

EARTHSHELL CORP
Form 10-Q
November 15, 2002

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended September 30, 2002

**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.)

800 Miramonte Drive, Santa Barbara, California 93109

(Address of principal executive office) (Zip Code)

Registrant's telephone number, including area code: **(805) 897-2248**

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

The number of shares outstanding of the registrant's common stock as of November 14, 2002 is 144,598,356.

EARTHSHELL CORPORATION

FORM 10-Q

For the Quarter Ended September 30, 2002

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EARTHSHELL CORPORATION

(A Development Stage Enterprise)

BALANCE SHEETSSeptember 30,
2002December 31,
2001

(Unaudited)

ASSETS**CURRENT ASSETS:**

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	September 30, 2002	December 31, 2001
Cash and cash equivalents	\$ 245,870	\$ 828,007
Prepaid expenses and other current assets	513,992	580,472
Total current assets	759,862	1,408,479
RESTRICTED CASH	12,500,000	3,500,000
PROPERTY AND EQUIPMENT, NET	13,015,976	14,591,111
INVESTMENT IN JOINT VENTURE	341,275	386,275
TOTAL	\$ 26,617,113	\$ 19,885,865
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 7,335,797	\$ 8,349,808
Note Payable to EKI	2,000,000	
Total current liabilities	9,335,797	8,349,808
CONVERTIBLE NOTES PAYABLE	7,699,505	
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Preferred Stock, \$.01 par value, 10,000,000 shares authorized; 9,170,000 Series A shares designated; no shares issued and outstanding as of September 30, 2002 and December 31, 2001		
Common stock, \$.01 par value, 200,000,000 shares authorized; 141,141,113 and 118,323,054 shares issued and outstanding as of September 30, 2002 and December 31, 2001	1,411,411	1,183,231
Additional paid-in common capital	288,570,517	266,595,422
Deficit accumulated during the development stage	(280,400,117)	(256,242,596)
Total stockholders' equity	9,581,811	11,536,057
TOTAL	\$ 26,617,113	\$ 19,885,865

See notes to financial statements.

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(A Development Stage Enterprise)

STATEMENTS OF OPERATIONS

(Unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,		November 1, 1992 (inception) through September 30,
	2002	2001	2002	2001	2002
Expenses:					
Related party research and development	\$ 300,000	\$ 401,055	\$ 1,068,313	\$ 1,092,197	\$ 69,459,151
Other research and development	2,941,860	6,756,532	13,418,082	15,186,975	122,293,868
Related party general and administrative expenses					2,240,502
Other general and administrative expenses	2,366,377	2,367,682	6,954,026	8,445,850	59,738,230
Depreciation and amortization	795,065	1,138,516	2,385,770	3,648,965	21,747,833
Related party patent expenses					8,693,105
Total expenses	6,403,302	10,663,785	23,826,191	28,373,987	284,172,689
Interest income	(18,345)	(95,058)	(61,259)	(299,440)	(10,736,501)
Related party interest expense					4,770,731
Other interest expense	79,447		80,319		1,869,057
Miscellaneous Expense	320,970		320,970		320,970
Gain on Sale of Asset			(9,500)		(9,500)
Loss Before Income Taxes	6,785,374	10,568,727	24,156,721	28,074,547	280,387,446
Income Taxes			800		12,671
Net Loss	6,785,374	10,568,727	24,157,521	28,074,547	280,400,117
Preferred Dividends					9,926,703
Net Loss Available To Common Stockholders	\$ 6,785,374	\$ 10,568,727	\$ 24,157,521	\$ 28,074,547	\$ 290,326,820
Basic And Diluted Loss Per Common Share	\$ 0.05	\$ 0.09	\$ 0.18	\$ 0.25	\$ 3.08
Weighted Average Number Of Common Shares	138,500,013	114,169,194	132,433,714	110,746,927	94,297,674

See notes to financial statements.

EARTHSHELL CORPORATION

(A Development Stage Enterprise)

STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)

(Unaudited)

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	Cumulative Convertible Preferred Stock Series A		Additional Paid-In Preferred Capital	Common Stock		Additional Paid-In Common Capital	Deficit Accumulated during Development Stage	Total
	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 to 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)
BALANCE, DECEMBER 31, 1999				100,045,166	1,000,451	224,715,255	(145,029,480)	80,686,226
Net Loss							(48,911,605)	(48,911,605)
Issuance of common stock				4,457,169	44,572	10,477,216		10,521,788
BALANCE, DECEMBER 31, 2000				104,502,335	1,045,023	235,192,471	(193,941,085)	42,296,409
Net Loss							(62,301,511)	(62,301,511)
Compensation related to stock options, warrants and stock grants.				300,000	3,000	984,119		987,119
Issuance of common stock				13,520,719	135,208	30,418,832		30,554,040
BALANCE, DECEMBER 31, 2001				118,323,054	1,183,231	266,595,422	(256,242,596)	11,536,057
Net Loss							(24,157,521)	(24,157,521)
Issuance of common stock				20,793,708	207,937	19,297,821		19,505,758

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	Cumulative Convertible Preferred Stock Series A			Deficit Accumulated during Development Stage	
Conversion of convertible notes payable to common stock	2,024,351	20,243	979,757	1,000,000	1,000,000
Issuance of stock warrants			1,521,046	1,521,046	1,521,046
Debt conversion cost			176,471	176,471	176,471
BALANCE, SEPTEMBER 30, 2002	141,141,113	\$ 1,411,411	\$ 288,570,517	\$ (280,400,117)	\$ 9,581,811

See notes to financial statements

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EARTHSHELL CORPORATION

(A Development Stage Enterprise)

STATEMENTS OF CASH FLOWS

(Unaudited)

	For the Nine Months Ended September 30,		November 1, 1992 (inception) through September 30, 2002
	2002	2001	
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	\$ (24,157,521)	\$ (28,074,547)	\$ (280,400,117)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	2,385,770	3,648,965	21,747,833
Issuance of stock options to director, consultant and officer		751,724	4,848,641
Amortization and accretion of debt issue costs	76,052		347,329
Debt conversion cost	320,970		320,970
Loss on sale, disposal, or impairment of property and equipment	1,842,143		39,715,308
Loss from investment in joint venture	45,000	45,000	174,163
Net Loss on Sale of Investments			32,496
Accretion of Discounts on Investments			(410,084)
Changes in operating assets and liabilities:			
Prepaid expense and other current assets	66,480	(89,052)	(513,992)
Accounts payable and accrued expenses	(1,014,011)	(446,226)	7,335,797
Trade payable to majority stockholder		(266,312)	
Net cash used in operating activities	(20,435,117)	(24,430,448)	(206,801,656)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of short-term investments			(52,419,820)
Purchase of restricted time deposit, net	(9,000,000)		(12,500,000)
Proceeds from sales and redemptions of investments			52,797,408
Proceeds from sale of property and equipment			