EARTHSHELL CORP
Form 10-Q/A
November 29, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q/A
Amendment No. 1

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

For the Quarterly Period Ended March 31, 2005

|_| 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	77-0322379
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1301 York Road, Suite 200, Lutherville, MD 21093
(Address of principal executive office) (Zip Code)

(410)847-9420
(Registrant's telephone number, including area code)

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

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

The number of shares outstanding of the Registrant's Common Stock as of May 16, 2005 is 18,435,452.

EARTHSHELL CORPORATION

FORM 10-Q

FOR THE QUARTER ENDED MARCH 31, 2004

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EXPLANATORY NOTE

EarthShell Corporation (the "Company") is filing this Amendment No.1 on Form 10-Q/A (this "Amendment") to the Company's Quartery Report on Form 10-Q for the quarter ended March 31, 2005 to make certain corrections to the Company's Form 10-Q filed with the Securities and Exchange Commission on May 16, 2005, as follows:

|X| To move the line item Gain on Sale of Equipment up into the Operating Loss section of the Company's operating statement.

|X| To correct certain date references in Management's Discussion and Analysis under the section entitled Liquidity and Capital Resources. Under the subsection entitled Capital Expenditures, the reference to 2004 is changed to 2005. Under the subsection entitled Off Balance Sheet Arrangements, the disclosure is as of March 31, 2005.

|X| To provide additional disclosure to Item 4: Controls and Procedures with regard to material weaknesses and the steps being taken to remediate these weaknesses.

|X| To update the certifications contained in this report.

EARTHSHELL CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

	MARCH 31, 2005 (UNAUDITED)	DECEMBER 31, 2004
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 327,858	$ 272,371
Prepaid expenses and other current assets	143,085	201,467
Total current assets	470,943	473,838
PROPERTY AND EQUIPMENT, NET	8,199	9,037
EQUIPMENT HELD FOR SALE	1	1
TOTALS	$ 479,143	$ 482,876
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 3,910,552	$ 3,899,526
Short-term notes payable to related party	1,000	--
Current portion of settlements	304,888	313,743
Current portion of deferred revenues	550,000	300,000
Contingent settlement	2,375,000	2,375,000
Note payable	880,573	--
Payable to a related party	875,000	875,000
Total current liabilities	8,897,013	7,763,269
LONG-TERM PORTION OF DEFERRED REVENUES	987,500	1,062,500
OTHER LONG-TERM LIABILITIES	328,120	412,192
Total liabilities	10,212,633	9,237,961
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 March 31, 2005 and December 31 2004		
Common Stock, $.01 par value, 40,000,000 shares authorized: 18,391,065 and 18,234,615 shares issued and outstanding as of March 31, 2005 and December 31 2004, respectively..........................	183,911	182,346
Additional paid-in common capital	313,283,689	313,196,905
Accumulated deficit	(322,685,339)	(321,607,782)
Less note receivable for stock	(475,000)	(500,000)
Accumulated other comprehensive loss	(40,751)	(26,554)
Total stockholders' deficit	(9,733,490)	(8,755,085)
TOTALS	$ 479,143	$ 482,876

See Notes to Condensed Consolidated Financial Statements.

EARTHSHELL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	FOR THE THREE MONTHS ENDED MARCH 31,	
	2005	2004
Revenues	$ 75,000	$ --
Operating Expenses		
Related party research and development	--	300,000
Other research and development expenses	103,595	222,538
Related party general and administrative expenses	578	--
Other general and administrative expenses	1,032,313	1,173,855
Depreciation and amortization	837	27,341
Gain on sales of property and equipment	(7,105)	--
Total operating expenses	1,130,218	1,723,734
Operating Loss	1,055,218	1,723,734
Other (Income) Expense		
Interest income	(478)	(1,234)
Related party interest expense	556	134,182
Other interest expense	21,461	209,375
Loss Before Income Taxes	1,076,757	2,066,057
Income taxes	800	800
Net Loss	$ 1,077,557	$ 2,066,857
Basic and Diluted Loss Per Common Share	$ 0.06	$ 0.15
Weighted Average Number of Common Shares	18,250,260	14,128,966

See Notes to Condensed Consolidated Financial Statements.

EARTHSHELL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	THREE MONTHS END MARCH 31, 2005	2
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$(1,077,557)	$(2,0
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation and amortization	838	
Amortization and accretion of debenture issue costs	5,922	1
(Gain) Loss on sale, disposal, or impairment of property and equipment	(7,105)	
Deferred revenues	175,000	
Other non-cash expense items	(89,354)	
Changes in operating assets and liabilities		
Prepaid expenses and other current assets	58,382	1
Accounts payable and accrued expenses	90,869	
Payables to related party	--	4
Other long-term liabilities	485	(
Net cash used in operating activities	(842,520)	(1,2
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of property and equipment	7,105	
Net cash provided by investing activities	7,105	
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of common stock	25,000	
Proceeds from issuance of notes payable to related party	251,000	
Repayment of notes payable to related party	(250,000)	
Principal payments on settlements	(93,412)	
Proceeds from issuance of note payable	1,150,000	
Note payable issuance costs	(187,000)	
Net cash provided by financing activities	895,588	
Effect of exchange rate changes on cash and cash equivalents	(4,686)	
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	55,487	(1,2
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	272,371	1,9
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 327,858	$ 6

	THREEE MONTHS ENDED MARCH 31, 2005	2004
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for		
Income taxes	$ 800	$ --

Interest	$ 3,657	$ 1,256

SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES

In March of 2005, in consideration for a loan guarantee, the Company issued warrants to purchase 65,000 shares of common stock of the Company at an exercise price of $3.00 per share. The warrant expires on March 23, 2008.

Also in March of 2005, in consideration for consulting services rendered in connection with the Company obtaining financing, the Company issued a warrant for 80,000 shares of common stock of the Company at an exercise price of $3.00 per share. The warrant expires on March 23, 2008.

See Notes to Condensed Consolidated Financial Statements.

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EARTHSHELL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
MARCH 31, 2005

OVERVIEW OF OPERATIONS

Organized in November 1992 as a Delaware corporation, EarthShell Corporation (the "Company") is engaged in the commercialization of composite material technology for the manufacture of foodservice disposable packaging designed with the environment in mind. EarthShell Packaging(R) is based on patented composite material technology (collectively, the "EarthShell Technology"), licensed on an exclusive, worldwide basis from E. Khashoggi Industries LLC and its wholly owned subsidiaries.

The EarthShell Technology has been developed over many years in consultation with leading material scientists and environmental experts to reduce the environmental burdens of foodservice disposable packaging through the careful selection of raw materials, processes, and suppliers. EarthShell Packaging(R), including hinged-lid sandwich containers, plates, bowls, foodservice wraps, and cups, is primarily made from commonly available natural raw materials such as natural ground limestone and potato starch. EarthShell believes that EarthShell Packaging(R) has comparable or superior performance characteristics and can be commercially produced and sold at prices that are competitive with comparable paper and plastic foodservice disposables.

EarthShell was a development stage enterprise through the first quarter of 2004. With the recognition of the Company's first revenues in the second quarter of 2004, the Company was no longer a development stage enterprise.

BASIS OF PRESENTATION OF FINANCIAL INFORMATION

The foregoing financial information has been prepared from the books and records of EarthShell Corporation. EarthShell Corporation's consolidated financial statements include the accounts of its wholly-owned subsidiary, PolarCup EarthShell GmbH. All significant intercompany balances and transactions have been eliminated in consolidation. In the opinion of management, the financial information reflects all adjustments necessary for a fair presentation of the financial condition, results of operations and cash flows of the Company in conformity with generally accepted accounting principles. All such adjustments were of a normal recurring nature for interim financial reporting.

The accompanying unaudited financial statements and these notes do not include certain information and footnote disclosures required by accounting principles generally accepted in the United States, which were included in the Company's consolidated financial statements for the year ended December 31, 2004. The information included in this Form 10-Q should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and the Company's consolidated financial statements and notes thereto for the year ended December 31, 2004 included in the Company's Annual Report on form 10-K, including Form 10-K/A - Amendment No. 4.

The accompanying unaudited financial have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company has incurred significant losses since inception, has minimal revenues and has a working capital deficit of $8,426,070 at March 31, 2005. These factors, along with others, may indicate substantial doubt that the Company will be unable to continue as a going concern for a reasonable period of time (see "Critical Accounting Policies - Going Concern Basis").

The consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern. The Company's continuation as a going concern is dependent upon its ability to generate sufficient cash flow to meet its obligations on a timely basis, to obtain additional financing or refinancing as may be required, and ultimately to attain successful operations.

Basic loss per common share is computed by dividing net loss available to common stockholders by the weighted-average number of common shares outstanding during the period, including Common stock to be issued. Diluted loss per common share is computed by dividing net loss available to common stockholders by the weighted-average number of common shares outstanding (including Common stock to be issued) plus an assumed increase in common shares outstanding for potentially dilutive securities, which consist of options and warrants to acquire common stock and convertible debentures. Potentially dilutive shares are excluded from the computation in loss periods, as their effect would be anti-dilutive. The dilutive effect of options and warrants to acquire common stock is measured using the treasury stock method. The dilutive effect of convertible debentures is measured using the if-converted method. Basic and diluted loss per common share is the same for all periods presented because the impact of potentially dilutive securities is anti-dilutive.

Since June 21, 2004, the Company's common stock has been listed through the OTC Bulletin Board. The Company's common stock trades under the symbol "ERTH.OB."

PROPERTY AND EQUIPMENT AND EQUIPMENT HELD FOR SALE

The cost and accumulated depreciation of property and equipment and equipment held for sale at March 31, 2005 were as follows:

	MARCH 31, 2005	DECEMBER 31, 2004
Total office furniture and equipment	245,274	245,274
Less: Accumulated depreciation and amortization	(237,075)	(236,237)
Property and equipment - net	$ 8,199	$ 9,037
Equipment held for sale	$ 1	$ 1

STOCK OPTIONS

The Company accounts for stock options in accordance with the provisions of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and complies with the disclosure provisions of Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation." Under APB Opinion No. 25, compensation expense is based on the difference, if any, on the date of grant, between the fair value of the Company's common stock and the exercise price of the option. For disclosure purposes, to measure stock-based compensation in accordance with SFAS No. 123, the fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model. The fair value of each option grant is then amortized as pro forma compensation expense over the vesting period of the options. The following table sets forth the pro forma net loss and loss per share resulting from applying SFAS No. 123.

	THREE MONTHS ENDED MARCH 31,	
	2005	2004
Net Loss as reported	$ 1,077,557	$ 2,066,857
Deduct: Stock-based employee compensation expense included in reported net loss, net of tax	--	--
Add: Total stock-based employee compensation determined under fair value based method for all awards, net of tax	$ 5,275	$ 13,015
Pro forma net loss	$ 1,082,832	$ 2,079,872
Basic diluted loss per common share		
As reported	$ 0.06	$ 0.15
Pro forma	$ 0.06	$ 0.15

FINANCING

In March 2005, the Company entered into a promissory note and Security Agreement with Cornell Capital Partners, LP ("Cornell Capital Partners"). Pursuant to the Security Agreement, the Company shall issue promissory notes to Cornell Capital Partners in the original principal amount of $2,500,000. The $2,500,000 will be disbursed as follows: $1,150,000 was disbursed on March 28, 2005. The remaining $1,350,000 will be issued in a second closing, expected to occur during the 2nd quarter of 2005, after the filing of a registration statement related to the Standby Equity Distribution Agreement, described below. The promissory notes are secured by the assets of the Company and shares of stock of another entity pledged by an affiliate of that entity. The promissory notes have a one-year term and accrue interest at 12% per year. As of March 31, 2005, the Company had executed on the first phase of the transaction and received net proceeds of approximately $1,000,000.

In connection with the first disbursement, the Company recorded an original issue discount of $275,348. The discount includes cash fees and expenses related to the origination of the loan, issuance of 6,450 shares of the Company's common stock to a broker, valued at the market value on the closing date of the transaction, and issuance of warrants to purchase 145,000 shares of the Company's stock at $3 per share valued at $78,028 using the Black Sholles valuation model, all of which will be amortized over the 12 month life of the

note at a rate of $39,389 per month.

In March 2005, EarthShell entered into a Standby Equity Distribution Agreement with Cornell Capital Partners. Pursuant to the Standby Equity Distribution Agreement, the Company may, at its discretion, periodically sell to Cornell Capital Partners shares of common stock for a total purchase price of up to $10.0 million. For each share of common stock purchased under the Standby Equity Distribution Agreement, Cornell Capital Partners will pay the Company 98% of the lowest volume weighted average price of the Company's common stock as quoted by Bloomberg, LP on the Over-the-Counter Bulletin Board or other principal market on which the Company's common stock is traded for the 5 days immediately following the notice date. The price paid by Cornell Capital Partners for the Company's stock shall be determined as of the date of each individual request for an advance under the Standby Equity Distribution Agreement. Cornell Capital Partners will also retain 5% of each advance under the Standby Equity Distribution Agreement. Cornell Capital Partners' obligation to purchase shares of the Company's common stock under the Standby Equity Distribution Agreement is subject to certain conditions, including the Company's registration statement for shares of common stock sold under the Standby Equity Distribution Agreement being declared effective by the Securities and Exchange Commission and is limited to $500,000 per weekly advance.

Subsequent Events

In February of 2005, an option of 1 million shares with an exercise price of $2.30 per share was issued to a board member in connection with considerable financial support of the Company. The option was subsequently rescinded by the Company in May of 2005.

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

FORWARD LOOKING STATEMENTS

Information contained in this Quarterly Report on Form 10-Q, including but not limited to "Management's Discussion and Analysis of Financial Condition and Results of Operations," contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, as amended. These statements may be identified by the use of forward-looking terminology such as "may," "expect," "anticipate," "estimate," or "continue," or the negative thereof or other comparable terminology. Any one factor or combination of factors could cause the Company's actual operating performance or financial results to differ substantially from those anticipated by management that are described herein. Investors should carefully review the risk factors set forth in other Company reports or documents filed with the Securities and Exchange Commission, including Forms 10-Q, 10-K, and 8-K. Factors influencing the Company's operating performance and financial results include, but are not limited to, the performance of licensees, changes in the general economy, the availability of financing, governmental regulations concerning, but not limited to, environmental issues, and other risks and unforeseen circumstances affecting the Company's business. This Quarterly Report on Form 10-Q should be read in conjunction with the Company's Annual Report on Form 10-K, including Form 10-K/A - Amendments No. 1 - 4 for the fiscal year ended December 31, 2004.

CRITICAL ACCOUNTING POLICIES

The preparation of financial statements and related disclosures in conformity with generally accepted accounting principles requires management to make

judgments, assumptions and estimates that affect the amounts reported in the Company's financial statements and the accompanying notes. The amounts of assets and liabilities reported in the Company's balance sheet and the amounts of expenses reported for each fiscal period are affected by estimates and assumptions which are used for, but not limited to, the accounting for asset impairments. Actual results could differ from these estimates. The following critical accounting policies are significantly affected by judgments, assumptions and estimates used in the preparation of the consolidated financial statements.

Going Concern Basis. The condensed consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company has incurred significant losses since inception, has minimal revenues and has a working capital deficit of $8,426,070 at March 31, 2005. These factors, along with others, may indicate that the Company will be unable to continue as a going concern for a reasonable period of time. The Company will have to raise additional funds to meet its current obligations and to cover operating expenses through the year ending December 31, 2005. If the Company is not successful in raising additional capital it may not be able to continue as a going concern for a reasonable period of time. Management plans to address this need by raising cash through either the issuance of debt or equity securities. In March 2005, the Company secured a $1.15 million loan and also entered into a Standby Equity Distribution Agreement where the Company has the right, upon registration of shares of its common stock, to require an institutional investor to purchase shares of the Company's common stock from time to time at the Company's sole discretion. In addition, the Company expects to receive additional technology fee payments in 2005 in connection with both existing and new sublicense agreements for its technology in various territories and fields of use. However, the Company cannot assure that additional financing will be available to it, or, if available, that the terms will be satisfactory, that it will receive any further technology fee payments in 2005 pursuant to the Sublicense Agreement. Management also plans to continue in its efforts to minimize expenses, but cannot assure that it will be able to reduce expenses below current levels. The condensed consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

The key accounting estimates and policies are reviewed with the Audit Committee of the Board of Directors.

THREE MONTHS ENDED MARCH 31, 2005 COMPARED WITH THE THREE MONTHS ENDED MARCH 31, 2004.

The Company's net loss decreased by approximately $1.0 million to approximately $1.1 million from approximately $2.1 million for the three months ended March 31, 2005 compared to the three months ended March 31, 2004, respectively.

REVENUES. The Company recorded revenues of approximately $0.08 million for the three months ended March 31, 2005 as compared to $0 for the three months ended March 31, 2004. These revenues reflect amortization of the $2.0 million technology fee payable under the sublicense agreement that was entered into in the second quarter of 2004 and the $1 million technology fee payable under the sublicense agreement entered into in December of 2004. The amortization of these technology fees will result in the recognition of $0.3 million in revenues per year during the life of the agreements.

RESEARCH AND DEVELOPMENT EXPENSES. Total research and development expenses are comprised of related party license fee and research and development expenses and other research and development expenses. Total research and development expenses for the development of EarthShell Packaging(R) decreased approximately $0.4 million to approximately $0.1 million from approximately $0.5 million for the three months ended March 31, 2005 compared to the three months ended March 31, 2004, respectively.

o Related party license fee and research and development expenses were comprised in 2004 of the $100,000 monthly licensing fee for the use of the EarthShell Technology and technical services, both of which were payable to EKI, a stockholder of the Company, or Biotec, a wholly owned subsidiary of EKI. It should be noted that payment of these related party expenses has been deferred pursuant to an agreement entered into by the EKI entities in connection with debt restructuring and settlement of the convertible debenture financing concluded in October of 2004. Related party license fee and research and development expenses decreased approximately $0.3 million to $0 from approximately $0.3 million for the three months ended March 31, 2005, compared to the three months ended March 31, 2004, respectively. The decrease was due primarily to the elimination of the monthly licensing fee in September 2004, as noted above.

o Other research and development expenses are comprised of personnel costs, travel and direct overhead for development and demonstration production. Other research and development expenses decreased approximately $0.1 million to approximately $0.01 million from approximately $0.2 million for the three months ended March 31, 2005, compared to the three months ended March 31, 2004, respectively. The reduction was due to the outsourcing of technical personnel and the outsourcing of technical support activities during 2004.

OTHER GENERAL AND ADMINISTRATIVE EXPENSES. Other general and administrative expenses are comprised of personnel costs, travel and direct overhead for marketing, finance and administration. Total general and administrative expenses decreased by approximately $0.14 million to approximately $1.13 million from approximately $1.17 million for the three months ended March 31, 2005, compared to the three months ended March 31, 2004, respectively. The largest reductions were in legal, business insurance, currency translation losses, and personnel costs (approximately $0.3 million). These reductions were partially offset by an accrual for potential damages related to a legal settlement.

INTEREST EXPENSE. Interest expense is comprised of related party interest expense and other interest expense.

o Related party interest expense decreased by approximately $0.13 million to $0 from approximately $0.13 million for the three months ended March 31, 2005, compared to the three months ended March 31, 2004. In 2004, related party interest expense included interest accrued on outstanding loans made to the Company by EKI under the Loan Agreement (see "Related Party Transactions"), accretion of the discount related to the warrants issued to EKI in conjunction with the March 2003 financing transactions, plus accrued interest payable on amounts owed to EKI for monthly licensing fees that were not paid in accordance with the terms of the subordination agreements entered into in connection with the 2006 Debentures ("see Related Party Transactions").

In the fourth quarter of 2004, all of the EKI loans and accrued but unpaid interest were converted into common stock of the Company, as were the unpaid licensing fees under the Biotec License Agreement. Also in the fourth quarter of 2004, the March 2006 debentures were retired, so the accretion of the discount related to the warrants issued to EKI have been written off. Therefore, there was no related party interest expense for these items in the first quarter of 2005.

o Other interest expense decreased by approximately $0.19 million to approximately $0.02 million from approximately $0.21 million for the three months ended March 31, 2005, compared to the three months ended March 31, 2004, respectively. Other interest expense in 2004 was primarily composed of accretion of the discount and interest accrued on the 2006 Debentures. However, in the fourth quarter of 2004 the Company settled with the remaining holders of the March 2006 Debentures and the all of the outstanding debentures were retired. Therefore, there will be no other interest expense for the 2006 Debentures subsequent to December 31, 2004.

OTHER INCOME. Other income increased by approximately seven thousand dollars for the three months ended March 31, 2005, compared to $0 for the three months ended March 31, 2004. This other income was the result of a gain on the sale of certain minor pieces of equipment which had previously been scrapped and consigned to an equipment dealer.

LIQUIDITY AND CAPITAL RESOURCES AT MARCH 31, 2005

Cash Flow. The Company's principal use of cash for the three months ended March 31, 2005 was to fund operations. Net cash used in operations was approximately $0.8 million for the three months ended March 31, 2005, compared to $1.2 million for the three months ended March 31, 2004. As of March 31, 2005 the Company had cash and cash equivalents totaling approximately $0.3 million and a working capital deficit of approximately $8.4 million. These factors, along with others, may indicate that the Company will be unable to continue as a going concern for a reasonable period of time.

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Capital Requirements. The Company made no capital expenditures during the three months ended March 31, 2005, and the Company does not expect to make significant capital expenditures in the year 2005.

Sources of Capital. In March 2005, the Company entered into a promissory note and Security Agreement with Cornell Capital Partners, LP ("Cornell Capital Partners"). Pursuant to the Security Agreement, the Company shall issue promissory notes to Cornell Capital Partners in the original principal amount of $2.5 million. The $2.5 million will be disbursed as follows: $1,150,000 was disbursed on March 28, 2005. The remaining $1,350,000 will be issued in a second closing, expected to occur during the 2nd quarter of 2005, after the filing of a registration statement related to the Standby Equity Distribution Agreement, described below. The promissory notes are secured by the assets of the Company and shares of stock of another entity pledged by an affiliate of that entity. The promissory notes have a one-year term and accrue interest at 12% per year.

Also in March 2005, EarthShell entered into a Standby Equity Distribution Agreement with Cornell Capital Partners. Pursuant to the Standby Equity Distribution Agreement, the Company may, at its discretion, periodically sell to Cornell Capital Partners shares of common stock for a total purchase price of up to $10.0 million. For each share of common stock purchased under the Standby Equity Distribution Agreement, Cornell Capital Partners will pay the Company 98% of the lowest volume weighted average price of the Company's common stock as quoted by Bloomberg, LP on the Over-the-Counter Bulletin Board or other principal market on which the Company's common stock is traded for the 5 days immediately following the notice date. The price paid by Cornell Capital Partners for the Company's stock shall be determined as of the date of each individual request for an advance under the Standby Equity Distribution Agreement. Cornell Capital Partners will also retain 5% of each advance under the Standby Equity Distribution Agreement. Cornell Capital Partners' obligation

to purchase shares of the Company's common stock under the Standby Equity Distribution Agreement is subject to certain conditions, including the Company's registration statement for shares of common stock sold under the Standby Equity Distribution Agreement being declared effective by the Securities and Exchange Commission and is limited to $500,000 per weekly advance.

The Company also expects to generate cash in the remaining part of 2005 through technology fees and royalty payments from licensees and through the issuance of debt or equity securities. During 2004, the Company entered into license agreements for which it received a total of $1.5 million cash in technology fees. The Company expects to receive additional technology fees in connection with the granting of additional new licenses during the year. In addition, the Company expects to begin generating royalty revenues later in the year.

The Company believes that the cash from licensing activities, combined with the above described borrowing will be sufficient to fund its operations through the year ending December 31, 2005. If the Company is not successful at generating technology fees or royalty revenues during the year, the Company may have to raise additional funds to meet its current obligations and to cover operating expenses. If the Company is not successful in raising additional capital it may not be able to continue as a going concern for a reasonable period of time. Management plans to address this need by raising cash through either the issuance of debt or equity securities, including the issuance of common stock pursuant to the Standby Equity Distribution Agreement. However, the Company cannot assure that it will receive any royalty payments in 2005, that additional financing will be available to it, or, if available, that the terms will be satisfactory. Management will also continue in its efforts to reduce expenses, but can not assure that it will be able to reduce expenses below current levels.

Off-Balance Sheet Arrangements. The Company does not have any off-balance sheet arrangements as of March 31, 2005 and has not entered into any transactions involving unconsolidated, limited purpose entities.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's treasury function controls all decisions and commitments regarding cash management and financing arrangements. Treasury operations are conducted within a framework that has been authorized by the board of directors.

The Company is exposed to interest rate risk on its fixed rate long-term working capital loans. As of March 31, 2005, the principal amount of these long-term fixed rate debt obligations totaled approximately $1.15 million. The working capital loans bear interest at a fixed rate of 12% per annum. While generally an increase in market interest rates will decrease the value of this debt, and decreases in rates will have the opposite effect, we are unable to estimate the impact that interest rate changes will have on the value of the substantial majority of this debt as there is no active public market for this debt.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures. The Company's Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this quarterly report on Form 10-Q (the "Evaluation Date"). Based on such evaluation, such officers have concluded that, as of the Evaluation Date, the Company's disclosure controls and procedures are not effective in ensuring that (i) information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms and (ii) information required to be disclosed by the Company in the reports that it

files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

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This is a different conclusion that originally disclosed when we filed our Form 10K for the period ended December 31, 2004. In December 2004, we engaged CBIZ Southern California, Inc to assist us in documenting and testing our controls and procedures in compliance with the Sarbanes-Oxley Act. This process was not completed until late in the 1st quarter 2005. This testing and evaluation of our internal controls as of that time indicated that our controls were effective. This was management's assessment at that time. However, based on the timing of this work and the filing deadline for our 10K as an accelerated filer, our independent registered public accounting firm was not able to perform its audit of management's assessment of the effectiveness of its internal control over financial reporting as of December 31 ,2004, until subsequent to the filing of our 10K. Their audit disclosed material weaknesses. We reviewed the results of their audit of our assessment and ultimately concurred with their conclusion. Accordingly, we have revised our assessment and disclosed this revised conclusion in our amended Form 10K/A and in our Form 10Q for the quarter ended March 31, 2005.

In arriving at this determination, the Company's Chief Executive Officer and Chief Financial Officer note, in particular, that during the fourth quarter of 2004, the Company's Controller resigned (and has not been replaced to date) leaving the Company without a sufficient number of accounting personnel. As a result, the Company has had some difficulty accumulating and processing material information and disclosing that information to the public in the time periods required by the SEC's rules. As disclosed in Amendment No. 2 to the Company's Annual Report on Form 10-K filed with the SEC on May 3, 2005, the Company's assessment of its internal control over financial reporting identified three material weaknesses, as follows:

- The Company has inadequate segregation of critical duties within each of its accounting processes and a lack of sufficient monitoring controls over these processes to mitigate this risk. The responsibilities assigned to one employee include maintaining the vendor master file, processing payables, creating and voiding checks, reconciling bank accounts, making bank deposits and processing payroll.

- The departure of the Company's Controller in November 2004 resulted in the accounting and reporting functions being centralized under the Chief Financial Officer, with no additional personnel in the Company having an adequate knowledge of accounting principles and practices. As a result, certain transactions had not been recorded in a timely manner and several adjustments to the financial statements that were considered material to the financial position at December 31, 2004 and results of operations for the year then ended were recorded.

- There are weaknesses in the Company's information technology controls which makes the Company's financial data vulnerable to error or fraud. Specifically, there is a lack of documentation regarding the roles and responsibilities of the IT function, lack of security management and monitoring and inadequate segregation of duties involving IT functions.

Changes in internal control over financial reporting. No changes in the Company's internal control over financial reporting have come to management's attention during the Company's fiscal quarter ended March 31, 2005 that have

materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

However, in consultation with its independent auditors, as of the date of this report, the Company has begun taking the following remediation steps, among others, to enhance its internal control over financial reporting and reduce control deficiencies in general, including the material weaknesses enumerated above:

o Management has interviewed multiple qualified candidates to perform the Controller responsibilities. It is expected that this position will be filled in the 4th quarter of 2005.

o Management has engaged an outside firm, CBIZ Southern California, Inc., to perform the Internal Audit functions. This outside firm reports to the Audit Committee of the Board of Directors on a quarterly basis.

o Management employs an outside firm, Visus, LLC, to monitor and maintain the Company's information systems. This group has been directed to develop and implement Company-wide information management control procedures in consultation with the Company's internal auditors. A first draft was completed in July 2005 and it is expected that a final IT controls policy and procedures document will be adopted and implemented by the end of the third quarter 2005.

To date, the Company has expended approximately $30,000 towards remediation of these material weaknesses.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Not applicable

ITEM 2. CHANGES IN SECURITIES, USE OF PROCEEDS AND ISSUER PURCHASES OF EQUITY SECURITIES

Not applicable

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

ITEM 5. OTHER INFORMATION

Not applicable

ITEM 6. EXHIBITS

The following documents are filed as a part of this report:

Exhibit Number	Description

31.1 Certification of the CEO pursuant to Rules 13a-14 and 15d-14 under the Exchange Act, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of the CFO pursuant to Rules 13a-14 and 15d-14 under the Exchange Act, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized November 29, 2005.

November 29, 2005 EARTHSHELL CORPORATION

By: /s/ D. Scott Houston

Name: D. Scott Houston,
Title: Chief Financial Officer