

EARTHSHELL CORP
Form 10-Q
August 14, 2003

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

FORM 10-Q

**ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Quarterly Period Ended June 30, 2003

**o TRANSITION REPORT PURSUANT SECTION 13 OR 15 (d)
OF SECURITIES EXCHANGE ACT OF 1934**

For the Transition Period From to

Commission File Number 333-13287

EARTHSHELL CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

77-0322379

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

Edgar Filing: EARTHSHELL CORP - Form 10-Q

800 Miramonte Drive, Santa Barbara, California 93109
(Address of principal executive office) (Zip Code)

(805) 897-2294
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes No

The number of shares outstanding of the Registrant's Common Stock as of August 8, 2003 is 160,030,264.

EARTHSHELL CORPORATION

FORM 10-Q

For the Quarter Ended June 30, 2003

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SCHEDULES

Part I. Financial Information

Item 1.	Consolidated Financial Statements	
	a) <u>Consolidated Balance Sheets as of June 30, 2003 (unaudited) and December 31, 2002</u>	3
	b) <u>Consolidated Statements of Operations for the three and six months ended June 30, 2003 and June 30, 2002 (unaudited) and for the period from November 1, 1992 (inception) through June 30, 2003 (unaudited)</u>	4
	c) <u>Consolidated Statements of Stockholders' (Deficit) Equity for the period from November 1, 1992 (inception) to June 30, 2003 (unaudited)</u>	5
	d) <u>Consolidated Statements of Cash Flows for the six months ended June 30, 2003 and June 30, 2002 (unaudited) and for the period from November 1, 1992 (inception) through June 30, 2003 (unaudited)</u>	6
	e) <u>Notes to Consolidated Financial Statements (unaudited)</u>	8
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	13
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	20
Item 4.	<u>Controls and Procedures</u>	20

Part II. Other Information

Item 1.	<u>Legal Proceedings</u>	21
Item 2.	<u>Changes in Securities and Use of Proceeds</u>	21
Item 3.	<u>Defaults Upon Senior Securities</u>	21
Item 4.	<u>Submission of Matters to a Vote of Security Holders</u>	21

Edgar Filing: EARTHSHELL CORP - Form 10-Q

<u>Item 5.</u>	<u>Other Information</u>	21
<u>Item 6</u>	<u>Exhibits and Reports on Form 8-K</u>	21
<u>Signature</u>		22

EARTHSHELL CORPORATION**(A Development Stage Enterprise)****CONSOLIDATED BALANCE SHEETS**

	June 30, 2003	December 31, 2002
	(Unaudited)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 3,616,879	\$ 111,015
Restricted cash	4,009,000	12,500,000
Prepaid expenses and other current assets	690,763	570,802
Total current assets	8,316,642	13,181,817
PROPERTY AND EQUIPMENT, NET	4,250,018	4,476,174
INVESTMENT IN JOINT VENTURE	217,755	366,012
TOTALS	\$ 12,784,415	\$ 18,024,003
LIABILITIES AND STOCKHOLDERS DEFICIT		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 5,470,170	\$ 7,904,957
Payable to related party		578,779
Accrued purchase commitment	3,500,000	3,500,000
Notes payable to related party		1,745,000
Convertible debentures	447,063	7,767,953
Total current liabilities	9,417,233	21,496,689
PAYABLES TO RELATED PARTY	968,801	
WARRANT OBLIGATION	486,659	
CONVERTIBLE DEBENTURES	7,851,057	
NOTES PAYABLE TO RELATED PARTY	2,485,202	
Total liabilities	21,208,952	21,496,689
STOCKHOLDERS DEFICIT		
Preferred stock, \$.01 par value, 10,000,000 shares authorized; 9,170,000 Series A shares designated; no shares issued and outstanding as of June 30, 2003 and December 31, 2002		
Common stock, \$.01 par value, 200,000,000 shares authorized; 158,426,205 and 144,655,641 shares issued and outstanding as of June 30, 2003 and December 31, 2002, respectively		
	1,584,262	1,446,556
Additional paid-in common capital	296,236,735	290,931,330
Deficit accumulated during the development stage	(306,212,851)	(295,833,940)
Accumulated other comprehensive loss	(32,683)	(16,632)
Total stockholders deficit	(8,424,537)	(3,472,686)

TOTALS

\$ 12,784,415 \$ 18,024,003

See Notes to Consolidated Financial Statements.

EARTHSHELL CORPORATION

Edgar Filing: EARTHSHELL CORP - Form 10-Q

(A Development Stage Enterprise)

CONSOLIDATED STATEMENTS OF OPERATIONS

Edgar Filing: EARTHSHELL CORP - Form 10-Q

(Unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,		November 1, 1992 (inception) through June 30, 2003
	2003	2002	2003	2002	
Operating Expenses:					
Related party license fee and research and development expenses	\$ 304,667	\$ 468,313	\$ 658,467	\$ 768,313	\$ 70,537,375
Other research and development expenses	1,707,507	3,809,063	3,604,493	10,476,222	137,882,148
Related party general and administrative Expenses		(6,111)	(4,074)	(12,222)	2,187,540
Other general and administrative expenses	1,193,342	2,122,397	3,047,044	4,599,871	65,469,729
Depreciation and amortization	103,636	795,352	216,276	1,590,705	22,677,706
Related party patent expenses					8,693,105
Total operating expenses	3,309,152	7,189,014	7,522,206	17,422,889	307,447,603
Other Expenses (Income):					
Interest income	(24,299)	(20,977)	(64,251)	(42,914)	(10,873,884)
Related party interest expense	94,932		170,234		5,007,564
Other interest expense	344,970	872	922,737	872	2,911,355
Gain on sales of property and equipment	(7,000)	(9,500)	(63,000)	(9,500)	(504,413)
Other expenses (income)	(109,571)		86,958		86,958
Loss on extinguishment of debentures			1,697,380		1,697,380
Debenture conversion costs			105,847		426,817
Loss before income taxes	3,608,184	7,159,409	10,378,111	17,371,347	306,199,380
Income taxes			800	800	13,471
Net loss	3,608,184	7,159,409	10,378,911	17,372,147	306,212,851
Preferred dividends					9,926,703
Net loss available to common stockholders	\$ 3,608,184	\$ 7,159,409	\$ 10,378,911	\$ 17,372,147	\$ 316,139,554
Basic and diluted loss per common share	\$ 0.02	\$ 0.05	\$ 0.07	\$ 0.13	\$ 3.22
Weighted average number of common shares outstanding	156,161,546	133,773,696	152,256,270	129,101,672	98,163,806

See Notes to Consolidated Financial Statements.

EARTHSHELL CORPORATION
(A Development Stage Enterprise)
CONSOLIDATED STATEMENTS OF STOCKHOLDERS (DEFICIT) EQUITY

(Unaudited)

	Cumulative Convertible Preferred Stock Series A		Additional Paid-In Preferred Capital	Common Stock		Additional Paid-In Common Capital	Deficit Accumulated during Development Stage	Accumulated Other Comprehensive Loss	Totals
	Shares	Amount		Shares	Amount				
ISSUANCE OF COMMON STOCK AT INCEPTION				82,530,000	\$ 3,150	\$ 6,850			\$ 10,000
Sale of preferred stock, net	6,988,850	\$ 267	\$ 24,472,734						24,473,001
Net loss							\$ (7,782,551)		(7,782,551)
BALANCE, DECEMBER 31, 1993	6,988,850	267	24,472,734	82,530,000	3,150	6,850	(7,782,551)		16,700,450
Net loss							(16,582,080)		(16,582,080)
BALANCE, DECEMBER 31, 1994	6,988,850	267	24,472,734	82,530,000	3,150	6,850	(24,364,631)		118,370
Contribution to equity						1,117,723			1,117,723
Net loss							(13,914,194)		(13,914,194)
BALANCE, DECEMBER 31, 1995	6,988,850	267	24,472,734	82,530,000	3,150	1,124,573	(38,278,825)		(12,678,101)
Contribution to equity						650,000			650,000
Issuance of stock warrants						246,270			246,270
Net loss							(16,950,137)		(16,950,137)
BALANCE, DECEMBER 31, 1996	6,988,850	267	24,472,734	82,530,000	3,150	2,020,843	(55,228,962)		(28,731,968)
Compensation related to stock options, warrants and stock grants						3,156,659			3,156,659
Net loss							(18,992,023)		(18,992,023)
BALANCE, DECEMBER 31, 1997	6,988,850	267	24,472,734	82,530,000	3,150	5,177,502	(74,220,985)		(44,567,332)
262 to 1 stock split		69,621	(69,621)		822,150	(822,150)			
Conversion of preferred stock into common stock	(6,988,850)	(69,888)	(24,403,113)	6,988,850	69,888	24,403,113			
Issuance of common stock				10,526,316	105,263	205,883,493			205,988,756
Preferred stock dividends						(9,926,703)			(9,926,703)
Net loss							(26,620,052)		(26,620,052)
BALANCE, DECEMBER 31, 1998				100,045,166	1,000,451	224,715,255	(100,841,037)		124,874,669
Net loss							(44,188,443)		(44,188,443)
				100,045,166	1,000,451	224,715,255	(145,029,480)		80,686,226

Edgar Filing: EARTHSHELL CORP - Form 10-Q

BALANCE,					
DECEMBER 31, 1999					
Issuance of common stock	4,457,169	44,572	10,477,216		10,521,788
Net loss				(48,911,605)	(48,911,605)
BALANCE,					
DECEMBER 31, 2000	104,502,335	1,045,023	235,192,471	(193,941,085)	42,296,409
Issuance of common stock	13,520,719	135,208	30,418,832		30,554,040
Compensation related to stock options, warrants and stock grants	300,000	3,000	984,119		987,119
Net loss				(62,301,511)	(62,301,511)
BALANCE,					
DECEMBER 31, 2001	118,323,054	1,183,231	266,595,422	(256,242,596)	11,536,057
Issuance of common stock	24,308,236	243,082	21,658,634		21,901,716
Common stock warrants issued in connection with convertible debentures			1,521,046		1,521,046
Conversion of convertible debentures to common stock	2,024,351	20,243	979,757		1,000,000
Debentures conversion costs			176,471		176,471
Net loss				(39,591,344)	(39,591,344)
Foreign currency translation adjustment				\$ (16,632)	(16,632)
Comprehensive loss					(39,607,976)
BALANCE,					
DECEMBER 31, 2002					