banking system. In particular, there is currently significant uncertainty about the future relationship between the U. S. and various other countries, with respect to trade policies, treaties, government regulations, and tariffs. For example, the recent imposition of tariffs and / or increase in tariffs on various products by the U. S. and other countries, including China and Canada, have introduced greater uncertainty with respect to trade policies and government regulations affecting trade between the U. S. and other countries, and new and / or increased tariffs have subjected, and may in the future subject, us to additional costs and expenditure of resources. Major developments in trade relations, including the imposition of new or increased tariffs by the U. S. and / or other countries, and any emerging nationalist trends in specific countries could alter the trade environment and consumer purchasing behavior which, in turn, could have a material effect on our financial condition and results of operations. **The** ~~While the~~ U. S. and China signed a **contingent** ~~" phase one "~~ trade deal ~~in 2020,~~ to reduce planned **tariff** increases ~~to tariffs~~ **. However, because of the current geopolitical unrest in eastern Europe and the apparent Chinese- Russian alliance** , concerns over the stability of **these** bilateral trade relations continue to exist, and in some cases, have heightened in ~~2021~~ **2022** . **Separately** ~~In addition~~ , **with** the U. K.' s exit from the ~~European Union~~ **E. U.** in January 2020, known as Brexit, ~~and~~ the ongoing ~~negotiations~~ **uncertainties** of the ~~future~~ trading relationship between the U. K. and the ~~European Union~~ **E. U.** have yet to be completely **realized and** ~~finalized. Accordingly,~~ the ultimate outcome and long- term impacts for the U. K. ~~or~~ **and** Europe remain uncertain. Ongoing changes and uncertainties related to Brexit **, including trade frictions and Britain' s high inflation rate,** continue to subject us to heightened **trade** risks in that region **. In addition** , ~~including~~ disruptions to trade and free movement of goods, services **,** and people to and from the U. K., disruptions to the workforce of our business partners, increased foreign exchange volatility with respect to the British pound **,** and additional legal, political and economic **changes also subject us to further** uncertainty **in the region** . If these actions impacting our international distribution and sales channels result in increased costs for us or our international partners, such changes could result in higher costs to us, adversely affecting our operations, particularly as we expand our international presence. Additionally, while substantially all of our foreign transactions are denominated in U. S. dollars, foreign currency fluctuations could impact demand for our products or the ability of our foreign suppliers to continue to perform. Further, some of our foreign distributors operate relatively small businesses and may not have the financial stability to assure their continuing presence in their markets. There can be no assurance that the foregoing factors will not adversely affect our operations in the future or require us to modify our anticipated business practices. Our business and our results of operations could be materially adversely affected as a result of our inability to fulfill orders on a timely basis. As sales of our loose moissanite and lab grown diamond gems increase, including our Forever One ™, Moissanite by Charles & Colvard ®, and Caydia ® gemstones, availability of certain shapes and sizes may be at risk. In addition, finished jewelry has a large variety of styles of which we maintain on- hand stock for such core designs as stud earrings, solitaire and three- stone rings, pendants, and bracelets; and made- to- order under strict deadlines for certain wholesale and direct- to- consumer e- commerce outlets. We must adequately maintain relationships, forecast material and product demand, and operate within the lead times of third parties that facet jewels and manufacture finished jewelry settings to ensure adequate on- hand quantities and meet shipment requirements for customer orders in a timely manner. In addition, we are currently dependent upon certain vendors for most of the faceting of our loose gems. If any or all of these vendors were to cancel their arrangements with us, we could experience a disruption in our operations and incur additional costs to procure faceting services from a replacement vendor. The inability to fulfill orders on a timely basis and within promised customer deadlines could result in a cancellation of the orders and loss of customer goodwill that could materially and adversely affect our business, results of operations, and financial condition. In addition, the COVID- 19 pandemic has caused, and may continue to cause, us or our distributors, vendors, and / or customers to temporarily suspend our or their respective operations and have an adverse impact on our ability to fulfill orders on a timely basis. We are currently dependent on a limited number of distributor and retail partners in our Traditional segment for the sale of our products. A significant portion of the moissanite jewels and finished jewelry featuring moissanite that we sell are distributed through a limited number of distributors and retail partners in our Traditional segment, and therefore, we are dependent upon these companies for distribution of our products. Our three largest customers collectively accounted for approximately 31 % ~~and 33 %~~ of our net sales during **each of** the fiscal years ended June 30, **2022 and** 2021 ~~and 2020~~ , respectively. As we continue to build our finished jewelry business, we anticipate in the near term that a significant portion of the moissanite jewels and finished jewelry featuring moissanite that we sell through our Traditional segment will continue to be to a limited number of distributors and retailers. We may experience quality control challenges from time to time that can result in lost revenue and harm to our brands and reputation. Part of our strategy for success is to align Charles & Colvard with reputable, high- quality, and sophisticated strategic partners. The achievement of this goal depends in large part on our ability to provide customers with high- quality moissanite and finished jewelry featuring moissanite. Although we take measures to ensure that we sell only the best quality products, we may face quality control challenges, which could impact our competitive advantage. There can be no assurance we will be able to detect and resolve all quality control issues prior to shipment of products to our distributors, manufacturers, retailers, and end consumers. Failure to do so could result in lost revenue, lost customers, significant warranty and other expenses, and harm to our reputation. Seasonality of our business may adversely affect our net sales and operating income. Sales in the retail jewelry industry are typically seasonal due to increased consumer purchases during the calendar year- end holiday season. Because historically we have primarily sold our loose moissanite jewels and finished jewelry featuring moissanite at wholesale pricing to distributors, manufacturers, and retailers, our sales to support the holiday season have largely taken place during the third and beginning of the fourth calendar quarters, depending on the sales channel and the level of advance planning and production our customers undertook. As sales of our finished jewelry featuring moissanite **and lab grown diamonds** to retailers and directly to consumers increase, both in dollars and as a percentage of total sales, our results for the three months in the calendar quarter ending December 31 of each year may depend upon the general level of retail sales during the holiday season as well as general economic conditions and other factors beyond our control. In anticipation of increased sales activities during the three months in the calendar quarter ending December 31 of each year, we may incur significant additional expenses and increases in our finished jewelry inventory levels to support expected sales in the second half of the calendar year. In recent years, we have experienced a higher degree of seasonality in the three months ending December 31 than we have experienced in prior years primarily as a result of the calendar year- end holiday season sales to end consumers through our Online Channels segment and as a result of increased sales through our brick- and- mortar retailers within our Traditional segment. Our quarterly results of operations may continue to fluctuate as a result of a number of factors, including seasonal cycles, the timing of new product introductions, the timing of orders by our customers, and the mix of product sales demand, and these factors may significantly affect our results of operations in a given quarter. Our operations could be disrupted by natural disasters. We conduct substantially all of our activities, including executive management, manufacturing, packaging, and distribution activities, at one **central** North Carolina location. Although we have taken precautions to safeguard our facility, including obtaining business interruption insurance, any future natural disaster, such as a hurricane, flood or fire, could significantly disrupt our operations and delay or prevent product shipment during the time required to repair, rebuild or replace our facility, which could be lengthy and result in significant expenses. Furthermore, the insurance coverage we maintain may not be adequate to cover our losses in any particular case or continue to be available at commercially reasonable rates and terms. In addition, the vendors that perform some of the faceting of our loose moissanite jewels are located in regions that are susceptible to tsunamis, flooding, and other natural disasters that may cause a disruption in our vendors' operations for sustained periods and the loss or damage of our work- in- process inventories located at such vendors' facilities. Damage or destruction that interrupts our ability to deliver our products could impair our relationships with our customers. Prolonged disruption of our services as a result of a natural disaster may result in product delivery delays, order cancellations, and loss of substantial revenue, which could materially and adversely affect our business, results of operations, and financial condition. Sales of moissanite and lab grown diamond jewelry could be dependent upon the pricing of precious metals, which is beyond our control. Any increases in the market price of precious metals (primarily gold) could affect the pricing and sales of jewelry incorporating moissanite jewels and lab grown diamonds. The majority of price increases in precious metals are passed on to the end consumer in the form of higher prices for finished jewelry. These higher prices could have a negative impact on the sell- through of moissanite and lab grown diamond jewelry at the retail level. From 2007 through ~~2021~~ **2022** , the price of gold has ~~increased~~ **fluctuated** significantly, resulting in **generally** higher retail price points for gold jewelry. Accordingly, higher gold prices could have an adverse impact on both sales of moissanite and lab grown diamond finished jewelry and the jewelry industry as a whole. Our current customers may potentially perceive us as a competitor in the finished jewelry business. As described above, we are currently dependent on a limited number of customers, including distributors and retailers, for the sale of our products in the Traditional segment. Our design, manufacture, and marketing of finished jewelry featuring moissanite and lab grown diamonds for sale to distributors and retailers may result in some of these current customers perceiving us as a competitor, despite our efforts to use primarily non-conflicting sales channels. In response, these customers may choose to reduce their orders for our products. This reduction in orders could occur faster than our sales growth in this business, which could materially and adversely affect our business, results of operations, and financial condition. We depend on a single supplier for substantially all of our SiC crystals, the raw materials we use to produce moissanite jewels; if our supply of high- quality SiC crystals is interrupted, our business may be materially harmed. We are party to an exclusive supply agreement with ~~Cree~~ **Wolfspeed** , which we depend on for the provision of substantially all of the SiC material we use to produce moissanite jewels. Under the terms and conditions of the Supply Agreement, we agreed to purchase from ~~Cree~~ **Wolfspeed** , and ~~Cree~~ **Wolfspeed** agreed to supply, all of our required SiC material, subject to terms and conditions that allow us to purchase certain amounts of SiC materials from third parties under limited conditions. The Supply Agreement is set to expire in 2025 **and** ~~, but~~ may be further extended upon mutual agreement of the parties ~~to the Supply Agreement~~ . If our supply of high- quality SiC crystals is interrupted, then we may not be able to meet demand for moissanite jewels and our business may be materially and adversely affected. ~~Cree~~ **Wolfspeed** has certain proprietary rights relating to its process for growing large single crystals of SiC and its process for growing colorless and near-colorless SiC crystals. There is no guaranty that we would be able to obtain similar quality SiC crystals from another provider. There can be no assurance that ~~Cree~~ **Wolfspeed** will be able to continue to produce and supply us with SiC crystals of sufficient quality, sizes, and volumes that we desire or that we will be able to continue to negotiate future purchase commitments at acceptable prices that enable us to manage our inventories and raw material costs effectively. If the e- commerce opportunity changes dramatically or if e- commerce technology or providers change their models, our results of operations may be adversely affected. As e- commerce emerges as one of our primary selling channels, our business model becomes more reliant on third-party platforms to achieve success. Should our products, product listings, or business not meet the requirements of certain third-party transactional channels such as marketplaces, comparison shopping engines, or social commerce sites, it may affect our ability to meet our revenue targets. Additionally, Amazon. com, Inc., eBay Inc., Walmart. com, Gemvara, a Berkshire Hathaway Inc. Company, or other desirable e- commerce platforms may decide to make significant changes to their respective business models, policies, systems, or plans, and those changes could impair or inhibit our ability to sell our products through those channels. Further, a significant change in consumer online behavior or the introduction of new or disruptive technology could adversely affect overall e- commerce trends and diminish the value of investments we have made in select online channels. Any of these results could cause a significant reduction in our revenue and have a material adverse effect on our results of operations. Governmental regulation and oversight might adversely impact our operations. We are subject to governmental regulations in the manufacture and sale of moissanite jewels and finished jewelry. In particular, in ~~July~~ 2018 the FTC issued updated guidelines governing the description of lab- grown diamonds and other gemstones that require such gemstones to be clearly identified as to the gemstone' s lab- grown origin in any promotional or marketing materials. In addition, the precious metal in our finished jewelry may be subject to requirements, which vary by country and by state, such as hallmarking and alloy content. We may be under close scrutiny both by governmental agencies and by competitors in the gemstone industry, any of which may challenge our promotion and marketing of our moissanite jewels and finished jewelry products. While we have a policy to ensure compliance with applicable regulations, if our production or marketing of moissanite jewels and / or finished jewelry is challenged by governmental agencies or competitors, or if regulations are issued that restrict our ability to market our products, our business, results of operations, and financial condition could be materially adversely affected. Risks Related to our Financial Position The execution of our business plans could significantly impact our liquidity. The execution of our business plans to expand our Online Channels segment and global market opportunities, as well as to create required inventory of our Forever One ™, Moissanite by Charles & Colvard ®, and Caydia ® gemstones, requires significant investment of our resources, which may reduce our cash position. Should we fail to execute on our business plans, we could see delays in the return of cash from our investments, resulting in a decrease in our liquidity. Under our $ 5. 00 million cash collateralized line of credit facility, or the JPMorgan Chase Credit Facility ~~,~~ that we obtained from JPMorgan Chase Bank, N. A., effective July 7, 2021 **, as amended July 28, 2022** , failure to comply with the covenants and defaults contained in the JPMorgan Chase Credit Facility or any other instrument or document executed in connection with the JPMorgan Chase Credit Facility could restrict our ability to draw on such facility. In addition, we currently have an effective shelf registration statement on Form S- 3 on file with the SEC that allows us to periodically offer and sell, individually or in any combination, shares of common stock, shares of preferred stock, warrants to purchase shares of common stock or preferred stock, and units consisting of any combination of the foregoing types of securities, up to a total of $ 25. 00 million, of which all is available. However, we may offer and sell no more than one- third of our public float (which is the aggregate market value of our outstanding common stock held by non- affiliates) in any 12- month period. Further, if we would be unable to access the capital markets or issue equity securities on terms that are acceptable to us or at all, our cash, cash equivalents, and restricted cash and other working capital may be constrained to meet our working capital and capital expenditure needs. Given our current liquidity position, it is unlikely that we would not be able to draw on the JPMorgan Chase Credit Facility, **as amended,** which matures on July 31, ~~2022~~ **2023** . There is no guarantee of extension or renewal in connection with the terms and conditions of the JPMorgan Chase Credit Facility. The financial difficulties or insolvency of one or more of our major customers or their lack of willingness and ability to market our products could adversely affect results. We are subject to a concentration of credit risk amongst our major customers (some of whom are distributors), and a default by any of these customers on their amounts owed to us could have a material adverse effect on our financial position. Future sales and our ability to collect accounts receivable depend, in part, on the financial strength of our customers and our distributors' willingness and ability to successfully market our products. We estimate an allowance for accounts for which collectability is at risk and this allowance adversely impacts profitability. In the event customers experience greater than anticipated financial difficulties, insolvency, or difficulty marketing products, we expect profitability to be further adversely impacted by our failure to collect accounts receivable in excess of the amount due, net of the estimated allowance. In these circumstances, we may demand the return of product sold to such customers, resulting in an increase in inventory and a reduction in accounts receivable. Uncertainty in the current economic environment, as a result of the COVID- 19 pandemic **and geopolitical unrest** , constrained access to capital, the impact of inflation on our currency, and general market contractions has heightened, and may continue to heighten ~~,~~ our exposure to customer default and generate lower **-** than **-** expected distributor sales. Negative or inaccurate information on social media could adversely affect our brand and reputation. We are actively using various forms of digital and social media outreach to accomplish greater awareness of our brand and the value proposition we offer. These social media platforms and other forms of Internet- based communications allow access not only by us, but by any individual, to a broad audience of consumers and other interested persons. Consumers value readily available information concerning goods that they have or plan to purchase; however, they may act on such information without further investigation or authentication. Many social media platforms, including those relating to recruiting and placement activities, immediately publish the content of their participants' posts, often without filters or checks on accuracy of the content posted. While we actively monitor social media sites, we may be unable to quickly and effectively respond to or correct inaccurate and / or unfavorable information posted on social media platforms. Any such information may harm our reputation or brand, which could in turn materially and adversely affect our business, results of operations, and financial condition. We rely on assumptions, estimates and data to calculate certain of our key metrics and real or perceived inaccuracies in such metrics may harm our reputation and negatively affect our business. We believe that certain metrics are key to our business, including but not limited to average order value, or AOV, and revenue growth for charlesandcolvard. com, our primary transactional website. As both the industry in which we operate and our business continue to evolve, so too might the metrics by which we evaluate our business. While the calculation of these metrics is based on what we believe to be reasonable estimates, our internal tools are not independently verified by a third party and may have a number of limitations and, furthermore, our methodologies for tracking these metrics may change over time. We continue to improve upon our tools and methodologies to capture data and believe that our current metrics are accurate; however, the improvement of our tools and methodologies could cause inconsistency between current data and previously reported data, which could confuse investors or lead to questions about the integrity of our data. In addition, if the internal tools we use to track these metrics under- count or over- count performance or contain algorithm or other technical errors, the data we report may not be accurate. Accordingly, you should not place undue reliance on these metrics. We may not be able to adequately protect our intellectual property, which could harm the value of our products and brands and adversely affect our business. We rely primarily on patent, copyright, trademark, and trade secret laws, as well as confidentiality procedures and contractual restrictions, to establish and protect our proprietary rights, all of which provide only limited protection. We held U. S. product and method patents for moissanite jewels, which expired in 2015, under which we believed that we had broad, exclusive rights to manufacture, use, and sell moissanite jewels in the U. S. We had these same patents in 25 foreign jurisdictions primarily across Asia and Europe that expired in 2016 and one in Mexico that expired in 2021. However, our product and method patent expirations have enabled competitors and other businesses to duplicate and market a similar product and enter the marketplace. Without patent protection, we must rely primarily on our branding strategy and the Supply Agreement under which ~~Cree~~ **Wolfspeed** supplies SiC crystals exclusively to us, as well as confidentiality procedures, to protect our proprietary rights, which may or may not be sufficient. In addition, at the present time, we are primarily dependent on ~~Cree~~ **Wolfspeed** ' s technology for the production of SiC crystals. There can be no assurance that any patents issued to or licensed by or to us will provide any significant commercial protection, that we will have sufficient resources to protect our respective patents and proprietary rights, that any additional patents will be issued in the future, or that any existing or future patents will be upheld by a court should we seek to enforce our rights against an infringer. The existence of valid patents does not prevent other companies from independently developing competing technologies. Existing producers of SiC crystals or others may refine existing processes for growing SiC crystals or develop new technologies for growing large single crystals of SiC or colorless SiC crystals in a manner that does not infringe any patents issued to or licensed by or to us. Accordingly, existing and potential competitors have been able to develop products that are competitive with or superior to certain of our products, and such competition could have a material adverse effect on our business, results of operations, and financial condition. In addition, we have certain trademarks and pending trademark applications that support our moissanite and lab grown diamond branding strategy. The success of our growth strategy may depend on our continued ability to use our existing brand names in order to increase consumer awareness and further develop strong brands around our moissanite jewels and finished jewelry collections. We cannot assure that any future trademark or other registrations will be issued for pending or future applications or that we will be able to obtain licenses or other contractual rights to use brand names that may infringe the proprietary rights of third parties. We also cannot assure that any registered or unregistered trademarks or other intellectual property or contractual rights will be enforceable or provide adequate protection of our proprietary rights. Our inability to secure proprietary protection with respect to our brands could have a material adverse effect on our business, results of operations, and financial condition. We also cannot be certain that our products and brand names do not or will not infringe valid patents, trademarks, and other intellectual property rights held by third parties. We may be subject to legal proceedings and claims from time to time relating to the intellectual property of others in the ordinary course of our business. Litigation to determine the validity of any third party' s claims could result in significant expense and divert the efforts of our technical and management personnel, whether or not such litigation is determined in our favor. In the event of an adverse result of any such litigation, we could be required to expend significant resources to develop non- infringing technology or to obtain licenses for, and pay royalties on the use of, the technology subject to the litigation. We have no assurance that we would be successful in such development or that any such license would be available on commercially reasonable terms. **Environmental, social, and governance matters may impact our business, reputation, financial condition, and results of operations. Increasingly, companies are being measured by their performance on a variety of environmental, social, and governance, or ESG, matters, which are considered to contribute to the long- term sustainability of companies' performance. Recently, many investors, including large institutional investors, have publicly emphasized the importance of ESG measures to their investment decisions. Our assessments on ESG matters include, among others, the Company' s efforts and impacts, including impacts associated with our suppliers or other business partners, on environmentally and socially responsible fine jewelry, climate change, diversity, ethics, and compliance with applicable regulations. There can be no certainty that we will manage such ESG matters successfully, or that we will successfully meet investors' expectations as to our proper role, or our own ESG goals and values. This could lead to risk of litigation or reputational damage relating to our ESG policies or performance. Further, our decisions regarding ESG matters may not be consistent with our short- term financial expectations and may not ultimately produce the long- term benefits that we expect, in which case our business, reputation, financial condition, and operating results may be adversely impacted.** If we fail to evaluate, implement, and integrate strategic acquisition or disposition opportunities successfully, our business may suffer. From time to time, we evaluate strategic opportunities available to us for product, technology, or business acquisitions or dispositions. If we choose to make acquisitions or dispositions, we face certain risks, such as failure of an acquired business to meet our performance expectations, failure to recognize cost savings from a disposition, diversion of management attention, retention of management and existing customers of our current and any acquired business, and difficulty in integrating or separating a business' s operations, personnel, and financial and operating systems. We may not be able to successfully address these risks or any other problems that arise from future acquisitions or dispositions. Any failure to successfully evaluate strategic opportunities and address risks or other problems that arise related to any acquisition or disposition could adversely affect our business, results of operations, ~~and financial condition. Our PPP Loan eligibility and forgiveness remains subject to review for compliance with applicable SBA requirements. On June 18, 2020, we received the proceeds from a loan pursuant to the Paycheck Protection Program under the CARES Act, as administered by the SBA. Our loan in the principal amount of $ 965, 000, or the PPP Loan, was disbursed by Newtek Small Business Finance, LLC, or the Lender, a nationally licensed lender under the SBA, pursuant to the Promissory Note issued by us on June 15, 2020. Pursuant to Section 1106 of the CARES Act, on June 14, 2021, we applied for forgiveness of our PPP Loan. On June 23, 2021, we were granted forgiveness by the SBA for the full principal amount of the PPP Loan. In accordance with applicable eligibility requirements to receive the PPP Loan and for compliance with the forgiveness requirements of Section 7 (a) (36) and Section 7A of the Small Business Act, we must retain all records relating to our PPP Loan for a period of six years from the date the loan was forgiven. During this period, our PPP Loan eligibility and loan forgiveness application are subject to review and audit by the SBA. While we made our certification for loan eligibility in good faith after analyzing, among other things, our financial situation and access to alternative forms of capital, and believe that we satisfied all eligibility criteria for the PPP Loan and that~~

~~our receipt of the PPP Loan was consistent with the broad objectives of the Paycheck Protection Program of the CARES Act, the certification described above did not contain any objective criteria and is subject to interpretation. If, despite our good faith belief that we satisfied all eligibility requirements for the PPP Loan, we are found to have been ineligible to receive the PPP Loan or in violation of any of the laws or regulations that apply to us in connection with the PPP Loan, including the False Claims Act, we may be subject to penalties, including significant civil, criminal, and administrative penalties and could be required to repay the PPP Loan. Now that we have applied for and have been granted forgiveness of our PPP Loan by the SBA, we were also required to make certain certifications in connection with that application for forgiveness, which are subject to audit and review by governmental entities and could subject us to significant penalties and liabilities if found to be inaccurate. A review or audit by the SBA or other government entity or claims under the False Claims Act could consume significant financial and management resources. Any of these events could harm our business, results of operations~~ and financial condition. Risks Related to Ownership of our Common Stock Some anti- takeover provisions of our charter documents may delay or prevent a takeover of our company. A number of provisions of our articles of incorporation and bylaws impact matters of corporate governance and the rights of shareholders. Certain of these provisions have an anti- takeover effect and may delay or prevent takeover attempts not first approved by our Board of Directors (including takeovers that certain shareholders may deem to be in their best interests). These provisions also could delay or frustrate the removal of incumbent directors or the assumption of control by shareholders. We believe that these provisions are appropriate to protect our interests and the interests of all of our shareholders **. We cannot guarantee that our share repurchase program will be utilized to the full value approved, or that it will enhance long- term stockholder value and repurchases we consummate could increase the volatility of the price of our common stock and could have a negative impact on our available cash balance. Our Board authorized a share repurchase program pursuant to which we may repurchase up to $ 5. 00 million of our common stock through April 29, 2025. The manner, timing and amount of any share repurchases may fluctuate and will be determined based on a variety of factors, including the market price of our common stock, our priorities for the use of cash to support our business operations and plans, general business and market conditions, tax laws, and alternative investment opportunities. The share repurchase program authorization does not obligate us to acquire any specific number or dollar value of shares. Further, our share repurchases could have an impact on our share trading prices, increase the volatility of the price of our common stock, or reduce our available cash balance such that we will be required to seek financing to support our operations. Our share repurchase program may be modified, suspended, or terminated at any time, which may result in a decrease in the trading prices of our common stock. Even if our share repurchase program is fully implemented, it may not enhance long- term stockholder value** . Our failure to maintain compliance with Nasdaq' s continued listing requirements could result in the delisting of our common stock. Our common stock is currently listed on The Nasdaq Capital Market. In order to maintain this listing, we must satisfy minimum financial and other requirements. On three separate occasions in the past five years, ~~including on one occasion~~ **the most recent of which occurred** in Fiscal 2021, we have received notification letters from Nasdaq indicating that we were not in compliance with listing requirements because the minimum bid price of our common stock closed below $ 1. 00 per share for 30 consecutive business days. However, Nasdaq subsequently notified us that in all instances we had regained compliance with the minimum bid price requirement. If we fail to satisfy Nasdaq' s listing requirements in the future, we expect to take actions to regain compliance, but we can provide no assurance that any such action would prevent our common stock from dropping below the Nasdaq minimum bid price requirement or prevent future non- compliance with Nasdaq' s listing requirements. If our common stock is delisted from Nasdaq, the delisting could substantially decrease trading in our common stock and adversely affect the market liquidity of our common stock; adversely affect our ability to obtain financing on acceptable terms, if at all; and may result in the potential loss of confidence by investors, suppliers, customers, ~~and~~ employees **,** and fewer business development opportunities. Additionally, the market price of our common stock may decline further and shareholders may lose some or all of their investment. Item 1B. Unresolved Staff Comments