

## Risk Factors Comparison 2025-04-03 to 2023-10-12 Form: 10-K

Legend: **New Text** ~~Removed Text~~ Unchanged Text **Moved Text** Section

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**

**Operations** ~~The Our execution of our business plans and our results of operations could be materially adversely affected significantly impact our liquidity and there is substantial doubt about our ability to continue~~ as a **going concern** result of general economic and market conditions. ~~Our~~ **The execution of our business plans**, including our sales volumes and overall..... and geopolitical instability. We are unable to **expand** predict the likely duration and severity of..... and execute strategic initiatives, particularly in our Online Channels segment, ~~to grow our sales and~~ **global market opportunities** operating income. As we execute our strategy to build and reinvest in our business, ~~as~~ significant expenses and investment of cash will **well be as to create** required **inventory** going forward and this may 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 addition, 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 or ~~our~~ other manufacturers, could affect both consumers..... Charles & Colvard brands, such as Forever One™, Moissanite by Charles & Colvard®, **recently rebranded as** and Caydia®, all of which..... in our distribution channels to purchase loose Forever One **Bright™**, Moissanite by Charles & Colvard®, and Caydia® gemstones as well as their continued willingness of..... Colvard®, and Caydia® gemstones, requires significant investment of our resources, which may reduce our cash position. Should we fail to execute our business plans, we could see delays in the return of cash from our investments, resulting in a decrease in our liquidity. **We** 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 and amended further effective June 21, 2023, 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 ~~The shelf registration statement is currently not available to offer and~~ **or sell shares no more than one-third of our public float (which is the aggregate market value of our outstanding common stock due to the Company's late** held by non-affiliates) in any 12-month period **periodic filings**. 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 insufficient** to meet our working capital and capital expenditure needs. **Given On February 10, 2025, the Company and Wolfspeed entered into a settlement agreement related to the Wolfspeed arbitration. Under the settlement agreement the Company terminated the exclusive supply agreement and agreed to pay Wolfspeed a total of \$ 4.77 million, which includes the purchased and consigned inventory, Wolfspeed's attorney fees in connection with the arbitration, and interest. The final settlement amount is to be paid \$ 500,000 on February 11, 2025, \$ 1.83 million on our-** ~~or~~ current not include any adjustments to the amount or the classification of assets and liabilities that may be necessary should we not continue as a going concern. Our business and our results of operations could be materially adversely affected as a result of general economic and market conditions. Our business, including our sales volumes and overall profitability, depends on consumer demand for our products and could be adversely impacted further by unfavorable general economic conditions, declines in consumer confidence and consumer disposable income, rising energy and fuel prices, increasing freight costs, rising inflation rates, recession and fears of recession, consumer debt levels, increased interest rates, and higher tax rates. Our business could also be adversely impacted by possible disruptions in global financial markets, including severely diminished **liquidity and 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 ongoing conflict between Russia and Ukraine, and domestic political and geopolitical instability.** We are unable ~~liquidity and Caydia®~~, all of which are used in finished jewelry featuring moissanite and lab grown diamonds, which may in part drive interest in and demand for moissanite and lab grown diamond 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 **relationship** ability to find alternative suppliers of SiC crystals after the termination of our exclusive supply agreement with Wolfspeed;• 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 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 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 will continue to rely on our carefully executed brand awareness and digital marketing campaigns to build our consumer relationships and maintain our competitive position going forward. If it 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 information technology We have historically been dependent on a single supplier for substantially all of our silicon carbide,or 4-SiC crystals, infrastructure,and the raw materials we use to produce moissanite jewels;if our supply of high network has been and may be impacted by a cyber- quality SiC crystals is unlikely interrupted, our business may be materially harmed. We have been a party to an exclusive supply agreement with Wolfspeed, which we have historically been dependent 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 Wolfspeed, and 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. On February 10, 2025, we entered into a settlement agreement related to the Wolfspeed arbitration and terminated the exclusive supply agreement. (see “ We are subject to arbitration, litigation, and demands, which would could result in significant liability and costs, and impact our resources and reputation. ” and Item 3, “ Legal Proceedings ”). 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 draw on the JPMorgan Chase Credit Facility, as amended, which matures on July 31, 2024. There is no guarantee guaranty of extension that we would be able to obtain similar quality SiC crystals from another provider or at competitive prices that enable us to manage or our renewal, inventories and other similar disruptions raw material costs effectively . Constantly evolving privacy regulatory regimes are creating new legal compliance challenges.Domestic and international privacy and data security laws are complex and changing rapidly.There are a variety of laws and regulations,including regulations by federal government agencies,including the Federal Trade Commission,or FTC,and state and local agencies.In addition to federal laws such as § 5 of the Federal Trade Commission Act,the Gramm- Leach- Biley 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.Variou laws across states and U.S.territories also require businesses to notify affected individuals,governmental entities,and / or credit reporting agencies of certain security breaches affecting personal information.International privacy laws,including in in position Canada and the European Union,or E. Our U. S. pose further challenges . product These domestic and international laws are not consistent, method patents for moissanite jewels expired in 2015 and compliance most of our patents in foreign jurisdictions expired in 2016 with one in Mexico that expired in 2021.Since the these expiration laws in the event of our product a widespread data breach would be complex and method patents we costly.In addition,privacy advocates and industry groups have regularly proposed, noted new providers of moissanite and competitive products entering the market.We will continue to rely on our carefully executed brand -- and may propose in the future awareness and digital marketing campaigns to build our consumer relationships and maintain our competitive position going forward.If, however, self- regulatory standards by which we are legally unable to successfully build strong brands for or contractually bound.If we fail to comply with these obligations our- or standards 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 face substantial liability or fines.Despite our efforts to comply with all applicable data protection laws and regulations,any actual or perceived non- compliance could result in litigation and proceedings against us by governmental entities,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 our products and services.Such occurrences could or a commercial advantage against our competitors or their competitive products or processes,which may have a material adverse adversely effect affect on our business, results of operations,and financial condition ,and results of operations . Our Table of ContentsOur information technology,or IT,infrastructure,and our network has been and may be impacted by a 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,as well as personal information about our customers and employees.Cyber- 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 other cyber- attacks,hacking,“ phishing ” attacks,computer viruses,ransomware or malware,employee or insider error,malfesance,social engineering,vendor software supply chain compromises,physical breaches or other actions,have resulted 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 operations.Furthermore,any such 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 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. On or about June 28, 2023, we identified a cybersecurity incident that temporarily disrupted the Company's IT network and resulted in some limited downtime for certain systems. **Through investigation, we confirmed that** ~~This this~~ event was related to an apparent ransomware attack involving the unauthorized encryption of some of our files and the deployment of malware. This incident required us to temporarily implement manual processes to conduct our operations with as little disruption to production as possible. We have invested and continue to invest in risk management and information security and data privacy measures in 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, and enhancing data or system protection measures could increase significantly to overcome intense, complex, and sophisticated global cyber threats. In addition, we and certain of our third-party vendors receive and store 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. Our disclosure controls and procedures address cybersecurity and include~~ **connection with our e-commerce business, we rely on encryption and authentication technology licensed from third parties to effect secure transmission of confidential information. 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. We are subject to certain risks due to our international operations, distribution channels, and vendors. We have continued our direct international sales operations, with international net sales accounting for approximately 2 % of total consolidated net sales during Fiscal 2024. 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 China. In addition, we use certain companies based outside the U.S. to facet our moissanite jewels and to manufacture finished jewelry. 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~~ **Table of Contents** ~~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, 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 **and the recent U.S. election results**, 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 U.S. and China signed a contingent trade deal to reduce planned tariff increases. 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 2023 and 2024. Separately, with the U.K.'s exit from the E.U. in January 2020, known as Brexit, the ongoing uncertainties of the trading relationship between the U.K. and the E.U. have yet to be completely realized and the ultimate outcome and long-term impacts for the U.K. 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, 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 Table of Contents 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. The availability of certain shapes and sizes of our loose moissanite and lab grown diamond gems, including our Forever One™, Moissanite by Charles & Colvard®, recently rebranded as Forever Bright™, and Caydia® gems, 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. 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 23% and 21% and 31% of our net sales during the fiscal years ended June 30, 2024 and 2023 and 2022, 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 lab grown diamonds and finished jewelry featuring moissanite and lab grown diamonds. 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. The effects of COVID-19 and other potential future public health crises, epidemics, pandemics or similar events on our business, operating results, and cash flows are uncertain. We could be negatively impacted by the widespread outbreak of an illness or other communicable disease, or any other public health crisis that results in economic and trade disruptions. During Fiscal 2023, our performance has been affected by supply chain disruptions and delays, as well as labor challenges associated with employee absences, travel restrictions, remote work, and adjusted work schedules. The impact of COVID-19 on our operational and financial performance in future periods, including our ability to execute our business plans in the expected timeframe, remains uncertain and will depend on future COVID-19-related developments, including the impact of COVID-19 infection or potential new variants or subvariants, the effectiveness and adoption of COVID-19 vaccines and therapeutics, supplier impacts and related government actions to prevent and manage disease spread, including the implementation of any federal, state, local or foreign COVID-19-related controls. The long-term impacts of COVID-19 on consumer shopping and spending patterns, including product and commodity priorities affected by general economic conditions that impact demand for our products and services and our business also are difficult to predict, but could negatively affect our future results and performance. 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. We ~~have experienced~~ **experience** a higher degree of seasonality in the three months ending December 31, primarily as a result of the calendar year-end holiday season sales to end consumers through our Online Channels segment and ~~to 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 conditions-- condition. Table of Contents** Sales of moissanite and lab grown diamond jewelry could be dependent upon the JPMorgan 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 2024, the price of gold Chase-- has Credit has 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. 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 Facility-- ability~~ to meet our revenue targets. Additionally, Amazon.com, Inc., eBay Inc., Walmart.com, 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 ~~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 featuring moissanite and lab grown diamonds. 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 featuring moissanite and lab grown diamonds. While we have a policy to ensure compliance with applicable regulations, if our production or marketing of moissanite jewels and / or finished jewelry featuring moissanite and lab grown diamonds 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. **The effects of potential future public health crises, epidemics, pandemics or similar events on our business, operating results, and cash flows are uncertain. We could be**

**negatively impacted by the widespread outbreak of an illness or other communicable disease, or any other public health crisis, such as COVID-19, that results in economic and trade disruptions.** Risks Related to our Financial Position

**Position** We The execution are subject to arbitration, litigation, and demands, which could result in significant liability and costs, and impact our resources and reputation. From time to time, we may be involved in legal proceedings or subject to claims incident to the ordinary course of business. The outcome of litigation is inherently uncertain, and there can be no assurances that favorable outcomes will be obtained. On July 28, 2023, Wolfspeed initiated a confidential arbitration against us for breach of contract claiming damages, plus interest, costs, and attorneys' fees. **On February 10, 2025, the Company and** Wolfspeed **has** **alleged that** **entered into a settlement agreement related to the Wolfspeed arbitration. Under the settlement agreement** the Company **terminated** **failed to satisfy the exclusive purchase obligations provided in the Supply supply Agreement agreement** **for Fiscal 2023 in the amount and agreed to pay Wolfspeed a total of \$ 4. 25-77 million , which includes the purchased and failed** **consigned inventory, Wolfspeed's attorney fees in connection with the arbitration, and interest. The final settlement amount is to pay for be paid \$ 3-500, 000 on February 11, 2025, \$ 1. 83 million on or before February 28, 2025, and \$ 2. 44 million on or before December 31, 2025. As of June 30 , 2024, the Company accrued \$ 4. 77 million related of** SiC crystals Wolfspeed delivered to us. Wolfspeed further alleges that the **final settlement** Company intends to breach our remaining purchase obligations under the Supply Agreement, representing an **and expected payments additional \$ 18. 5 million in alleged damages. This arbitration and other-Other** such proceedings or claims could result in adverse judgments, settlements, fines, penalties, injunctions, or other relief and, regardless of outcome, can have an adverse impact on us for reasons including diverting management's attention away from our business operations and incurring substantial costs and expenses relating directly to these actions. For more information on our pending legal proceedings, see " Part I, Item 3. Legal Proceedings ". **For more information about the risks related to our liquidity and ability to continue as a going concern, see " Risks Related to our Operations – The execution of our business plans could significantly impact our liquidity and there is substantial doubt about our ability to continue as a going concern. "** 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. 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. 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~~ **Table of Contents**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 **moissanite and lab grown diamond** 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. **As a public reporting company, we are subject to rules and regulations established from time to time by the SEC and Nasdaq regarding our internal control over financial reporting. If we fail to establish and maintain effective internal control over financial reporting and disclosure controls and procedures, we may not be able to accurately report our financial results, or report them in a timely manner. We are subject to the rules and regulations established from time to time by the SEC and Nasdaq. These rules and regulations require, among other things, that we establish and periodically evaluate procedures with respect to our internal control over financial reporting. Reporting obligations as a public company are likely to place a considerable strain on our financial and management systems, processes and controls, as well as on our personnel. We are required to furnish a report by management on, among other things, the effectiveness of our internal control over financial reporting pursuant to Section 404 (a) of the Sarbanes-Oxley Act in our annual reports. This assessment must include disclosure of any material weaknesses identified by our management in our internal control over financial reporting. The rules governing the standards that must be met for our management to assess our internal control over financial reporting are complex and require significant documentation, testing and possible remediation. Likewise, our independent registered public accounting firm will be required to provide an attestation report on the effectiveness of our internal control over financial reporting at such time as we cease to be an "Smaller Reporting Company," as defined in Regulation S-K, and we become an accelerated or large accelerated filer. At such time, our independent registered public accounting firm may issue a report that is adverse in the event it is not satisfied with the level at which our internal control over financial reporting is documented, designed or operating. Table of ContentsAs disclosed in Part II, Item 9A, "Controls and Procedures," of this Annual Report on Form 10-K, our management identified material weaknesses in our internal control over financial reporting and we have concluded that our internal control over financial reporting was not effective as of June 30, 2024. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement in a company's annual or interim financial statements will not be prevented or detected on a timely basis.**

We are in the process of remediating the material weaknesses. We can give no assurance that our efforts will remediate the material weaknesses in our internal control over financial reporting, or that additional material weaknesses will not be identified in the future. We may also conclude that additional measures may be required to remediate the material weaknesses in our internal control over financial reporting, which may necessitate additional implementation and evaluation time. If we are unable to comply with the demands that are placed upon us as a public company, including the requirements of Section 404 of the Sarbanes-Oxley Act, in a timely manner, there could be errors in our annual or interim consolidated financial statements that could result in a restatement of our financial statements, or we may be unable to report our financial results within the timeframes required by the SEC. Additionally, ineffective internal control over financial reporting could expose us to an increased risk of financial reporting fraud and the misappropriation of assets and subject us to potential delisting from Nasdaq or to other regulatory investigations and civil or criminal sanctions or investigations by the SEC or other regulatory authorities. In addition, if we are unable to assert that our internal control over financial reporting is effective, or if our independent registered public accounting firm is unable to express an opinion as to the effectiveness of our internal control over financial reporting, when required, investors may lose confidence in the accuracy and completeness of our financial reports, we may face restricted access to the capital markets and our stock price may be adversely affected.

Risks Related to Ownership of our Common Stock 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 June 12, 2023, we received a notification letter from Nasdaq's Listing Qualifications Department indicating that we are not in compliance with Nasdaq Listing Rule 5550 (a) (2), because the minimum bid price of our common stock on the Nasdaq Capital Market has had closed below \$ 1.00 per share for 30 consecutive business days. The notification letter has no immediate effect on the Nasdaq listing or trading in our common stock. In accordance with Nasdaq Listing Rule 5810 (c) (3) (A), we have the Company had 180 calendar days, or until December 11, 2023, to regain compliance with the minimum \$1.00 bid price per share requirement. To The Company received notice on December 12, 2023 from the Nasdaq's Listing Qualifications Department which resulted in an additional 180-day period, or until June 10, 2024, within which to regain compliance with, any time before December 11, 2023, the minimum bid price requirement. As noted above, the Company completed the Reverse Stock Split effective May 17, 2024, and on June 3, 2024, the Company received a letter from the Nasdaq Listing Qualifications Department notifying the Company that the minimum bid price of our its common stock was must close at \$ 1.00 per share or more greater for a minimum of at least the last 10 consecutive business days. Accordingly On December 11, 2023, if we meet the continued listing requirement for market value of publicly held shares and all other the initial listing standards for The Company has regained compliance with the Nasdaq Capital Market (except for the minimum bid price requirement), and we notify Nasdaq of our intent to cure the deficiency, we may be provided with an and additional the matter is now closed. On October 18- 18 calendar day compliance period to regain compliance. If we are not eligible for an additional compliance period at that time. 2024, we received a Nasdaq will provide us with written notification letter from that our common stock will be subject to delisting. Upon such notice, we may appeal Nasdaq's delisting Listing determination to a Qualifications Department indicating that we are not in compliance with Nasdaq hearing panel. There can be Listing Rule 5250 (c) (1), which requires the timely filing of all required periodic reports, as a result of no not assurance that having timely filed its Annual Report on Form 10-K for the fiscal year ended June 30, 2024 (the "2024 Form 10-K"), with the Securities and Exchange Commission (the "SEC"). The 2024 Form 10-K was due on September 30, 2024. We filed a Notification of Late Filing on Form 12b-25 with the SEC on October 1, 2024. On November 21, 2024, we appeal received a notification letter from Nasdaq's Listing Qualifications Department indicating that determination, such appeal would be successful. While we are not intend to engage in efforts compliance with Nasdaq Listing Rule 5250 (c) (1), which requires the timely filing of all required periodic reports, as a result of not having timely filed its Annual Report on Form 10-Q for the fiscal period ended September 30, 2024 (the "September Form 10-Q"), with the SEC. The September Form 10-Q was due on November 14, 2024. We filed a Notification of Late Filing on Form 12b-25 with the SEC on November 15, 2024. We had 60 calendar days, or until December 17, 2024, to regain compliance with the, and thus maintain our listing Listing Rule or to submit to Nasdaq a plan to regain compliance with there the can be no assurance Listing Rule (the "Plan"). On December 17, 2024, the Company filed the Plan to regain compliance with Nasdaq. On January 31, 2025, we received a letter from the Nasdaq Listing Qualifications Department indicating they have accepted the Company's Plan to regain compliance. On February 25, 2025, we received a notification letter from Nasdaq's Listing Qualifications Department indicating that we are not in compliance with Nasdaq Listing Rule 5250 (c) (1), which requires the timely filing of all required periodic reports, as a result of not having timely filed its Annual Report on Form 10-Q for the fiscal period ended December 31, 2024 (the "December Form 10-Q"), with the SEC. The December Form 10-Q was due on February 18, 2025. We filed a Notification of Late Filing on Form 12b-25 with the SEC on February 18, 2025. We had until March 12, 2025, to submit to Nasdaq a plan to regain compliance with the Listing Rule (the "Plan"). On March 12, 2025, the Company filed the Plan to regain compliance with Nasdaq. The Company has until April 14, 2025 to file its Form 10-K for the year ended June 30, 2024 and Forms 10-Q for the periods ended September 30, 2024 and December 31, 2024. If we fail to file the Form 10-K for the year ended June 30, 2024 and Forms 10-Q for the period ended September 30, 2024 and December 31, 2024 by April 14, 2025, then the Company's securities will be delisted from able to regain compliance during the applicable time periods set forth above Nasdaq Capital Market. However, we will have the opportunity to appeal that decision to a Nasdaq Hearings Panel. If we fail to continue to meet all applicable listing requirements in the future and Nasdaq determines to delist our common stock, 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, 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.

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**We could be negatively affected as a result of a proxy contest and the actions of activist shareholders. While we value constructive feedback from our investors and engage in dialogue with them on various matters, we may nonetheless be subject to actions or proposals from activist shareholders that may not align with our business strategies or the interests of our other shareholders. On August 27, 2024, our board of directors received notice from a shareholder of the shareholder's intention to nominate three candidates to stand for election to our board of directors at our next annual meeting of shareholders. A proxy contest with respect to election of our directors, or other activist shareholder activities, could adversely affect our business because: (1) responding to a proxy contest and other actions by activist shareholders can be costly and time-consuming, disruptive to our operations and divert the attention of management and our employees; (2) perceived uncertainties as to our future direction caused by activist activities may result in the loss of potential business opportunities, and may make it more difficult to attract and retain qualified personnel and business partners; and (3) if individuals are elected to our board of directors with a specific agenda, it may adversely affect our ability to effectively and timely implement our strategic plans. We cannot predict, and no guarantees can be given, as to the outcome or timing of any matters relating to the foregoing actions by activist shareholders and our responses thereto or the ultimate impact on our business, results of operations or financial condition.**

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.

**Item 1B. Unresolved Staff Comments**Not applicable.  
**Item 2. Properties**We currently lease approximately 36,350 square feet of office, retail, storage, and light manufacturing space in Research Triangle Park, North Carolina, from an unaffiliated third-party that is used by both of our current operating and reportable business segments. The majority of all U. S. personnel, including our executive offices, sales offices, and administrative personnel, as well as our production and distribution facilities are housed in our current leased space.  
**Item 3. Legal Proceedings**From time to time, we may be involved in legal proceedings or subject to claims incident to the ordinary course of business. The outcome of litigation is inherently uncertain, and there can be no assurances that favorable outcomes will be obtained. In addition, regardless of the outcome, such proceedings or claims can have an adverse impact on us because of defense and settlement costs, diversion of resources and other factors. On July 28, 2023, Wolfspeed initiated a confidential arbitration against us for breach of contract claiming damages, plus interest, costs, and attorneys' fees. Wolfspeed has alleged that the Company failed to satisfy the purchase obligations provided in the Supply Agreement for Fiscal 2023 in the amount of \$ 4.25 million and failed to pay for \$ 3.30 million of SiC crystals Wolfspeed delivered to us. Wolfspeed further alleges that the Company intends to breach our remaining purchase obligations under the Supply Agreement, representing an additional \$ 18.5 million in alleged damages. While the Company is evaluating Wolfspeed's claims, we dispute the amount sought, and we intend to vigorously defend our position, including asserting rights and defenses that the Company may have under the Supply Agreement, at law and in equity. A hearing has not yet been scheduled. The final determinations of liability arising from this matter will only be made following comprehensive investigations, discovery and arbitration processes.  
**Item 4. Mine Safety Disclosures**Not applicable.  
**PART III**  
**Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**  

Period	Total Number of Shares Purchased	Average Price Paid per share	Total Number of shares Purchased as Part of Publicly Announced Plans or Programs
April 1, 2023—April 30, 2023	\$-- \$ 4, 510, 021	May 1, 2023—May 31, 2023	\$-- \$ 4, 510, 021
June 1, 2023—June 30, 2023	\$-- \$ 4, 510, 021	Total	\$-- \$ 4, 510, 021

(1) On May 5, 2022, we announced that our Board of Directors had approved a share repurchase program to permit us to repurchase up to \$ 5.00 million worth of our issued and outstanding common stock over the three-year period ending April 29, 2025. Market for Registrant's Common Equity Our common stock is traded on the Nasdaq Capital Market under the symbol "CTHR." As of September 29, 2023, there were 210 shareholders of record of our common stock. We did not pay any dividends on our common stock during the fiscal years ended June 30, 2023 and 2022. We will regularly review and consider the best policies and practices for our company, including the dividend policy. The payment of future dividends will be dependent on the facts and circumstances at the time of that review.  
**Item 6. [Reserved]**  
**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**The following Management's

Discussion and Analysis of Financial Condition and Results of Operations, or MD & A, is intended to provide a better understanding of our consolidated financial statements, including a brief discussion of our business and products, key factors that impacted our performance, and a summary of our operating results. This information should be read in conjunction with Item 1A, “Risk Factors” and our consolidated financial statements and the notes thereto included in Item 8, “Financial Statements and Supplementary Data” of this Annual Report on Form 10-K. Historical results and percentage relationships among any amounts in the consolidated financial statements are not necessarily indicative of trends in operating results for future periods.

**Business Overview**

**Our Mission** At Charles & Colvard, Ltd., our mission is to provide a more conscious and conflict-free fine jewelry experience for our customers. We are dedicated to blazing a more brilliant path forward with our Made, not Mined™ gemstones and committed to creating fine jewelry with a conscience.

**About Charles & Colvard** Charles & Colvard, Ltd., a North Carolina corporation founded in 1995 (which may be referred to as Charles & Colvard, we, us, or our) is a globally recognized fine jewelry company specializing in lab-created gemstones. We manufacture, market, and distribute Charles & Colvard Created Moissanite® (which we refer to as moissanite or moissanite jewels) and in September 2020, we announced our expansion into the lab-grown diamond market with the launch of Caydia®, an exclusive brand of premium lab-grown diamonds. We offer gemstones and finished jewelry featuring our proprietary moissanite jewels and premium lab-grown diamonds for sale in the worldwide fine jewelry market. Charles & Colvard is the original source of created moissanite, and in 2015, we debuted Forever One™, our premium moissanite gemstone brand. As an e-commerce and multi-channel destination for fine jewelry featuring lab-grown gemstones, we believe that the addition of lab-grown diamonds is a natural progression for the Charles & Colvard brand. We sell loose moissanite jewels, lab-grown diamonds, and finished jewelry set with these gems through two operating segments: our Online Channels segment, which encompasses our digital properties components, comprised of our charlesandcolvard.com and moissaniteoutlet.com websites, charlesandcolvarddirect.com, e-commerce outlets, including marketplaces, drop-ship customers, and other pure-play, exclusively e-commerce customers; and our Traditional segment, which consists of domestic and international distributors and retail customers, including end-consumers through our first Charles & Colvard Signature Showroom, which opened in October 2022. We report segment information based on the “management” approach. This segment reporting approach designates the internal reporting used by management for making operating decisions and assessing performance as the source of our operating and reportable segments. We operate in an e-commerce environment characterized by both complexity in global markets and ongoing economic uncertainties in the U. S. and internationally. Our strategy is to build a globally revered and accessible brand of gemstones and finished fine jewelry products set with moissanite and lab-grown diamonds. We believe that our goods appeal to a wide consumer audience and leverage our advantage of being the original and leading worldwide source of moissanite and purveyor of premium lab-grown diamonds. We believe a direct relationship with consumers is an important component to this strategy, which entails delivering tailored educational content, engaging in interactive dialogue with our audience, and positioning our brand to meet the demands of today’s discerning consumer. A significant component of our strategy in this environment is to focus on our core products, improving the quality and predictability of the delivery of our products and services, and placing those products quickly into the hands of our U. S. and international customers at affordable prices. Moreover, recognizing today that our customers and vendors are resource constrained, we are endeavoring to develop and extend our portfolio of products in a disciplined manner with a focus on domestic markets close to our core capabilities, as well as growing our global marketplace sales. We continue to focus on affordability initiatives. We also expect to continue innovating and investing in lab-created gemstone technologies to fulfill evolving product requirements for our customers and investing in our people so that we have the technical and production skills necessary to succeed without limiting our ability to build sound financial returns to our investors. We believe our expanding application of an omni-channel sales strategy across the fine jewelry trade and to the end consumer with accessible gemstones and value-branded finished jewelry featuring Charles & Colvard Created Moissanite® and Caydia® lab-grown diamonds positions our products at the many touchpoints where consumers are when they are making their buying decisions—thereby continuing to create greater exposure for our brand and increasing consumer demand.

**Cybersecurity Event Update** On or about June 28, 2023, we identified a cybersecurity incident that temporarily disrupted the Company’s IT network and resulted in some limited downtime for certain systems. Upon discovery, we took immediate action to activate our incident response and business continuity protocols. We took immediate action to contain the incident and appropriate incident response professionals were engaged to assist in investigating the nature and scope of the event and to further harden the Company’s defenses. Through investigation, we confirmed that this event was related to an apparent ransomware attack involving the unauthorized encryption of some Company files and the deployment of malware. Our investigation revealed no evidence that any sensitive customer data was compromised as a result of this incident, and our relationship with our customers has not been negatively impacted. We have worked closely with engaged security specialists to assist in the review and assessment of our information technology controls, and, subsequent to June 30, 2023, we implemented recommended strengthening of our access requirements, and improved our unauthorized access detection. Subsequent to June 30, 2023, we temporarily implemented manual processes to conduct our operations with as little disruption to production as possible. All major systems, including our enterprise resource planning, or ERP, financial systems and affected manufacturing and service operations, were restored as quickly as possible from available backups, and the incident did not have a material impact on the operations of our business operating segments. No payments were made to the ransomware threat actors. We have incurred costs in the first quarter of the fiscal year ending June 30, 2024, or Fiscal 2024, and expect to continue to incur costs in connection with this incident. In the first quarter of 2024, these costs have been primarily comprised of various third-party consulting services, including forensic experts, restoration experts, legal counsel, and other information technology professional expenses, enhancements to our cybersecurity measures, costs to restore our systems and access our data, and employee-related expenses, including with respect to increased overtime. We expect to incur these and other costs related to this incident in the future. Additional information on the risks we face related to this event and other potential cybersecurity incidents is included in Part I, Item 1A., “Risk Factors.” Highlights of the Fiscal

Year Ended June 30, 2023 During the fiscal year ended June 30, 2023, we delivered on several key initiatives, which we believe positions us for future growth as we move forward into the fiscal year ending June 30, 2024, or Fiscal 2024. These accomplishments in the fiscal year ended June 30, 2023, or Fiscal 2023, include the following:

- **Strengthen our Brand.** In early December 2022, we hosted a multiple-day private press event in New York City that included interviews with editors of numerous fashion and jewelry print and electronic media publications to showcase and promote our brand of fine jewelry. Throughout the fiscal quarter ended December 31, 2022, our finished jewelry products were featured in multiple national and local print and electronic media publications, such as InStyle, HuffPost, Forbes, AC Magazine, The Knot®, National Jeweler, WRAL, and the Triangle Business Journal. During the quarter, we also launched local print media public relations campaigns in Midtown Magazine and Raleigh Magazine to promote the opening of our Charles & Colvard Signature Showroom. In January 2023, we launched our bridal and fashion jewelry collections on 15- and 30-second commercial advertisement packages on NBC Universal's Peacock Streaming Service, or Peacock. Peacock is now the streaming home for NBC's broadcast shows, including the network's own Peacock Original Broadcasts on Originals Hub, Bravo Hub, NBC Network Hub, Telemundo Hub, WWE Hub, MSNBC Hub, and Hallmark Channel Hub. In mid-January, we participated in the Wedding Venue at Raleigh, North Carolina's Maxwell Winter Showcase. Charles & Colvard was the premier bridal and anniversary jewelry vendor that participated in this event. Raleigh's Maxwell events are well known in the Central North Carolina region and offer a setting where a touch of modern elegance meets classic luxury. This event, in particular, provided our collections with a premier setting to showcase our bridal and anniversary fine jewelry brands to the regional retail market. In April 2023 we hosted a private/invite-only Spring Preview in New York City with over 30 editors and influencers from The Knot, NBCU, Today, US Weekly, etc. to showcase new Forever One™ and Caydia® fine jewelry styles;
- **Marketing Strategy to Increase Awareness.** In addition to the accomplishments discussed above in "Strengthen Our Brand", as we move forward into Fiscal 2024, our strategic focus remains centered on the health and growth of our brand on a global scale. We will continue to execute our key strategies with an ongoing commitment to measured spending and generating sustainable earnings improvement. In December 2022, the popularity of our Made, not Mined™ Caydia® lab grown diamonds was the subject of a proprietary news feature broadcast on Spectrum News Channel 1, which is a primary cable news channel network that is broadcast statewide throughout North Carolina. Lastly, and in conjunction with our community outreach programs, during the December year-end holiday season, we sponsored the 29th Annual Jingle Ball at the North Carolina Museum of Natural Sciences, which is hosted by Capital City Clauses, Inc., a federally registered 501 (c) (3) nonprofit corporation whose mission is to enrich children's lives in the Raleigh metropolitan area by providing toy gifting and basic needs to those who are underprivileged and in need during the Christmas holidays and beyond;
- **Enhance and Expand Product Assortment.** In Fiscal 2023, we took several steps to broaden available selections of finished jewelry, which features our exclusive brand of premium lab grown diamonds, with an expanded Couture Collection assortment of finished jewelry that showcases a combination of mixed cuts of our Caydia® lab grown diamonds and recycled precious metals featuring new designs of rings, earrings, and pendant styles that we believe is the future of Made, not Mined™ fine jewelry. We believe this collection showcases a combination of mixed cut gemstones in single designs to create consumer interest. Also, during Fiscal 2023, we expanded our Ouro Edition of fine jewelry to include Caydia® lab grown diamond fashion pieces. The Ouro Edition is our curation of polished recycled 14 karat gold jewelry pieces with a design focus on geometric shapes. We believe that Ouro—which is Portuguese for gold—will bring a fresh approach to our finished jewelry in modern dimensional styles in yellow gold to bring our fine luxury jewelry to the forefront of modern fashion. In addition, with the launch of our latest lab grown precious gemstones in color, which we announced in October 2022, we are now offering a colorful new dimension of our Made, not Mined™ fine jewelry repertoire featuring lab grown ruby, sapphire, and emerald gemstones. We further offered an expanded assortment of Caydia® lab grown diamonds to include higher total carat weight items adding finished jewelry featuring lab grown diamonds with total carat weights of up to and in some cases exceeding 4.0 carats. Previously, we focused primarily on smaller total carat weight items of finished jewelry featuring our Caydia® lab grown diamonds. In Fiscal 2023 we expanded our bridal and engagement fine jewelry collections of styles featuring Forever One™ moissanite to continue to showcase and promote finished jewelry featuring our core product gemstone. Lastly, we launched 55 styles of our patented Signature Collection engagement ring and wedding band designs featuring Forever One™ moissanite and expanded our Caydia® lab grown diamond Couture Collection to include additional ring, necklace, earring, and bracelet styles; and launched 47 new fine jewelry styles on charlesandcolvard.com across all categories; and
- **Broaden our Footprint.** In October 2022, we officially opened the first Charles & Colvard Signature Showroom located in our corporate headquarters in North Carolina's Research Triangle Park. We believe that consumers are responding positively to our patented Signature Collection designs as well as our wide assortment of Forever One™ moissanite and Caydia® lab grown diamond fine jewelry. Also in October 2022, we hosted a private press event for community leaders and influencers, allowing them to experience the new broadcast studio located in our corporate headquarters. This studio is a digital extension of the sales team and a tool that our marketing team utilizes for video content production, live stream shopping, designer and influencer interviews, and fashion photography. We believe our brick-and-mortar expansion and digital marketing capability will continue to further position and define our brand in what we believe is a rapidly evolving consumer landscape and allow us to compete more effectively and, we believe, increase our market share within the fine jewelry space. In June 2023, we launched charlesandcolvarddirect.com selling loose moissanite gems (Forever One™ and Moissanite by Charles & Colvard®) to specific retailers. In addition, we launched three new dropship partnerships with Moissanite by Charles & Colvard® fine jewelry. As evidenced by our results for Fiscal 2023, domestic and global inflation and rising interest rates, coupled with ongoing fears of recession and the overall worsening of macroeconomic conditions that we witnessed during the fiscal year ended June 30, 2023, combined to continue eroding consumer confidence and presenting major challenges for the global retail and e-commerce industry. While American consumers continue spending more on consumer goods to keep up with higher prices, consumers are spending on necessities and other required goods and services and moving away from spending on luxury

items. We expect that consumers will continue to feel pressured financially, particularly throughout the remaining calendar year 2023. We are facing similar challenges to other retailers, including those in the e-commerce space, but particularly those in the luxury product retail arena. In addition, we continue seeing ongoing increased costs of digital advertising spend, known as cost-per-click in the digital advertising world, due to intense competition and pricing pressures in the lab-grown gem and finished jewelry space. While management remains focused to take the required steps necessary to mitigate the impact, the Company's costs that continue to increase will result in further pressure on its revenues, margins, and cash flows. Our MD & A generally discusses Fiscal 2023 and Fiscal 2022 items and year-to-year comparisons between Fiscal 2023 and Fiscal 2022. Results of Operations

The following table sets forth certain consolidated statements of operations data for the fiscal years ended June 30, 2023 and 2022:

Year Ended June 30, 2023	2022	Net sales	\$ 29,946,234	\$ 43,089,024
Costs and expenses:		Cost of goods sold	25,212,383	22,845,702
Sales and marketing	13,686,049	12,421,138	General and administrative	5,023,822
4,948,980	Total costs and expenses	43,922,254	40,215,820	(Loss) Income from operations
(13,976,020)	2,873,204	Other income (expense):	Interest income	297,262
19,243	(Loss) Income before income taxes	(13,678,758)	2,892,447	Income tax expense
(5,902,036)	(518,532)	Net (loss) income	\$ (19,580,794)	\$ 2,373,915

Consolidated Net Sales

Year Ended June 30, Change 2023	Dollars	Percent
Finished jewelry	\$ 23,985,614	\$ 29,712,230
(5,726,616)	(19)%	Loose jewels
5,960,620	13,376,794	(7,416,174)
(55)%	Total consolidated net sales	\$ 29,946,234
\$ 43,089,024	(13,142,790)	(31)%

Consolidated net sales were \$ 29.95 million for the fiscal year ended June 30, 2023 compared to \$ 43.09 million for the fiscal year ended June 30, 2022, a decrease of \$ 13.14 million, or 31%. We had lower net sales in both operating business segments during the fiscal year ended June 30, 2023. Overall consumer confidence has continued to show signs of weakening due to general economic uncertainties, coupled with domestic and worldwide inflation, including recessionary fears, and rising interest rates. Notwithstanding the calendar year-end 2022 holiday shopping season and the Valentine's Day occasion during February 2023 and Mother's Day during May 2023, these conditions have brought about lower consumer demand for our finished jewelry products, which resulted in lower net sales in our Online Channels segment during the fiscal year ended June 30, 2023. These same general economic conditions also caused weakness in demand for moissanite jewels from our domestic and international distributors, which in turn resulted in lower loose jewel and jewelry product net sales during the fiscal year ended June 30, 2023 in our Traditional segment. Sales of finished jewelry represented 80% and 69% of total consolidated net sales for the fiscal years ended June 30, 2023 and 2022, respectively. For the fiscal year ended June 30, 2023, finished jewelry sales were \$ 23.99 million compared to \$ 29.71 million for the fiscal year ended June 30, 2022, a decrease of \$ 5.73 million, or 19%. This decrease in finished jewelry sales was due primarily to lower demand across all of our finished jewelry products as a result of adverse global and domestic general economic conditions and increased competition. Sales of loose jewels represented 20% and 31% of total consolidated net sales for the fiscal years ended June 30, 2023 and 2022, respectively. For the fiscal year ended June 30, 2023, loose jewel sales were \$ 5.96 million compared to \$ 13.38 million for the fiscal year ended June 30, 2022, a decrease of \$ 7.42 million, or 55%. The decrease for the fiscal year ended June 30, 2023 was due primarily to lower sales of loose jewels through our distribution network in our Online Channels segment and Traditional segment, as a result of global and domestic general adverse macroeconomic conditions and increased competition. U. S. net sales accounted for approximately 97% and 95% of total consolidated net sales during the fiscal years ended June 30, 2023 and 2022, respectively. U. S. net sales decreased to \$ 29.06 million during the fiscal year ended June 30, 2023 compared to \$ 41.14 million during the fiscal year ended June 30, 2022, primarily as a result of decreased sales to U. S. customers in both our Online Channels segment and Traditional segment for the same reasons outlined above. Our largest U. S. customer during the fiscal years ended June 30, 2023 and 2022 accounted for 14% of total consolidated net sales during each of the fiscal years then ended. Other than our U. S. customer noted above during the fiscal years ended June 30, 2023 and 2022, we had no other customers with sales that represented 10% or more of total consolidated net sales for the periods then ended. We expect that we, along with our customers, will remain dependent on our ability to maintain and enhance our customer-related programs. A change in or loss of any of these customer or retailer relationships could have a material adverse effect on our results of operations. International net sales accounted for approximately 3% and 5% of total consolidated net sales during the fiscal years ended June 30, 2023 and 2022, respectively. International net sales decreased to \$ 890 thousand during the fiscal year ended June 30, 2023 compared to \$ 1.95 million in the fiscal year ended June 30, 2022. International sales decreased during the fiscal year ended June 30, 2023, compared to the prior fiscal year primarily due to lower demand in our international distributor market due to shutdowns in the Asia-Pacific region and increased competition during the fiscal year ended June 30, 2023, coupled with the strength of the U. S. dollar against foreign currencies. In light of the effects of ongoing global economic conditions, we continue to evaluate these and other potential distributors in international markets to determine the best long-term partners. As a result, and in light of the impact from the ongoing worldwide pandemic and international trade challenges, we expect that our sales in these markets may significantly fluctuate each reporting period. We did not have an international customer account for 10% or more of total consolidated sales during the fiscal years ended June 30, 2023 and 2022. A portion of our international consolidated sales represents jewels sold internationally that may be re-imported to U. S. retailers.

Costs and Expenses

Year Ended June 30, Change 2023	2022	Dollars	Percent	
Product line cost of goods sold:		Finished jewelry	\$ 12,397,091	\$ 13,932,700
(1,535,609)	(11)%	Loose jewels	2,744,977	6,169,790
(3,424,813)	(56)%	Total product line cost of goods sold	15,142,068	20,102,490
(4,960,422)	(25)%	Non-product line cost of goods sold	10,070,315	2,743,212
7,327,103	Total cost of goods sold	\$ 25,212,383	\$ 22,845,702	
\$ 2,366,681	Total cost of goods sold was	\$ 25.21 million	for the fiscal year ended June 30, 2023, compared to \$ 22.85 million for the fiscal year ended June 30, 2022, a net increase of approximately \$ 2.37 million, or 10%. Product line cost of goods sold is defined as product cost of goods sold in each of our Online Channels segment and Traditional segment excluding non-capitalized expenses from our manufacturing and production control	

departments, comprising personnel costs, depreciation, rent, utilities, and corporate overhead allocations; freight out; inventory write-downs; and other inventory adjustments, comprising costs of quality issues, and damaged goods. The increase in total cost of goods sold for the fiscal year ended June 30, 2023, as compared to the fiscal year ended June 30, 2022 was primarily driven by an increase in non-product line cost of goods sold offset by a decrease of sales of finished jewelry and loose jewels during the fiscal year ended June 30, 2023 in both of our Online Channels segment and Traditional segment. We experienced lower demand in our Online Channels segment as a result of lower finished jewelry product demand and loose jewel demand during the fiscal year ended June 30, 2023. Likewise, we saw lower loose jewel product demand and finished jewelry product demand in our Traditional segment throughout Fiscal 2023. The net increase in non-product line cost of goods sold for the fiscal year ended June 30, 2023 comprises a write-down of approximately \$ 5.9 million representing the carrying value of a portion of the Company's non-Forever One™ loose jewels inventory. The non-Forever One™ material inventory (mainly the classifications for our multiple grade Moissanite by Charles & Colvard® gemstones and lab-grown diamonds) is comprised of raw materials, or boules, work-in-process gemstones, and loose finished gemstones. Certain grades of the Company's Moissanite by Charles & Colvard® loose gemstones and lab-grown diamonds have seen a market deterioration which started in the quarterly period ended June 30, 2023 due to the recent downward pricing pressure on both mined and lab-grown diamonds. These trends in the diamond market have now put considerable pricing pressure on moissanite—for rough and loose gemstones—and due to oversupply of rough and loose gems for lab-grown diamonds the net realizable value of such inventory has decreased. Additionally, the net increase includes an approximate \$ 1.1 million increase in other inventory adjustments principally related to Fiscal 2023 cycle book-to-physical inventory adjustments and changes in production standard cost variances compared to those in the fiscal year ended June 30, 2022 and an approximate \$ 549,000 increase in non-capitalized manufacturing production control expenses principally related to the timing of when work-in-process goods are received into inventory and overhead costs are allocated. These increases were partially offset by a \$ 127,000 decrease in freight out principally from decreased shipments resulting from lower Online Channels segment sales during the fiscal year ended June 30, 2023 and an approximate \$ 76,000 decrease in inventory write-offs, exclusive of amounts previously mentioned, primarily related to decreases in obsolescence reserves in the fiscal year ended June 30, 2023, compared to those in the comparable prior fiscal year. For further discussion of non-product line cost of goods sold, see Note 3 to our consolidated financial statements in Item 8, "Financial Statements and Supplementary Data", of this Annual Report on Form 10-K.

Sales and Marketing

Sales and marketing expenses for the fiscal years ended June 30, 2023 and 2022 are as follows: Year Ended June 30, Change 2023 Dollars Percent Sales and marketing \$ 13,686,049 \$ 12,421,138 \$ 1,264,911 % Sales and marketing expenses were \$ 13.69 million for the fiscal year ended June 30, 2023 compared to \$ 12.42 million for the fiscal year ended June 30, 2022, an increase of approximately \$ 1.26 million, or 10%. The increase in sales and marketing expenses for the fiscal year ended June 30, 2023 compared to the fiscal year ended June 30, 2022 was primarily due to a \$ 513,000 increase in advertising and digital marketing expenses due to an increase in targeted direct-to-consumer top-of-funnel brand awareness campaigns; a \$ 252,000 increase in compensation expenses; a \$ 242,000 increase in general business and franchise taxes; a \$ 175,000 increase in professional services principally comprising consulting services for marketing support in the current year period; a \$ 28,000 increase in telephone-related communications expenses; a \$ 22,000 increase in employee-related recruiting and search fees for new hires; a \$ 15,000 increase in supplies and customer promotional gifts, primarily a "gift with purchase" program associated with the opening of our Signature Showroom in the current fiscal year; a \$ 14,000 increase in software-related costs incurred primarily in connection with new software-related agreements associated with upgraded sales-related operating systems; a \$ 3,000 increase in depreciation and amortization expense principally related to new sales-related systems hardware and software; and a \$ 3,000 net increase in general office-related expenses. These increases were offset partially by a \$ 2,000 decrease in travel expenses. The increase in digital marketing expenses for the fiscal year ended June 30, 2023 compared to the fiscal year ended June 30, 2022 was primarily due to an \$ 821,000 increase in digital advertising spend; a \$ 92,000 increase in outside agency fees; and a \$ 1,000 increase in print media expenses. These increases were offset partially by a \$ 186,000 decrease in cooperative advertising; a \$ 135,000 decrease in brand awareness marketing campaign expenditures as a result of fewer promotional activities in the current fiscal year; and an \$ 80,000 decrease in expenses relating to our participation in the 2021 JCK Trade Show held in the prior fiscal year for which we did not host a booth in the 2022 JCK Trade show held during the current fiscal year. Compensation expenses for the fiscal year ended June 30, 2023 compared to the fiscal year ended June 30, 2022 increased primarily as a result of a \$ 344,000 increase in salaries (due to fluctuations in headcount throughout the year); commissions, and related employee benefits in the aggregate and a \$ 5,000 increase in severance-related expenses associated with a reduction-in-force during the current fiscal year. These increases were partially offset by a \$ 62,000 decrease in bonus expense and a \$ 35,000 decrease in employee stock-based compensation expense.

General and Administrative

General and administrative expenses for the fiscal years ended June 30, 2023 and 2022 are as follows: Year Ended June 30, Change 2023 Dollars Percent General and administrative \$ 5,023,822 \$ 4,948,980 \$ 74,842 % General and administrative expenses were \$ 5.02 million for the fiscal year ended June 30, 2023 compared to \$ 4.95 million for the fiscal year ended June 30, 2022, an increase of approximately \$ 75,000, or 2%. The increase in general and administrative expenses for the fiscal year ended June 30, 2023 compared to the fiscal year ended June 30, 2022 was primarily due to a \$ 199,000 increase in professional services; a \$ 187,000 increase in depreciation and amortization expense related to general office leasehold improvements associated with the lease on our corporate headquarters and business expansion related to the opening of our new Charles & Colvard Signature Showroom also located in our headquarters campus; a \$ 105,000 increase in travel and expense related expenditures as we returned to more traditional business travel patterns following the pandemic; an \$ 84,000 increase in bad debt expense associated with our allowance for doubtful accounts reserve policy; an increase of \$ 72,000 in general business taxes and licenses; and a \$ 21,000 increase in insurance expense, principally related to increased cybersecurity premiums. These increases were partially offset by a \$ 411,000 decrease in compensation expenses; a \$ 163,000 decrease in bank fees resulting from the

revised fee structure associated with different banking arrangements in place in the current fiscal year versus those in the prior fiscal year; a \$ 14, 000 decrease in rent expense, primarily related to our corporate headquarters operating lease; and a \$ 4, 000 net decrease in miscellaneous other general and administrative expenses. Compensation expenses decreased for the fiscal year ended June 30, 2023 compared to the fiscal year ended June 30, 2022 primarily due to a \$ 463, 000 decrease in employee stock-based compensation expense and a \$ 169, 000 decrease in bonus expense. These decreases were partially offset by a \$ 217, 000 net increase in salaries and related employee benefits in the aggregate (due to fluctuations in headcount throughout the year), and a \$ 5, 000 increase in severance-related expenses associated with a reduction in force during the current fiscal year. Professional services fees increased for the fiscal year ended June 30, 2023 compared to the fiscal year ended June 30, 2022 primarily due to a \$ 118, 000 increase in legal fees associated with corporate governance matters; a \$ 53, 000 increase in broker commissions primarily related to our stock repurchase program; a \$ 24, 000 increase in investor relations fees; and a \$ 4, 000 increase in fees associated with audit and tax services. Interest Income Interest income for the fiscal years ended June 30, 2023 and 2022 is as follows: Year Ended June 30, Change 2023 Dollars Percent Interest income \$ 297, 262 \$ 19, 277 \$ 277, 985 \* % \* Not meaningful Certain cash balances in excess of operating needs are deposited into and maintained in an interest-bearing account with a commercial bank. Accordingly, during the fiscal years ended June 30, 2023 and 2022, we earned interest from cash on deposit in this interest-bearing account. The increase in earned interest for the fiscal year ended June 30, 2023 reflects movement of invested funds into a higher-yield money market fund in late Fiscal 2022, coupled with the overall increase in interest rates during Fiscal 2023 compared with those in Fiscal 2022. Loss on Foreign Currency Exchange Loss on foreign currency exchange related to foreign sales transacted in functional currencies other than the U. S. dollar for the fiscal years ended June 30, 2023 and 2022 are as follows: Year Ended June 30, Change 2023 Dollars Percent Loss on foreign currency exchange \$ - \$ (34) (100) % During the fiscal year ended June 30, 2022, we had international sales transactions denominated in currencies other than the U. S. dollar that resulted in foreign currency exchange net losses. There were no such international sales transactions denominated in foreign currencies during the fiscal year ended June 30, 2023. Provision for Income Taxes Our statutory tax rate as of June 30, 2023 is 22. 94 % and consisted of the federal income tax rate of 21. 00 % and a blended state income tax rate of 1. 94 %, net of the federal benefit. Our statutory tax rate as of the fiscal year ended June 30, 2022 was 22. 45 % and consisted of the federal income tax rate of 21. 00 % and a blended state income tax rate of 1. 45 %, net of the federal benefit. Our effective income tax rate reflects the effect of federal and state income taxes on earnings and the impact of differences in book and tax accounting arising primarily from the permanent tax benefits associated with stock-based compensation transactions during the accounting period then ended. Driven by the establishment of the valuation allowance during the fiscal quarter ended March 31, 2023, our effective tax rate for the fiscal year ended June 30, 2023 was a negative 43. 15 %. For the fiscal year ended June 30, 2022, our effective income tax rate was 17. 93 %. We recognized a net income tax expense of approximately \$ 5. 90 million for the fiscal year ended June 30, 2023, compared with a net income tax expense of approximately \$ 519, 000 for the fiscal year ended June 30, 2022. As of each reporting date, we consider new evidence, both positive and negative, that could impact our view with regard to future realization of deferred tax assets. During the three months ended March 31, 2023, we determined that due to the worsening global macro-economic conditions and heightened levels of inflation, including fears of recession, coupled with the effects from worldwide political unrest and the ongoing economic impact from the COVID pandemic, the risks associated with these conditions led us to conclude that it was not more likely than not we would have sufficient future taxable income to utilize our deferred tax assets. Additionally, we determined that the positive evidence was no longer sufficient to offset available negative evidence, primarily as a result of the pre-tax operating losses incurred during the three- and nine-month periods ended March 31, 2023. Consequently, we established a full valuation allowance against our deferred tax assets. As of June 30, 2023, we determined that sufficient negative evidence continued to exist to conclude it was uncertain that we would have sufficient future taxable income to utilize our deferred tax assets, and therefore, we maintained a full valuation allowance against its deferred tax assets. Conversely, as of June 30, 2022, we determined at that time our expectations of future taxable income in upcoming tax years, including estimated growth rates applied to future expected taxable income that included significant management estimates and assumptions, would continue to be sufficient to result in full utilization of our remaining federal net operating loss carryforwards and certain of the deferred tax assets prior to any statutory expiration. As a result, we determined that sufficient positive evidence existed as of June 30, 2022, to conclude that it was more likely than not deferred tax assets of approximately \$ 5. 85 million remained realizable. However, we further determined that sufficient negative evidence continued to exist to conclude it was uncertain that we would have sufficient future taxable income to utilize certain of our deferred tax assets. Therefore, we continued to maintain a valuation allowance against the deferred tax assets relating to certain state net operating loss carryforwards from our e-commerce subsidiary due to the timing uncertainty of when it would generate positive taxable income to utilize the associated deferred tax assets. In addition, a valuation allowance remained against certain deferred tax assets relating to operating loss carryforwards relating to our dormant subsidiary located in Hong Kong. Certain Operating Metrics We believe that certain metrics are key to our business, including but not limited to monitoring our average order value, or AOV, primarily in our transactional website charlesandcolvard. com. We use the AOV computation in part to make strategic digital marketing-related decisions and to monitor the performance and return on investment of our marketing activities. Our AOV is based on financial results and customer-related data for charlesandcolvard. com, LLC, our wholly owned subsidiary through which we operate our primary transactional website. Our calculation for AOV is sensitive to several factors, including sales volume and product mix. Therefore, we believe that this metric may vary widely going forward as we respond to ever-changing consumer demand and provide the products—that may have widely variable price points—which our audiences are seeking. For the fiscal years ended June 30, 2023 and June 30, 2022, our AOV, based on charlesandcolvard. com revenue, net of returns, divided by the total number of customer orders, is estimated to be approximately \$ 1, 100 in each year. An additional metric that we use to manage charlesandcolvard. com operations and to make strategic digital marketing decisions for our transactional website is period-

over-period revenue growth. While we believe this metric is sensitive to many factors and may vary in future periods, we expect to continue to monitor and base our marketing-related investments in part on charlesandcolvard.com revenue growth going forward. For the fiscal year ended June 30, 2023, we experienced a 20% year-over-year decline in charlesandcolvard.com revenue compared to revenue for the fiscal year ended June 30, 2022.

**Liquidity and Capital Resources**  
**Capital Structure and Debt**  
**Long-Term Liquidity and Capital Structure**  
We 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. Our ability to issue equity securities under the shelf registration statement is subject to market conditions, which may be in turn, subject to, among other things, the potential disruption and volatility that may be caused by ongoing effects of rising inflation rates and fear of recession. Any capital raise is not assured and may not be at terms that would be acceptable to us.

**Financing Activities**  
**Long-Term Financing Activities**  
In accordance with authority granted by our Board of Directors on April 29, 2022, we can repurchase up to approximately \$5.00 million in shares outstanding of our common stock over the three-year period ending April 29, 2025. Pursuant to the terms of the repurchase authorization, the common stock share repurchases are generally at the discretion of management. As we repurchase our common shares, which have no par value, we report such shares held as treasury stock on the accompanying consolidated balance sheets as of June 30, 2023 and 2022, with the purchase price recorded within treasury stock. During the fiscal years ended June 30, 2023 and 2022, we repurchased 358,116 shares and 30,287 shares, respectively, of our common stock for an aggregate price of \$451,815 and \$38,164, respectively, pursuant to the repurchase authorization.

**Operating Activities and Cash Flows**  
We require cash to fund our operating expenses and working capital requirements, including outlays for capital expenditures. As of June 30, 2023, our principal sources of liquidity were cash and cash equivalents totaling \$10.45 million, trade accounts receivable of \$380,000, and net current inventory of \$7.48 million, as compared to cash and cash equivalents of \$15.67 million, trade accounts receivable of \$2.22 million, and net current inventory of \$11.02 million as of June 30, 2022. We also had access during Fiscal 2023 to a \$5.00 million cash collateralized line of credit facility, or the JPMorgan Chase Credit Facility, that we obtained effective July 9, 2021, as amended July 28, 2022 and amended further effective June 21, 2023, from JPMorgan Chase Bank, N.A., or JPMorgan Chase. During the fiscal year ended June 30, 2023, our working capital decreased by approximately \$11.55 million to \$17.51 million from \$29.06 million at June 30, 2022. As described more fully below, the decrease in working capital at June 30, 2023 is primarily attributable to a net decrease in our cash, cash equivalents, and restricted cash, a decrease in our allocation of inventory from long-term to short-term due to a lower expected sell-through of inventory on hand in the upcoming period, a decrease in our accounts receivable, an increase in our accounts payable, a decrease in our prepaid expenses and other assets, and an increase in our short-term operating lease liabilities. These factors were offset partially by a decrease in our accrued expenses and other liabilities. Cash used for investing activities was principally for construction-in-process expenditures related to our retail expansion program and the completion of the construction of our first Signature Showroom and other leasehold improvements in our corporate office. Cash used for financing activities is related to repurchases of our common stock pursuant to the terms of an effective stock repurchase authorization. During the fiscal year ended June 30, 2023, approximately \$3.88 million of cash was used by our operations. The primary drivers of our cash flows from operations were a net loss in the amount of approximately \$19.58 million and a decrease in accrued expenses and other liabilities of approximately \$927,000. These factors were offset partially by the favorable impact of approximately \$12.8 million of non-cash expenses driven by the deferred tax valuation allowance, and the inventory write-down recorded during the year ended June 30, 2023; a decrease in accounts receivable of \$1.77 million; a decrease in prepaid expenses and other assets of \$893,000; a decrease in inventory during year ended June 30, 2023 of \$755,000; and an increase in accounts payable of \$385,000. Accounts receivable decreased principally due to the decreased level of sales on credit during the three months ended June 30, 2023, as compared with the sales during the period leading up to June 30, 2022. From time to time, we have offered extended Traditional segment customer payment terms beyond 90 days to certain credit-worthy customers the extension of these terms may not immediately increase liquidity as a result of ongoing current-period sales. In addition, we believe our competitors and other vendors in the wholesale jewelry industry have expanded their use of extended payment terms and, in aggregate, we believe that, through our use of extended payment terms, we provide a competitive response in our market during the current global economic environment. We believe that we are unable to estimate the impact of these actions on our net sales, but we believe that if we ceased providing extended payment terms, we would be at a competitive disadvantage for some Traditional segment customers in the marketplace during this economic period and that our net sales and profits would likely be adversely impacted. During the fiscal year ended June 30, 2023, prepaid expenses and other assets decreased principally as a result of a decrease in the right-of-use asset associated with leasehold improvements in connection with the lease for our corporate headquarters facilities (which for financial reporting purposes is classified with prepaid expenses and other assets in the consolidated statement of cash flows) and the timing of certain vendor payments, primarily for insurance-related premium expenses, in advance of goods or services received. During the fiscal year ended June 30, 2023, accrued expenses and other liabilities decreased principally due the timing of payments for certain incurred expenses, principally for compensation and related benefits, and a decrease in the operating lease liability associated with the lease for our corporate headquarters facilities. During the fiscal year ended June 30, 2023, accounts payable increased primarily as a result of the timing of payments for costs associated with inventory-related purchases and professional services incurred. During the fiscal year ended June 30, 2022, our working capital decreased by approximately \$1.08 million to \$29.06 million from \$30.14 million at June 30, 2021. As described more fully below, the decrease in working capital at June 30, 2022 is primarily attributable to an increase in our accounts payable, a decrease in our allocation of inventory from long-term to short-term due to a lower expected sell-through of

inventory on hand in the upcoming period, an increase in our short-term operating lease liabilities; and a net decrease in our cash, cash equivalents, and restricted cash. These factors were offset partially by a decrease in our accrued expenses and other liabilities, an increase in our accounts receivable, and an increase in our prepaid expenses and other assets. Our cash used for investing activities principally for construction in process expenditures related to our retail expansion program and the construction of our first Signature Showroom and other leasehold improvements in our corporate offices was offset partially by cash provided by net financing activities. During the fiscal year ended June 30, 2022, approximately \$ 573, 000 of cash was provided by our operations. The primary drivers of our cash flows from operations were the favorable effect of net income in the amount of \$ 2. 37 million, which also included \$ 1. 87 million of non-cash expenses; an increase in accounts payable of \$ 1. 63 million; and an increase in prepaid expenses and other assets of \$ 927, 000. These factors were offset partially by an increase in inventory of \$ 4. 54 million; a decrease in accrued expenses and other liabilities of \$ 1. 20 million; an increase in accounts receivable of \$ 484, 000; and a decrease in accrued income taxes of \$ 10, 000. We manufactured approximately \$ 6. 76 million and \$ 9. 23 million in loose jewels and \$ 12. 75 million and \$ 16. 98 million in finished jewelry, which includes the cost of the loose jewels and the purchase of precious metals and labor in connection with jewelry production, during the fiscal years ended June 30, 2023 and 2022, respectively. We expect our purchases of precious metals and labor to fluctuate in conjunction with the levels of our finished jewelry business. In addition, the price of gold has fluctuated significantly over the past decade, resulting in higher retail price points for gold jewelry. Because the market prices of gold and other precious metals are beyond our control, upward price trends could have a negative impact on our operating cash flow as we manufacture finished jewelry. Historically, our raw material inventories of SiC crystals had been purchased under exclusive supply agreements with a limited number of suppliers. Because the supply agreements restricted the sale of these crystals exclusively to us, the suppliers negotiated minimum purchase commitments with us that, when combined with reduced sales levels during prior periods in which the purchase commitments were in effect, have resulted in levels of inventories that are higher than we might otherwise maintain. As of June 30, 2023 and 2022, \$ 19. 28 million and \$ 22. 49 million, respectively, of our inventories were classified as long-term assets. Loose jewel sales and finished jewelry that we manufacture will utilize both the finished goods loose jewels currently on-hand and, as we deplete certain shapes and sizes, our on-hand raw material SiC crystals of \$ 422, 000 and new raw material that we may purchase pursuant to the Supply Agreement. A more detailed description of our inventories is included in Note 6 to our consolidated financial statements in Item 8, “Financial Statements and Supplementary Data”, of this Annual Report on Form 10-K. We made income tax payments of approximately \$ 5, 900 and \$ 0 during the fiscal years ended June 30, 2023 and 2022, respectively. As of June 30, 2023 and 2022, we had federal tax net operating loss carryforwards of approximately \$ 24. 76 million and \$ 16. 53 million, respectively, expiring between 2034 and 2037, or that have no expiration, which can be used to offset against future federal taxable income; North Carolina tax net operating loss carryforwards of approximately \$ 20. 01 million and \$ 19. 77 million, respectively, expiring between 2023 and 2035; and various other state tax net operating loss carryforwards expiring between 2027 and 2040, which can be used to offset against future state taxable income. Short-Term Capital Resources Line of Credit Effective July 7, 2021, we obtained from JPMorgan Chase our \$ 5. 00 million cash collateralized JPMorgan Chase Credit Facility. The JPMorgan Chase Credit Facility may be used for general corporate and working capital purposes, including permitted acquisitions and certain additional indebtedness for borrowed money, installment obligations, and obligations under capital and operating leases. The JPMorgan Chase Credit Facility is secured by a cash deposit in the amount of \$ 5. 05 million held by JPMorgan Chase as collateral for the line of credit facility. Effective July 28, 2022, the JPMorgan Chase Credit Facility was amended to, among other things, extend the maturity date to July 31, 2023, and append our obligations under the JPMorgan Chase Credit Facility to be guaranteed by our wholly owned subsidiaries, Charles & Colvard Direct, LLC, charlesandcolvard.com, LLC, and moissaniteoutlet.com, LLC. Effective June 21, 2023, the JPMorgan Chase Credit Facility was amended further to extend the maturity date to July 31, 2024. Each advance under the JPMorgan Chase Credit Facility, as amended, accrues interest at a rate equal to the sum of JPMorgan Chase’s monthly secured overnight financing rate, or the SOFR rate, to which JPMorgan Chase is subject with respect to the adjusted SOFR rate as established by the U. S. Federal Reserve Board, plus a margin of 1. 25 % per annum and an unsecured to secured interest rate adjustment of 0. 10 % per annum. Prior to its amendment on July 31, 2022, each advance under the JPMorgan Chase Credit Facility would have accrued interest at a rate equal to JPMorgan Chase’s monthly LIBOR rate multiplied by a statutory reserve rate for eurocurrency funding to which JPMorgan Chase is subject with respect to the adjusted LIBOR rate as established by the U. S. Federal Reserve Board, plus a margin of 1. 25 % per annum. Interest is calculated monthly on an actual /360-day basis and payable monthly in arrears. Principal outstanding during an event of default, at JPMorgan Chase’s option, accrues interest at a rate of 3 % per annum in excess of the above rate. Any advance may be prepaid in whole or in part at any time. The JPMorgan Chase Credit Facility is evidenced by a credit agreement, as amended, between us and JPMorgan Chase, or the JPMorgan Chase Credit Agreement, dated as of June 21, 2023, and customary ancillary documents, in the principal amount not to exceed \$ 5. 00 million at any one time outstanding and a line of credit note, or the JPMorgan Chase Line of Credit Note, in which we promise to pay on or before July 31, 2024, the amount of \$ 5. 00 million or so much thereof as may be advanced and outstanding. In the event of default, JPMorgan Chase, at its option, may accelerate the maturity of advances outstanding under the JPMorgan Chase Credit Facility. The JPMorgan Chase Credit Agreement and ancillary documents contain customary covenants, representations, fees, debt, contingent obligations, liens, loans, leases, investments, mergers, acquisitions, divestitures, subsidiaries, affiliate transactions, changes in control, as well as indemnity, expense reimbursement, and confidentiality provisions. In connection with the JPMorgan Chase Credit Facility, effective July 7, 2021, we incurred a non-refundable origination fee in the amount of \$ 10, 000 that was paid in full to JPMorgan Chase upon execution of the JPMorgan Chase Credit Facility on July 12, 2021. There was no origination fee paid to JPMorgan Chase in connection with the amended JPMorgan Chase Credit Facility, dated July 28, 2022 and June 21, 2023. Events of default under the JPMorgan Chase Credit Facility include, without limitation, a default, event of default, or event that would constitute a default or event of default

(pending giving notice or lapse of time or both), of any provision of the JPMorgan Chase Credit Agreement, the JPMorgan Chase Line of Credit Note, or any other instrument or document executed in connection with the JPMorgan Chase Credit Agreement or with any of our indebtedness, liabilities, and obligations to JPMorgan Chase or would result from the extension of credit to us by JPMorgan Chase. As of June 30, 2023, we had not borrowed against the JPMorgan Chase Credit Facility. More detailed descriptions of our JPMorgan Chase Credit Facility are included in Note 11 to our consolidated financial statements in Item 8, “Financial Statements and Supplementary Data”, of this Annual Report on Form 10-K.

**Long-Term Capital Commitments**

Contractual Agreement

On December 12, 2014, we entered into the Supply Agreement with Wolfspeed. Under the Supply Agreement, subject to certain terms and conditions, we agreed to exclusively purchase from Wolfspeed, and Wolfspeed agreed to exclusively supply, 100% of our required SiC materials in quarterly installments that must equal or exceed a set minimum order quantity. The initial term of the Supply Agreement was scheduled to expire on June 24, 2018, unless extended by the parties. Effective June 22, 2018, the Supply Agreement was amended to extend the expiration date to June 25, 2023. The Supply Agreement, as amended, also provides for the exclusive production of our premium moissanite product, Forever One™ and provided us with one option, subject to certain conditions, to unilaterally extend the term of the Supply Agreement for an additional two-year period following the expiration of the initial term. In addition, the amendment to the Supply Agreement established a process by which Wolfspeed may begin producing alternate SiC material based on our specifications that will give us the flexibility to use the materials in a broader variety of our products, as well as to permit us to purchase certain amounts of SiC materials from third parties under limited conditions. On August 26, 2020, the Supply Agreement was further amended, effective June 30, 2020, to extend the expiration date to June 29, 2025, which may be further extended by mutual agreement of the parties. The Supply Agreement was also amended to, among other things, (i) spread our total purchase commitment under the Supply Agreement in the amount of approximately \$ 52.95 million over the term of the Supply Agreement, as amended; (ii) establish a process by which Wolfspeed has agreed to accept purchase orders in excess of the agreed-upon minimum purchase commitment, subject to certain conditions; and (iii) permit us to purchase revised amounts of SiC materials from third parties under limited conditions. Our total purchase commitment under the Supply Agreement, as amended, until June 2025 is approximately \$ 52.95 million, of which approximately \$ 24.75 million remains to be purchased as of June 30, 2023. For more information regarding the second amendment to our Supply Agreement, executed on August 26, 2020, see Note 10 to our consolidated financial statements in Item 8, “Financial Statements and Supplementary Data”, of this Annual Report on Form 10-K. During the fiscal years ended June 30, 2023 and 2022, we purchased approximately \$ 1.80 million and \$ 6.29 million, respectively, of SiC crystals from Wolfspeed. The Company has made no purchases of SiC crystals during the nine-month period ended June 30, 2023 while in discussions regarding the terms of the Supply Agreement. Such discussions included potential renegotiation of the Supply Agreement, but the parties have not reached an agreement. On July 28, 2023, Wolfspeed initiated a confidential arbitration against us for breach of contract claiming damages, plus interest, costs, and attorneys’ fees. Wolfspeed has alleged that the Company failed to satisfy the purchase obligations provided in the Supply Agreement for Fiscal 2023 in the amount of \$ 4.25 million and failed to pay for \$ 3.30 million of SiC crystals Wolfspeed delivered to us. Wolfspeed further alleges that the Company intends to breach our remaining purchase obligations under the Supply Agreement, representing an additional \$ 18.5 million in alleged damages. While the Company is evaluating Wolfspeed’s claims, we dispute the amount sought, and we intend to vigorously defend our position, including by asserting rights and defenses that the Company may have under the Supply Agreement, at law and in equity. A hearing has not yet been scheduled. The final determinations of liability arising from this matter will only be made following comprehensive investigations, discovery and arbitration processes. Going forward, we expect to use existing cash and cash equivalents and access to other working capital resources, including but not limited to the issuance of equity securities, together with future cash expected to be provided by operating activities to finance our purchase commitment under the Supply Agreement, as amended. For more information in connection with the Wolfspeed arbitration matter, see Part I, Item 3, “Legal Proceedings” and Note 10 to our consolidated financial statements in Item 8, “Financial Statements and Supplementary Data”, of this Annual Report on Form 10-K.

**Liquidity and Capital Trends**

We believe that our existing cash and cash equivalents and access to other working capital resources, including but not limited to the issuance of equity securities, and cash expected to be provided by operating activities combined will be sufficient to meet our working capital and capital expenditure needs over the next twelve months. From a long-term perspective, we believe that our ongoing access to capital markets, including but not limited to the issuance of equity securities or even potential debt securities, coupled with cash provided by operating activities in future periods beyond the next twelve months, will continue to provide us with the necessary liquidity to meet our long-term working capital and capital expenditure requirements. In connection with our short- and long-term capital resources, we 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. Our ability to issue equity securities under the shelf registration statement is subject to market conditions, which may be in turn, subject to, among other things, the potential disruption and volatility that may be caused by ongoing effects of rising inflation and fears of recession. Any capital raise is not assured and may not be at terms that would be acceptable to us. Our future capital requirements and the adequacy of available funds will depend on many factors, including the ongoing uncertainty surrounding rising inflation and fears of recession that could lead to further disruption and volatility in the global capital markets as well as its impact on our rate of sales growth; the expansion of our sales and marketing activities; the timing and extent of raw materials and labor purchases in connection with loose jewel production to support our moissanite jewels and lab-grown diamond business and precious metals and labor purchases in connection with jewelry production to support our finished jewelry business; the timing of capital expenditures;

and the risk factors described in more detail in “Risk Factors” in Part I, Item 1A, of this Annual Report on Form 10-K. Currently, we have the JPMorgan Chase Credit Facility, as amended, through its expiration on July 31, 2024, which we believe would mitigate these risks to our cash and liquidity position. Also, we may make investments in, or acquisitions of, complementary businesses, which could also require us to seek additional equity or debt financing.

**Critical Accounting Estimates** Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which we prepared in accordance with accounting principles generally accepted in the United States, or U.S. GAAP. The preparation of these consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, and expenses and related disclosures of contingent assets and liabilities. “Critical accounting estimates” are defined as those most important to the financial statement presentation and that require the most difficult, subjective, or complex judgments. We base our estimates on historical experience and on various other factors that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Under different assumptions and/or conditions, those actual results of operations may materially differ. The most significant estimates impacting our consolidated financial statements relate to the valuation and classification of inventories, accounts receivable reserves, and revenue recognition. We also have other policies that we consider key accounting policies, but these policies typically do not require us to make estimates or judgments that are difficult or subjective.

**Valuation and Classification of Inventories** Any inventory on hand at the measurement date in excess of our current requirements based on historical and anticipated levels of sales is classified as long-term on our Consolidated Balance Sheets. The classification of our inventory as either current or long-term inventory requires us to estimate the portion of on-hand inventory that can be realized over the next 12 months and does not include precious metal, labor, and other inventory purchases expected to be both purchased and realized in cost of sales over the next 12 months. Each accounting period we evaluate the valuation and classification of inventories including the need for potential inventory write-downs, which also include significant estimates by management for obsolescence, shrinkage, and rework. Obsolescence reserves are based on an estimated loss percentage factor, determined by a combination of management’s analysis of current production-related conditions, coupled with historical work-in-process and customer-related obsolescence experience over time for specific product gemstones and finished jewelry affected by these conditions. Shrinkage reserves are based on an estimated loss percentage factor, determined by a combination of management’s analysis of current gemstones in production status and on memo at third-party locations, coupled with historical work-in-process shrinkage-related experience over time for specific product gemstones and jewelry impacted by these conditions. The rework reserves are also based on an estimated loss percentage factor, determined by a combination of management’s analysis of current production-related conditions, coupled with historical work-in-process rework experience over time for specific previously finished gemstones affected by these conditions.

**Revenue Recognition** We recognize substantially all of our revenue at a point in time when control of our goods has passed to the customer with the exception of consigned goods. We consider our performance obligation related to the shipment of goods satisfied at the time this control is transferred. We also have a variable consideration element related to most of our contracts in the form of product return rights. At the time revenue is recognized, an allowance for estimated returns is established and any change in the allowance for returns is charged against net sales in the current period. For our Traditional segment customers, the returns policy generally allows for the return of jewels and finished jewelry with a valid reason for credit within 30 days of shipment. Customers on both our charlesandcolvard.com and moissaniteoutlet.com websites may also generally return purchases within 30 days, respectively, of the shipment date in accordance with our returns policies as disclosed on our charlesandcolvard.com and moissaniteoutlet.com websites. Periodically, we ship loose jewel goods and finished goods to Traditional segment customers on consignment terms. Under these consignment terms, the customer assumes the risk of loss and has an absolute right of return for a specified period that typically ranges from six months to one year. Our Online Channels segment and Traditional segment customers are generally required to make payments on consignment shipments within 30 to 60 days upon the customer informing us that such inventory will be kept by the customer. Accordingly, we do not recognize revenue on these consignment transactions until the earlier of (i) the customer informing us that the inventory will be kept by the customer; (ii) the expiration of the right of returns period; or (iii) the customer informing us that the inventory has been sold.

**Accounts Receivable Reserves** Estimates are used to determine the amount of two reserves against trade accounts receivable. The first reserve is an allowance for sales returns. At the time revenue is recognized, we estimate future returns using a historical return rate that is reviewed quarterly with consideration of any contractual return privileges granted to customers and we reduce sales and trade accounts receivable by this estimated amount. The second reserve is an allowance for uncollectible accounts for the measurement of estimated credit losses resulting from the failure of our customers to make required payments. This allowance reduces trade accounts receivable to an amount expected to be collected. We use a current expected credit losses model whereby we estimate credit losses expected over the life of our pool of exposures based on historical percentages of uncollectible accounts, changes in payment history, and facts and circumstances, including any current extenuating economic conditions, regarding specific accounts that become known to, or forecasted by, us to be uncollectible when evaluating the adequacy of the allowance for uncollectible accounts. We determine a credit loss percentage based on the age of the receivable that we deem uncollectible related to potential credit losses. We record an allowance for such credit losses, which includes a provision for expected losses based on historical write-offs, adjusted for current conditions as deemed necessary, reasonable and supportable forecasts about future conditions, and a specific reserve for accounts deemed at risk. The allowance is our estimate for accounts receivable as of the balance sheet date that ultimately will not be collected. Any changes in the allowance are reflected in the results of operations in the period in which the change occurs. We write-off accounts receivable and the related allowance recorded previously when it becomes probable, based upon customer facts and circumstances, that such amounts will not be collected. We generally use internal collection efforts, which may include our sales personnel as deemed appropriate. After all internal collection efforts have been exhausted, we generally write-off the underlying account receivable. Any

accounts with significant balances are reviewed separately to determine an appropriate allowance based on the facts and circumstances of the specific underlying customer account. Item 7A. Quantitative and Qualitative Disclosures About Market Risk Not applicable.