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LITHIUM TECHNOLOGY CORP
Form 10QSB
May 21, 2001

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549
FORM 10-QSB

(Mark One)

Quarterly report under Section 13 or 15(d) of the Securities Exchange Act of 1934

For The Quarterly Period Ended March 31, 2001

Transition report under Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _____ to _____

Commission file number 1-10446

LITHIUM TECHNOLOGY CORPORATION
(Exact Name of Small Business Issuer as Specified in Its Charter)

DELAWARE
(State or Other Jurisdiction of
Incorporation or Organization)

13-3411148
(I.R.S. Employer
Identification No.)

5115 CAMPUS DRIVE, PLYMOUTH MEETING, PA 19462
(Address of Principal Executive Offices)

(610) 940-6090
(Issuer's Telephone Number, Including Area Code)

(Former Name, Former Address and Former Fiscal Year,
if Changed Since Last Report)

Check whether the issuer: (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 ___

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY
PROCEEDINGS DURING THE PRECEDING FIVE YEARS

Check whether the registrant filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Exchange Act after the distribution of securities under a plan confirmed by a court.

Yes ___ No ___

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: As of May 1, 2001: 51,294,305 shares

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of Common Stock

Transitional Small Business Disclosure Format (check one):

Yes ___ No X

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LITHIUM TECHNOLOGY CORPORATION AND SUBSIDIARY
FORM 10-QSB
FOR THE QUARTER ENDED MARCH 31, 2001

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PART I - FINANCIAL INFORMATION

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LITHIUM TECHNOLOGY CORPORATION AND SUBSIDIARY (DEVELOPMENT STAGE COMPANIES) CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

| | March 31, 2012 ----- |
|--------------------------------------------------------------------------------------|-------------------------|
| CURRENT ASSETS: | |
| Cash and cash equivalents | \$ 47,000 ----- |
| Total Current Assets | 47,000 ----- |
| PROPERTY AND EQUIPMENT, LESS ACCUMULATED DEPRECIATION OF \$1,194,000 AND \$1,159,000 | 336,000 |
| SECURITY DEPOSITS | 21,000 ----- |
| Total assets | \$ 404,000 ===== |
| LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIENCY) | |
| CURRENT LIABILITIES: | |
| Accounts payable | \$ 355,000 |
| Accrued salaries | 201,000 |
| Note Payable | 85,000 ----- |
| Total current liabilities | 641,000 ----- |
| LONG-TERM LIABILITIES: | |
| Convertible Promissory Notes | 4,011,000 ----- |
| Total liabilities | 4,652,000 ----- |
| COMMITMENTS AND CONTINGENCIES | |
| STOCKHOLDERS' EQUITY (DEFICIENCY): | |
| Common stock, par value \$.01 per share: | |
| Authorized - 125,000,000 shares | |
| Issued and outstanding - 51,294,305 shares | 513,000 |
| Additional paid-in capital | 47,170,000 |
| Accumulated deficit | (6,865,000) |
| Deficit accumulated during development stage | (45,066,000) ----- |
| Total stockholders' equity (deficiency) | (4,248,000) ----- |
| | \$ 404,000 ----- |

See accompanying notes to consolidated financial statements.

LITHIUM TECHNOLOGY CORPORATION
AND SUBSIDIARY
(DEVELOPMENT STAGE COMPANIES)

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

| | Three Months Ended March 31 | |
|---------------------------------------------------------------------------|-----------------------------|--------------|
| | 2001 | 2000 |
| | ----- | ----- |
| REVENUES: | | |
| Development contracts | \$ 0 | \$ 0 |
| COSTS AND EXPENSES: | | |
| Engineering, research and development | 417,000 | 346,000 |
| General and administrative | 250,000 | 512,000 |
| Stock based compensation expense, primarily general and administrative | -- | -- |
| | ----- | ----- |
| | 667,000 | 858,000 |
| | ----- | ----- |
| OTHER INCOME (EXPENSE): | | |
| Interest expense, net of interest income | (1,000) | 3,000 |
| Interest expense related to beneficial conversion feature | -- | -- |
| Other non-operating income - Notes | -- | -- |
| | ----- | ----- |
| | (1,000) | 3,000 |
| | ----- | ----- |
| NET LOSS | \$ (668,000) | \$ (855,000) |
| | ===== | ===== |
| WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING: | 51,294,305 | 49,212,000 |
| | ===== | ===== |
| BASIC AND DILUTED NET LOSS PER SHARE: | \$ (.01) | \$ (.02) |
| | ===== | ===== |

See accompanying notes to consolidated financial statements.

LITHIUM TECHNOLOGY CORPORATION
AND SUBSIDIARY
(DEVELOPMENT STAGE COMPANIES)

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' DEFICIENCY
(UNAUDITED)

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| | Shares ----- | Amount ----- | Additional Paid-In Capital ----- | Accumu Defi ----- |
|------------------------------------|-----------------|-----------------|----------------------------------------|-------------------------|
| BALANCES AT DECEMBER 31, 2000 | | | | |
| Three months ended March 31, 2001: | 51,294,305 | \$513,000 | \$47,170,000 | (\$6,865 |
| Net loss | -- | -- | -- | |
| BALANCES AT MARCH 31, 2001 | | | | |
| | 51,294,305 | \$513,000 | \$47,170,000 | (\$6,865 |

See accompanying notes to consolidated financial statements.

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LITHIUM TECHNOLOGY CORPORATION
AND SUBSIDIARY
(DEVELOPMENT STAGE COMPANIES)

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

| | Three Month March 2001 ----- |
|-------------------------------------------------------------------------------------------------------|---------------------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | |
| Net Loss | \$ (668,000) |
| Adjustments to reconcile net loss to net cash flows from operating activities: | |
| Interest expense relating to the beneficial conversion feature of the Senior Secured Convertible Note | -- |
| Depreciation | 36,000 |
| Amortization of debt issue costs | -- |
| Common stock issued at prices below fair market value | -- |
| Repricing of outstanding warrants | -- |
| Reduction of accrued expenses | -- |
| Common stock issued in lieu of interest | -- |
| Fair value of warrants and option granted for services rendered | -- |
| Common stock issued for services provided | -- |
| Common stock issued upon settlement of litigation | -- |
| Expenses paid by shareholder on behalf of Company | -- |
| Changes in operating assets and liabilities: | |
| Accounts receivable | -- |
| Other current assets | -- |
| Security and equipment deposits | -- |
| Accounts payable, accrued expenses and customer deposits | 104,000 |
| Due to related parties | -- |
| | ----- |

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| | |
|--------------------------------------------------------------------------|-----------|
| Net cash used in operating activities | (528,000) |
| ----- | |
| CASH FLOWS FROM INVESTING ACTIVITIES: | |
| Purchases of property and equipment | (25,000) |
| Other | -- |
| ----- | |
| Net cash provided by (used in) investing activities | (25,000) |
| ----- | |
| CASH FLOW FROM FINANCING ACTIVITIES: | |
| Proceeds received from Convertible Promissory Notes | 548,000 |
| Net advance repayable only out of proceeds of public offering | -- |
| Proceeds received upon issuance of common stock | -- |
| Proceeds received from issuance of preferred stock, net of related costs | -- |
| Proceeds received upon exercise of options and warrants, net of costs | -- |
| Net advances by former principal stockholder | -- |
| Proceeds from sale of convertible debt | -- |
| Debt issue costs | -- |
| Repayment of convertible debt | -- |
| ----- | |
| Net cash provided by financing activities | 548,000 |
| ----- | |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | (5,000) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | 52,000 |
| ----- | |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | \$ 47,000 |
| ===== | |

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LITHIUM TECHNOLOGY CORPORATION
AND SUBSIDIARY
(DEVELOPMENT STAGE COMPANIES)

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED) -- CONTINUED

Three Month
March 3
2001

| | |
|---------------------------------------------------------------------------------------------------------|----|
| SUPPLEMENTAL CASH FLOW INFORMATION: | |
| Contribution to capital by former principal stockholder | -- |
| Related party debt exchanged for convertible debt | -- |
| Exchange of indebtedness to former principal stockholder for common stock | -- |
| Issuance of common stock for services and accrued salaries | -- |
| Exchange of equipment and accrued rent for common stock | -- |
| Subordinated notes and related accrued interest exchanged for Series A preferred stock | -- |
| Exchange of convertible debt for convertible preferred stock | -- |
| Conversion of convertible debt and accrued interest into common stock, net of unamortized debt discount | -- |
| Exchange of advances repayable only out of proceeds of public offering for common stock | -- |
| Deferred offering costs on warrants exercised | -- |
| Issuance of warrants in settlement of litigation for debt issue costs and for | -- |

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services rendered
Common stock issued for costs related to 10% promissory notes

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See accompanying notes to consolidated financial statements.

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LITHIUM TECHNOLOGY CORPORATION
AND SUBSIDIARY
(DEVELOPMENT STAGE COMPANIES)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

MARCH 31, 2001

1. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles applicable to interim periods. In the opinion of management, all adjustments (consisting only of normal recurring accruals) considered necessary for a fair presentation have been included. These financial statements should be read in conjunction with the Company's audited financial statements included in the Company's Annual Report on Form 10-KSB filed with the Securities and Exchange Commission for the year ended December 31, 2000. Operating results for the three months ended March 31, 2001 are not necessarily indicative of the results that may be expected for the year ending December 31, 2001 or any interim period.

2. HISTORY OF THE BUSINESS

Lithium Technology Corporation and its wholly-owned subsidiary, Lithion Corporation, collectively referred to as "LTC", are pre-production stage companies in the process of commercializing unique, solid-state, lithium polymer rechargeable batteries. LTC is engaged in technology development activities and pilot line manufacturing operations to further advance this battery technology and also holds various patents relating to such batteries. LTC is developing innovative lithium polymer batteries for Hybrid Electric Vehicle (HEV) applications.

The date of inception of LTC's development stage is July 21, 1989. At that time, LTC exchanged its capital stock for all of the capital stock of Lithion and an operating company in a reverse acquisition. The operating company was divested in November 1993. The accumulated deficit associated with the operating company of \$6,865,000 has been segregated from LTC's deficit accumulated during the development stage in the accompanying consolidated financial statements.

On January 19, 2000, LTC and Pacific Lithium Limited ("PLL") of Auckland, New Zealand signed an Agreement and Plan of Merger (the "Merger Agreement") to merge their respective companies (the "Merger"). On October 2, 2000, PLL domesticated into the U.S. and became a private Delaware corporation pursuant to the provisions of Section 388 of the Delaware Corporation Law (the "Domestication") and changed its name to Ilion Technology Corporation ("Ilion"). Ilion intends to consummate an Initial Public Offering in the United States and NASDAQ listing of Ilion (the "Ilion IPO") as soon as practicable depending upon market conditions and other factors. The Merger will be completed after the

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consummation of the Ilion IPO and the approval of the Merger by the LTC stockholders, assuming the remaining closing conditions are met. A meeting of the LTC stockholders to approve the Merger will be held as soon as practicable after the Ilion IPO.

The closing conditions to the Merger must be met by February 28, 2002 or either LTC or Ilion may terminate the Merger Agreement provided that the terminating party has not prevented the consummation of the Merger by a breach of the Merger Agreement by such party. Accordingly, both the Ilion IPO and the approval of the Merger by the LTC Stockholders must be completed by February 28, 2002 and the remaining closing conditions must be met by such date. There can be no assurance that Ilion will be able to

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consummate the Ilion IPO by February 28, 2002. There can also be no assurance that if the Ilion IPO is completed by February 28, 2002 that the Merger will be approved by the LTC stockholders by such date.

Pursuant to the terms of a Bridge Loan Financing Agreement entered into as of November 29, 1999 (the "Bridge Loan"), Ilion has agreed to advance working capital to LTC. Ilion has advanced a total of \$4,011,000 as of March 31, 2001.

The Bridge Loan Agreement does not contain a maximum of the amount of funding that may be advanced under such agreement. Accordingly, there is no maximum amount of notes that may be issued to Ilion. The amount of the notes will be related to the working capital advances made by Ilion to LTC and the length of time until the Merger is completed.

If Ilion breaches the Merger Agreement, and the Merger Agreement is terminated as a result, prior to February 28, 2002, the date the Merger Agreement expires, Ilion would have the right to convert the Bridge Loan into shares of LTC common stock at the conversion price of \$0.10 per share. In this event, the conversion could result in Ilion holding an ownership percentage greater than 50%, depending on the amount of Bridge Loans outstanding on the date of conversion. In addition, LTC would need to find alternative sources of capital or be forced to curtail technology development expenditures which, in turn, will delay, and could prevent, the completion of LTC's commercialization process.

If the Merger does not occur by February 28, 2002 because the closing conditions have not been met by such date, including the failure of condition of the Ilion IPO or the approval of the Merger by LTC's stockholders, and Ilion has not breached the Merger Agreement, Ilion would have the right to convert the Bridge Loans into shares of LTC common stock at a conversion price of \$0.10 per share. This conversion could result in Ilion holding an ownership percentage greater than 50%, depending on the amount of Bridge Loans outstanding on the date of conversion. In addition, in this instance, Ilion would be issued three year warrants to purchase 7.5 million shares of LTC common stock exercisable at \$0.15 per share and Ilion would have a first option to purchase LTC's technologies and processes if LTC sells, goes into receivership, liquidation or the like. Ilion would also have the right and option to purchase LTC's pilot plant and equipment at book value as of the date of the Merger Agreement.

In connection with the Bridge Loan, LTC has granted Ilion a non-exclusive worldwide license to use LTC's thin film technology and manufacturing methods solely as it relates to lithium-ion polymer

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batteries. Pursuant to the licensing agreement, Ilion will pay to LTC a royalty equal to the higher of one percent of the net sales price of each licensed product manufactured, sold or otherwise disposed of during the term of the licensing agreement or the rate that applies to any license agreement entered into subsequent to October 1, 1999. The funds advanced by Ilion to LTC under the Bridge Loan Financing Agreement will be deemed as an advance payment of royalty fees due under the licensing agreement. All improvements developed by LTC or Ilion during the course of the licensing agreement will be owned by Ilion. As of March 31, 2001, no royalties have been earned under this agreement.

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3. OPERATIONS AND LIQUIDITY DIFFICULTIES AND MANAGEMENT'S PLANS TO OVERCOME:

The accompanying consolidated financial statements of the Company have been prepared on a going concern basis, which contemplates the continuation of operations, realization of assets and liquidation of liabilities in the ordinary course of business. Since its inception, the Company has incurred substantial operating losses and expects to incur additional operating losses over the next several years. Since December 1993, operations have been financed primarily through the use of proceeds from the sale of convertible debt and private placements of common stock. Continuation of the Company's operations in 2001 is dependent upon Ilion's ability to make additional advances under the Bridge Loan Financing Agreement and, ultimately, the closing of the merger described herein. These conditions raise substantial doubt about LTC's ability to continue as a going concern. The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

MANAGEMENT'S PLANS - LTC is in the late stages of developing and producing innovative rechargeable solid state lithium polymer batteries. LTC has worked closely with selected portable electronics Original Equipment Manufacturers ("OEMs") over the past several years, exploring various notebook computer, PDA and wireless handset applications. However, based on emerging market opportunities and as part of the strategy of merging into Ilion, LTC has now refocused its unique wide footprint cell manufacturing technology and market activities to concentrate on large, high-pulse power battery applications, including Hybrid Electric Vehicles (HEVs) and energy storage devices for the rapidly growing distributed power market. In September 2000, LTC completed the first working prototype lithium-ion polymer HEV battery, complete with electronics. A second generation prototype HEV battery was completed in January 2001. LTC has not yet delivered a prototype HEV battery for testing by a third party. All improvements to LTC's technology contained in the prototype HEV batteries are owned by Ilion pursuant to the terms of the licensing agreement between LTC and Ilion entered into in connection with the Bridge Loan.

Prior to changing its focus to developing batteries for HEVs, LTC delivered limited quantities of prototype batteries and component cells for evaluation to selected battery pack integrators and portable electronics OEMs. LTC has an experienced management team and a strong technical staff with relevant experience in battery technology and applications, thin-film manufacturing, capital raising, and global marketing, sales and strategic alliances.

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Management's operating plan seeks to minimize LTC's capital requirements, but commercialization of LTC's battery technology will require substantial amounts of additional capital. LTC expects that technology development and operating and production expenses will increase significantly as it continues to advance its battery technology and develop products for commercial applications. LTC's working capital and capital requirements will depend upon numerous factors, including, without limitation, the progress of LTC's technology development program, the levels and resources that LTC devotes to the development of manufacturing and marketing capabilities, technological advances, the status of competitors and the ability of LTC, including Ilion subsequent to the merger, to establish collaborative arrangements with other companies to provide an expanded capacity to market and manufacture battery products.

Beginning in October 1999, Ilion has provided working capital for LTC. Management is depending on the Bridge Loan Agreement funding from Ilion to meet LTC's obligations through the next year. In 2001, Ilion reduced the amount of funding it has been providing to LTC on a monthly basis. Ilion has indicated that it has reduced its operating expenses throughout Ilion and indicated in March 2001 that it intended to fund LTC at \$100,000 per month under the Bridge Loan Agreement. Ilion and LTC subsequently entered into discussions regarding funds required by LTC to meet its operating expenses and in April 2001 Ilion agreed to support an LTC monthly operating budget of \$150,000 and subject to Ilion's review and reconciliation of LTC's past due payables, agreed to effect payment of LTC's outstanding payables over a three month period.

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If Ilion does not provide the monthly funding required by LTC or does not forward funds to meet LTC's outstanding payables, LTC will be forced to further curtail its current operations, substantially reduce the number of LTC employees, and take other measures to reduce its operating expenditures.

If Ilion breaches the Merger Agreement, and the Merger Agreement is terminated as a result, prior to February 28, 2002, the date the Merger Agreement expires, Ilion would have the right to convert the Bridge loans into shares of LTC common stock at a conversion price of \$0.10 per share. In this event, the conversion could result in Ilion holding an ownership percentage greater than 50%, depending on the amount of Bridge Loans outstanding on the date of conversion. In addition, LTC would need to find alternative sources of capital or be forced to curtail technology development expenditures which, in turn, will delay, and could prevent, the completion of LTC's commercialization process.

If the Merger does not occur by February 28, 2002 because the closing conditions have not been met by such date, including the failure of condition of the Ilion IPO or the approval of the Merger by LTC's Stockholders, and Ilion has not breached the Merger Agreement, Ilion would have the right to convert the Bridge Loans into shares of LTC common stock at a conversion price of \$0.10 per share. This conversion could result in Ilion holding an ownership percentage greater than 50%, depending on the amount of Bridge Loans outstanding on the date of conversion. In addition, in this instance, Ilion would be issued three year warrants to purchase 7.5 million shares of LTC common stock exercisable at \$0.15 per share and Ilion would have a first option to purchase LTC's technologies and processes if LTC sells, goes into receivership, liquidation or the like. Ilion would also have the right and option to purchase LTC's pilot plant and equipment at book value as

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of the date of the Merger Agreement.

LTC believes that provided Ilion advances the needed working capital to LTC until the consummation of the Merger, LTC will have sufficient capital resources to meet its needs and satisfy its obligations through the date of the Merger. LTC does not currently have sufficient cash to meet all of its operating needs, pay its outstanding payables or to achieve all its development and production objectives. There can be no assurance that funding will continue to be provided by Ilion in the amounts necessary to meet all of LTC's obligations. If Ilion does not provide the needed working capital to LTC or if the Merger is not consummated, LTC will assess all available alternatives including the suspension of operations and possibly liquidation, auction, bankruptcy, or other measures.

4. PROPERTY AND EQUIPMENT

Property and equipment at March 31, 2001 are summarized as follows:

| | |
|-------------------------------------------------|-------------|
| Laboratory equipment | \$1,376,000 |
| Furniture and office equipment | 106,000 |
| Leasehold improvements | 48,000 |
| | ----- |
| | \$1,530,000 |
| Less: Accumulated depreciation and amortization | 1,194,000 |
| | ----- |
| | \$ 336,000 |
| | ===== |

5. SUBSEQUENT EVENTS

In April and May of 2001, Ilion advanced an additional \$301,000 to the Company for working capital under the Bridge Loan, bringing the total Bridge Loan to \$4,312,000 as of May 15, 2001.

In April, 2001, the Company extended the expiration date of the Company's outstanding warrants until the earlier of (i) the date three business days prior to the closing of the Merger or (ii) the original termination date set forth in the warrant, provided however, if there is no registration statement registering the underlying

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warrant shares effective within ninety days prior to the original warrant termination date, the original warrant termination date is extended to the date three business days prior to the closing of the Merger.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

The following discussion and analysis should be read in conjunction with the financial statements and notes thereto appearing elsewhere in this report.

GENERAL AND PLAN OF OPERATION

LTC is a pre-production stage company in the process of commercializing a unique, solid-state, lithium polymer rechargeable battery. LTC is engaged in technology development activities and pilot line manufacturing operations to further advance this battery technology and also holds various patents relating

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to such batteries. LTC is developing innovative lithium polymer batteries for Hybrid Electric Vehicle (HEV) applications.

On January 19, 2000, LTC and Pacific Lithium Limited ("PLL") of Auckland, New Zealand signed an Agreement and Plan of Merger (the "Merger Agreement") to merge their respective companies (the "Merger"). On October 2, 2000, PLL domesticated into the U.S. and became a private Delaware corporation pursuant to the provisions of Section 388 of the Delaware Corporation Law (the "Domestication") and changed its name to Ilion Technology Corporation ("Ilion"). Ilion intends to consummate an Initial Public Offering in the United States and NASDAQ listing of Ilion (the "Ilion IPO") as soon as practicable depending upon market conditions and other factors. The Merger will be completed after the consummation of the Ilion IPO and the approval of the Merger by the LTC stockholders, assuming the remaining closing conditions are met. A meeting of the LTC stockholders to approve the Merger will be held as soon as practicable after the Ilion IPO.

The closing conditions to the Merger must be met by February 28, 2002 or either LTC or Ilion may terminate the Merger Agreement provided that the terminating party has not prevented the consummation of the Merger by a breach of the Merger Agreement by such party. Accordingly, both the Ilion IPO and the approval of the Merger by the LTC Stockholders must be completed by February 28, 2002 and the remaining closing conditions must be met by such date. There can be no assurance that Ilion will be able to consummate the Ilion IPO by February 28, 2002. There can also be no assurance that if the Ilion IPO is completed by February 28, 2002 that the Merger will be approved by the LTC stockholders by such date.

Pursuant to the terms of a Bridge Loan Financing Agreement entered into as of November 29, 1999 (the "Bridge Loan"), Ilion has agreed to advance working capital to LTC. Ilion has advanced a total of \$4,011,000 as of March 31, 2001.

The Bridge Loan Agreement does not contain a maximum of the amount of funding that may be advanced under such agreement. Accordingly, there is no maximum amount of notes that may be issued to Ilion. The amount of the notes will be related to the working capital advances made by Ilion to LTC and the length of time until the Merger is completed.

If Ilion breaches the Merger Agreement, and the Merger Agreement is terminated as a result, prior to February 28, 2002, the date the Merger Agreement expires, Ilion would have the right to convert the Bridge Loan into shares of LTC common stock at the conversion price of \$0.10 per share. In this event, the conversion could result in Ilion holding an ownership percentage greater than 50%, depending on the amount of Bridge Loans outstanding on the date of conversion. In addition, LTC would need to find alternative sources of capital or be forced to curtail technology development expenditures which, in turn, will delay, and could prevent, the completion of LTC's commercialization process.

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If the Merger does not occur by February 28, 2002 because the closing conditions have not been met by such date, including the failure of condition of the Ilion IPO or the approval of the Merger by LTC's stockholders, and Ilion has not breached the Merger Agreement, Ilion would have the right to convert the Bridge Loans into shares of LTC common stock at a conversion price of \$0.10 per share. This conversion could result in Ilion holding an ownership percentage greater than 50%, depending on the amount of Bridge Loans outstanding on the date of conversion. In addition, in this instance, Ilion would be issued three year warrants to purchase 7.5 million shares of LTC common stock exercisable at \$0.15 per share and Ilion would have a first option to purchase LTC's technologies and processes if LTC sells, goes into receivership, liquidation or the like. Ilion would also have the right and option to purchase LTC's pilot plant and equipment at book value as of the date of the Merger Agreement.

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In connection with the Bridge Loan, LTC has granted Ilion a non-exclusive worldwide license to use LTC's thin film technology and manufacturing methods solely as it relates to lithium-ion polymer batteries. Pursuant to the licensing agreement, Ilion will pay to LTC a royalty equal to the higher of one percent of the net sales price of each licensed product manufactured, sold or otherwise disposed of during the term of the licensing agreement or the rate that applies to any license agreement entered into subsequent to October 1, 1999. The funds advanced by Ilion to LTC under the Bridge Loan Financing Agreement will be deemed as an advance payment of royalty fees due under the licensing agreement. All improvements developed by LTC or Ilion during the course of the licensing agreement will be owned by Ilion. As of March 31, 2001, no royalties have been earned under this agreement.

At March 31, 2001, Ilion held \$4,011,000 of convertible notes convertible into 40,110,000 shares of Common Stock at a conversion price of at \$.10 (which are only convertible in the event of a default or if the Merger does not close by February 28, 2002), which would represent approximately 44% of LTC's outstanding Common Stock upon conversion. Additional notes may be issued by LTC to Ilion under the Bridge Loan convertible into shares of Common Stock at a conversion price of \$.10 per share and LTC may issue to Ilion warrants to purchase 7,500,000 shares of LTC Common Stock exercisable at \$0.15 per share. The notes will not be converted into LTC Common Stock and the warrants will not be issued to Ilion if the Merger is completed. The percentage ownership of LTC that Ilion will own if there is a default under the Bridge Loan or in the event the Merger is not closed will depend on the amount of funds advanced by Ilion to LTC.

Until the closing of the Merger, LTC and Ilion are working together in leveraging their combined vertical integration capabilities and patented/proprietary technologies encompassing: (1) access to lithium reserves; (2) advanced carbonate and electrode materials; (3) composite cell structures; (4) unique substrate handling manufacturing processes; (5) large battery assemblies; and (6) lithium recycling. The two companies are targeting global market opportunities involving HEV batteries, portable electronics, and stationary large battery applications. Ilion has also established joint venture manufacturing and distribution relationships with selected partners around the world. The first such joint venture, with Eldor Corporation of Italy, regarding manufacturing and distribution of lithium-ion batteries for portable electronics applications worldwide, was signed in August, 2000. In November 2000, Ilion entered into a joint venture agreement with Powercell Corporation. Pursuant to the agreement, Ilion and Powercell formed Proteus Power LLC, which is owned 75% by Ilion and 25% by Powercell, to develop and manufacture lithium-ion based energy storage devices for (1) the management and enhancement of electricity reliability and power quality (excluding devices under 50 kW), (2) the electric vehicle market (excluding HEVs) and (3) the renewable energy market, which includes wind and solar energy. LTC continues to provide technology support to Ilion in large footprint cell structures, large battery assemblies and manufacturing process scale-up for all applications.

The new combined entity is expected to have a unique position in the lithium polymer battery market, providing a proprietary vertical integration capability that would range from high grade lithium materials to reinforced composite battery structures, with low cost, high yield thin film manufacturing processes. This combination of technologies, capabilities and people - coupled with the selected joint venture partners for global manufacturing and distribution - will enable the new company to become a low cost provider of high quality and high performance

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technologies include rapidly emerging markets for large rechargeable lithium batteries such as HEVs and stationary applications, as well as the more traditional portable electronics applications.

For a complete description of the terms of the Merger with Ilion, including Amendment No. 4 that was entered into on February 2, 2001, and the Bridge Financing provided by Ilion, see the Company's Form 10-KSB for the year ended December 31, 2000.

LTC has been unprofitable since inception, expects to incur substantial operating losses over the next few years and needs significant additional financing to continue the development and commercialization of its technology. LTC does not expect to generate any significant revenues from operations during the fiscal year ending December 31, 2001.

If the Merger with Ilion is not consummated, LTC will assess all available alternatives including the suspension of operations and possibly liquidation, auction, bankruptcy, or other measures.

LIQUIDITY, CAPITAL RESOURCES, AND FINANCIAL CONDITION

The Company has financed its operations since inception primarily with convertible debt and private placements of common stock and has raised approximately \$18.4 million, including \$4,011,000 from Ilion as of March 31, 2001.

At March 31, 2001, the Company had cash and cash equivalent of \$47,000, fixed assets of \$336,000 and other assets of \$21,000. The Company's total liabilities were \$4,652,000 consisting of accounts payable, accrued salaries, and a note payable in the amount of \$641,000 and convertible promissory notes payable to Ilion in the amount of \$4,011,000. The Company had a working capital deficit of \$594,000 on March 31, 2001 as compared to a working capital deficit of \$380,000 on December 31, 2000.

The Company's cash and cash equivalents decreased by approximately \$5,000 from December 31, 2000 to March 31, 2001. The working capital and cash decrease is attributable primarily to the decrease in bridge loan financing from Ilion.

The Company's stockholders' deficiency was \$4,248,000 at March 31, 2001, after giving effect to an accumulated deficit of \$51,931,000 which consisted of \$45,066,000 accumulated deficit during the development stage from July 21, 1989 through March 31, 2001 and \$6,865,000 accumulated deficit from prior periods. The Company expects to incur substantial operating losses as it continues its commercialization efforts.

Pursuant to the terms of a Bridge Loan, Ilion has agreed to advance working capital to the Company until the closing of the Merger. Ilion has advanced a total of \$4,011,000 through March 31, 2001, convertible into 40,110,000 shares of Company common stock at a conversion price of \$.10 per share, which would represent approximately 44% of LTC's outstanding common stock upon conversion. Ilion has agreed to advance to the Company ongoing funds required by the Company for ongoing employee, operating and administrative expenses excluding capital expenses.

In 2001, Ilion reduced the amount of funding it has been providing to LTC on a monthly basis. Ilion has indicated that it has reduced its operating expenses throughout Ilion and indicated in March 2001 that it intended to fund LTC at \$100,000 per month under the Bridge Loan Agreement. Ilion and LTC subsequently entered into discussions regarding funds required by LTC to meet its operating expenses and in April 2001 Ilion agreed to support an LTC monthly operating budget of \$150,000 and subject to Ilion's review and reconciliation of LTC's

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past due payables, agreed to effect payment of LTC's outstanding payables over a three month period.

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During 2001, LTC has taken measures to curtail its operating and administrative expenses. If Ilion does not provide the monthly funding required by LTC or does not forward funds to meet LTC's outstanding payables, LTC will be forced to further curtail its current operations, substantially reduce the number of LTC employees, and take other measures to reduce its operating expenditures.

LTC believes that provided Ilion advances the needed working capital to LTC until the consummation of the Merger, LTC will have sufficient capital resources to meet its needs and satisfy its obligations through the date of the Merger. LTC does not currently have sufficient cash to meet all of its operating needs, pay its outstanding payables or to achieve all its development and production objectives. There can be no assurance that funding will continue to be provided by Ilion in the amounts necessary to meet all of LTC's obligations. If Ilion does not provide the needed working capital to LTC or if the Merger is not consummated, LTC will assess all available alternatives including the suspension of operations and possibly liquidation, auction, bankruptcy, or other measures.

RESULTS OF OPERATIONS

The Company had no revenues from commercial operations for the three months ended March 31, 2001 and 2000. Engineering, research and development expenses were \$417,000 for the three months ended March 31, 2001 compared to \$346,000 for the three months ended March 31, 2000. The increase of \$71,000 was due primarily to increased lab supplies and consulting expenses.

General and administrative expenses were \$250,000 for the three months ended March 31, 2001 compared to \$512,000 for the three months ended March 31, 2000. The decrease of \$262,000 was due primarily to decreased legal and accounting expenses as well as Company-wide efforts to decrease all non-essential administrative expenses.

Interest expense for the three months ended March 31, 2001 was \$1,000 (net of interest income of \$2,000), compared to \$3,000 of interest income with no interest expense for the three months ended March 31, 2000. The decrease in interest income for the comparable periods is attributable to a decrease in cash balances.

SAFE HARBOR STATEMENT

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for certain forward-looking statements. Statements contained in this report that are not historical facts are forward-looking statements that involve risks and uncertainties that could cause actual results to differ materially from those stated in the forward-looking statements. Factors that could cause actual results to differ materially include, among others: general economic conditions, changes in laws and government regulations, fluctuations in demand for the Company's products, the consummation of the Merger with Ilion and continued financing of LTC by Ilion.

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PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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None.

ITEM 2. CHANGES IN SECURITIES

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

a) Exhibits

2.7 Amendment No. 4 to the Agreement and Plan of Merger dated February 2, 2001 between LTC and Ilion Technology Corporation (1)

10.40 First Amendment to Lease dated March 19, 2001 between PMP Whitemarsh Associates and LTC (2)

10.41 Form of Second Warrant Amendment Agreement

b) Form 8-K Reports during the Quarter Ended March 31, 2001

Form 8-K dated February 14, 2001 announcing the update on the pending merger with Ilion and the execution of Amendment No. 4 to the Merger Agreement

(1) Incorporated by reference to the Company's Form 8-K dated February 14, 2001

(2) Incorporated by reference to the Company's Form 10-KSB for the year ended December 31, 2000

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SIGNATURE

In accordance with the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

LITHIUM TECHNOLOGY CORPORATION

By: /s/ David J. Cade

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David J. Cade, Chairman and Chief Executive Officer (Chief Executive Officer and Acting Principal Financial Officer)