LITHIUM TECHNOLOGY CORP
Form 10QSB
November 20, 2001

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

(Mark One)

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

For The Quarterly Period Ended September 30, 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	13-3411148
(State or Other Jurisdiction of Incorporation or Organization)	(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 X 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 November 14, 2001: 51,294,305 shares of Common Stock

Transitional Small Business Disclosure Format (check one):

Yes __ No X

LITHIUM TECHNOLOGY CORPORATION AND SUBSIDIARY
FORM 10-QSB
FOR THE QUARTER ENDED SEPTEMBER 30, 2001

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PART I - FINANCIAL INFORMATION

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

ITEM 1. FINANCIAL STATEMENTS

	September 30, 2001 (unaudited)	December 2000
CURRENT ASSETS:		
Cash and cash equivalents	$ 65,000	$ 52,
Total Current Assets	65,000	52,
PROPERTY AND EQUIPMENT, LESS ACCUMULATED DEPRECIATION OF $1,266,000 AND $1,159,000	270,000	347,
SECURITY DEPOSITS	21,000	21,
Total assets	$ 356,000	$ 420,
CURRENT LIABILITIES:		
Accounts payable	$ 236,000	$ 248,
Accrued salaries	201,000	201,
Other accrued expenses	80,000	88,
Total current liabilities	517,000	537,
LONG-TERM LIABILITIES:		
Convertible Promissory Notes	4,906,000	3,463,
Total liabilities	5,423,000	4,000,
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY (DEFICIENCY):		
Preferred stock, par value $.01 per share		
Authorized - 100,000 shares		
Issued and outstanding - None		
Common stock, par value $.01 per share:		
Authorized - 125,000,000 shares		
Issued and outstanding - 51,294,305	513,000	513,
Additional paid-in capital	47,170,000	47,170,
Accumulated deficit	(6,865,000)	(6,865,
Deficit accumulated during development stage	(45,885,000)	(44,398,
Total stockholders' equity (deficiency)	(5,067,000)	(3,580,
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIENCY)	$ 356,000	$ 420,

See accompanying notes to consolidated financial statements.

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LITHIUM TECHNOLOGY CORPORATION
AND SUBSIDIARY
(DEVELOPMENT STAGE COMPANIES)

CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended September 30, 2001 (Unaudited)	Three Months Ended September 30, 2000 (Unaudited)
REVENUES:		
Development contracts	$ 0	$ 0
Other	5,000	0
	5,000	0
COSTS AND EXPENSES:		
Engineering, research and development	223,000	338,000
General and administrative	164,000	366,000
	387,000	704,000
OTHER INCOME (EXPENSE):		
Interest income (expense), net	(1,000)	4,000
	(1,000)	4,000
NET LOSS	$ (383,000)	$ (700,000)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING:	51,294,305	50,922,000
BASIC AND DILUTED NET LOSS PER SHARE:	$ (0.01)	$ (0.01)

See accompanying notes to consolidated financial statements.

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LITHIUM TECHNOLOGY CORPORATION
AND SUBSIDIARY
(DEVELOPMENT STAGE COMPANIES)

CONSOLIDATED STATEMENTS OF OPERATIONS

	Nine Months Ended September 30, 2001 (Unaudited)	Nine Months Ended September 30, 2000 (Unaudited)	Peri
REVENUES:			
Development contracts	$ 0	$ 0	
Other	12,000	0	
	12,000	0	
COSTS AND EXPENSES:			
Engineering, research and development	850,000	1,165,000	
General and administrative	646,000	1,529,000	
Stock based compensation expense	0	--	
	1,496,000	2,694,000	
OTHER INCOME (EXPENSE):			
Interest expense, net of interest income	(3,000)	11,000	
Interest expense related to beneficial conversion feature	--		
Other non-operating income - Notes	--	--	
	(3,000)	11,000	
NET LOSS	$ (1,487,000)	$ (2,683,000)	
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING:	$ 51,294,305	50,041,000	
BASIC AND DILUTED NET LOSS PER SHARE:	$ (0.03)	$ (0.05)	

See accompanying notes to consolidated financial statements.

LITHIUM TECHNOLOGY CORPORATION
AND SUBSIDIARY
(DEVELOPMENT STAGE COMPANIES)

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' DEFICIENCY

Common Stock	Additional	Accumu

	Shares	Amount	Paid-In Capital	Defi
BALANCES AT DECEMBER 31, 2000	51,294,305	$ 513,000	$ 47,170,000	($ 6,6
Nine months ended September 30, 2001:				
Net loss	--	--	--	
BALANCES AT SEPTEMBER 30, 2001	51,294,305	$ 513,000	$ 47,170,000	($ 6,6

See accompanying notes to consolidated financial statements.

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LITHIUM TECHNOLOGY CORPORATION
AND SUBSIDIARY
(DEVELOPMENT STAGE COMPANIES)

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ende September 30,	
	2001	
	(Unaudited)	(Un
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Loss	$(1,487,000)	$ (2
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	107,000	
Amortization of debt issue costs		
Common stock issued at prices below fair market value		
Repricing of outstanding warrants		
Repricing of outstanding options		
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	(21,000)	
Due to related parties		

Net cash used in operating activities	(1,401,000)	(2
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(29,000)	
Other	--	
Net cash used in investing activities	(29,000)	
CASH FLOW FROM FINANCING ACTIVITIES:		
Proceeds received from Convertible Promissory Notes	1,443,000	1
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	1,443,000	2
NET CHANGE IN CASH AND CASH EQUIVALENTS	13,000	
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	52,000	
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 65,000	$

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LITHIUM TECHNOLOGY CORPORATION
AND SUBSIDIARY
(DEVELOPMENT STAGE COMPANIES)

CONSOLIDATED STATEMENTS OF CASH FLOWS -- CONTINUED

	Nine Months Ended September 30, 2001	Nine Months Ended September 30, 2000	Pe Jul (I Se
	(Unaudited)	(Unaudited)	(
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 services rendered	--	--
Common stock issued for costs related to 10% promissory notes	--	--

See accompanying notes to consolidated financial statements.

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LITHIUM TECHNOLOGY CORPORATION
AND SUBSIDIARY
(DEVELOPMENT STAGE COMPANIES)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

SEPTEMBER 30, 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. Certain information and note disclosures normally included in LTC's annual financial statements, prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. These financial statements should be read in conjunction with LTC's audited financial statements included in LTC'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 nine months ended September 30, 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, flat, lithium ion rechargeable batteries.

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.

LTC has entered into an Agreement and Plan of Merger with Ilion Technology Corporation ("Ilion"), formerly known as Pacific Lithium Limited to merge their respective companies. See Note 3.

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

The accompanying consolidated financial statements of LTC 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, LTC 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 LTC's operations in 2001 is dependent upon Ilion's ability to make additional advances under the Bridge Loan Financing Agreement described below or the ability of LTC to obtain funding from a new financing source as 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 engaged in technology development activities and pilot line manufacturing operations to further advance its battery technology. LTC holds various patents relating to its batteries. LTC is developing innovative flat lithium ion batteries for large, high rate applications including Hybrid Electric Vehicles (HEVs), other automotive applications and energy storage devices for the rapidly growing distributed power market. In September 2000, LTC completed the first working prototype lithium-ion HEV battery, complete with electronics. A second generation prototype HEV battery was completed in January 2001. 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 described below.

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 to establish collaborative arrangements with other companies to provide an expanded capacity to market and manufacture battery products.

LTC has engaged Colebrooke Capital, Inc. ("Colebrooke") of New York City to assist in the strategic repositioning of LTC, including a reorientation of the relationship with Ilion. Colebrooke is assisting LTC in seeking new sources of capital financing, exploring strategic technology partnership scenarios and closing customer opportunities involving specific product needs addressable by LTC's large stacked cell batteries as part of LTC management's contingency planning.

MERGER WITH ILION TECHNOLOGY CORPORATION AND RELATED BRIDGE FINANCING - 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 and changed its name to Ilion Technology Corporation ("Ilion"). At the time LTC entered into the Merger Agreement Ilion had intended to consummate an initial public offering in the United States and NASDAQ listing of Ilion (the "Ilion IPO") and the closing of the Merger was conditioned on the consummation of the Ilion IPO by February 28, 2002. If the closing conditions are not met by February 28, 2002 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.

As Ilion has not yet filed a registration statement for the Ilion IPO, it is unlikely that Ilion will be able to consummate the Ilion IPO by February 28, 2002. LTC's management is engaged in contingency planning since it is unlikely that the Ilion IPO and Merger will occur by February 28, 2002. LTC is seeking alternative sources of capital financing as well as seeking potential technology partners and customers interested in LTC's large batteries. In order to consummate any new financing management believes the transaction with Ilion will need to be restructured. If LTC is unable to restructure the transaction with Ilion and complete a new transaction, it may be forced to suspend operations and possibly liquidate, auction its assets, or file for bankruptcy.

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 $4,906,000 as of September 30, 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 under the Bridge Loan. 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.

Management is depending on the Bridge Loan Agreement funding from Ilion to meet LTC's obligations until LTC can obtain a new funding source. In 2001, Ilion reduced the amount of funding it has been providing to LTC on a monthly basis. Ilion indicated that it had reduced its operating expenses throughout Ilion and indicated in

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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. During July, August and September 2001, Ilion provided $104,000, $196,000 and $133,000, to LTC, respectively, or a total of $433,000 for such three month period. No additional funds were provided to LTC by Ilion during such time and at September 30, 2001, LTC had outstanding accounts payable of $236,000. As a result of the reduction in the amount of funding provided by Ilion to LTC from the original funding level of approximately $250,000 per month to the current level, LTC has been forced to curtail its operations, reduce the number of employees and take other measures to reduce its operating and administrative expenses and seek alternative sources of funding as described herein.

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 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 September 30, 2001, no royalties have been earned under this agreement.

If Ilion or LTC 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 the 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.

LTC does not currently have sufficient cash to meet all of its operating needs, pay its outstanding payable or to achieve all its development and production objectives. There can be no assurance that funding will continue to be provided by Ilion or a new financing source in the amounts necessary to meet all of LTC's obligations. If LTC does not obtain the needed working capital from either Ilion or a new financing source, LTC will assess all available alternatives including the suspension of operations and possibly liquidation, auction of its assets, bankruptcy, or other measures.

4. PROPERTY AND EQUIPMENT

Property and equipment at September 30, 2001 are summarized as follows:

Laboratory equipment	$ 1,382,000
Furniture and office equipment	106,000
Leasehold improvements	48,000
	1,536,000
Less: Accumulated depreciation and amortization	(1,266,000)
	$ 270,000

5. REVENUES

Other revenues consist of sales of samples and materials which is expected to be non-recurring.

6. SUBSEQUENT EVENTS

In October and November 2001, Ilion advanced an additional $209,000 to LTC for working capital under the Bridge Loan, bringing the total Bridge Loan to $5,115,000 as of November 15, 2001.

As of November 15, 2001, LTC's outstanding accounts payable totaled $165,000.

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 unique, solid-state, lithium ion 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 flat lithium ion batteries for large, high rate applications including HEVs, other automotive applications and energy storage devices for the rapidly growing distributed power market. LTC has an experienced management team and a strong technical staff with experience in battery technology and applications, thin-film manufacturing, capital raising, and global marketing, sales and strategic alliances. LTC maintains a current commercial awareness of products, materials, manufacturing processes, battery applications, competition and markets on a worldwide basis.

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 (the "Domestication") and changed its name to Ilion Technology Corporation ("Ilion"). At the time LTC entered into the Merger Agreement Ilion had intended to consummate an initial public offering in the United States and NASDAQ listing of Ilion (the "Ilion IPO") and the closing of the Merger was conditioned on the consummation of the Ilion IPO by February 28, 2002. For a complete description of the terms of the Merger with Ilion and the related Bridge Financing see LTC's Form 10-KSB for the year ended December 31, 2000. If the closing conditions are not met by February 28, 2002 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.

As Ilion has not yet filed a registration statement for the Ilion IPO, it is unlikely that Ilion will be able to consummate the Ilion IPO by February 28, 2002. LTC's management is engaged in contingency planning since it is unlikely that the Ilion IPO and Merger will occur by February 28, 2002. LTC is seeking alternative sources of capital financing as well as seeking potential technology partners and customers interested in LTC's large batteries. In order to consummate any new financing management believes the transaction with Ilion needs to be restructured.

LTC has engaged Colebrooke Capital, Inc. ("Colebrooke") of New York City to assist in the strategic repositioning of LTC, including a reorientation of the relationship with Ilion. Colebrooke is assisting LTC in seeking new sources of capital financing, exploring strategic technology partnership scenarios and closing customer opportunities involving specific product needs addressable by LTC's large stacked cell batteries as part of LTC management's contingency planning. If LTC is unable to restructure the transaction with Ilion and complete a new transaction, it may be forced to suspend operations and possibly liquidate, auction its assets, or file for bankruptcy.

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. At September 30, 2001, Ilion held $4,906,000 of convertible notes convertible into 49,060,000 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 49% 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 percentage ownership of LTC that Ilion will own will depend on the amount of funds advanced by Ilion to LTC.

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Ilion has 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 has provided technology support to Ilion in large footprint cell structures, large battery assemblies and manufacturing process automation and scale-up for all applications.

With Ilion's approval, LTC has accepted certain external subcontract work for several companies involving rapid prototyping and integration of lithium-ion cells and batteries for various stationary and mobile applications. These external initiatives, leveraging LTC's know-how, are expected to continue and increase with the result of providing revenues to LTC. No revenues were received from such subcontract work during the quarter ended September 30, 2001.

LIQUIDITY, CAPITAL RESOURCES, AND FINANCIAL CONDITION

LTC has financed its operations since inception with convertible debt and private placements of common stock and has raised approximately $19.3 million, including $4,906,000 from Ilion as of September 30, 2001.

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, 2000.

At September 30, 2001, LTC had cash and cash equivalent of $65,000, fixed assets of $270,000 and other assets of $21,000. LTC's total liabilities were $5,423,000 consisting of accounts payable, accrued salaries, a note payable totaling $517,000 and convertible promissory notes payable to Ilion in the amount of $4,906,000. LTC had a working capital deficit of $452,000 on September 30, 2001.

LTC's cash and cash equivalents increased by approximately $13,000 from December 31, 2000 to September 30, 2001. The cash increase is attributable primarily to slower payments made to vendors.

LTC's stockholders' deficiency was $5,067,000 at September 30, 2001, after giving effect to an accumulated deficit of $52,750,000 which consisted of $45,885,000 accumulated deficit during the development stage from July 21, 1989 through September 30, 2001 and $6,865,000 accumulated deficit from prior periods. LTC 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 LTC until the closing of the Merger. Ilion has advanced a total of $4,906,000 through September 30, 2001. Ilion has agreed to advance to LTC ongoing funds required by LTC for ongoing employee, operating and administrative expenses excluding capital expenses.

Management has been depending on the Bridge Loan Agreement funding from Ilion to meet LTC's obligations. 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. During July, August and September 2001, Ilion provided $104,000, $196,000 and $133,000, to LTC, respectively, or a total of $433,000 for such three month period. No additional funds were provided to LTC by Ilion during such time and at September 30, 2001, LTC had outstanding accounts payable of $236,000.

As a result of the reduction in the amount of funding provided by Ilion to LTC from the original funding level of approximately $250,000 per month to the current level, LTC has been forced to curtail its operations, reduce the number of employees, take other measures to reduce its operating and administrative expenses and seek alternative sources of funding as described herein.

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 or a new financing source in the amounts necessary to meet all of LTC's obligations. If LTC does not obtain the needed working capital from either Ilion or a new financing source, LTC will assess all available alternatives including the suspension of operations and possibly liquidation, auction of its assets, bankruptcy, or other measures.

RESULTS OF OPERATIONS

NINE MONTHS ENDED SEPTEMBER 30, 2001

LTC had $12,000 in revenues from commercial operations for the nine months ended September 30, 2001 and no revenues in 2000. Engineering, research and development expenses were $850,000 for the nine months ended September 30, 2001 compared to $1,165,000 for the nine months ended September 30, 2000. The decrease of $315,000 was due primarily to decreased salaries and benefits due to a decrease in the number of technical personnel and a decrease in lab supplies and other materials.

General and administrative expenses were $646,000 for the nine months ended September 30, 2001 compared to $1,529,000 for the nine months ended September 30, 2000. The decrease of $883,000 was due primarily to a decrease in salary and benefits due to a decrease in the number of administrative personnel and related expenses and decreased legal, accounting and other administrative expenses.

Interest expense net of interest income for the nine months ended September 30, 2001 was $7,000 with interest income of $4,000 compared to $11,000 of interest income with no interest expense for the nine months ended September 30, 2000. The decrease in interest expense from the comparable periods is attributable to a decrease in interest on notes payable.

THREE MONTHS ENDED SEPTEMBER 30, 2000

LTC had $5,000 in revenues from commercial operations for the three months ended September 30, 2001 and no revenues for 2000. Engineering, research and development expenses were $223,000 for the three months ended September 30, 2001 compared to $338,000 for the three months ended September 30, 2000. The decrease of $115,000 was due primarily to decreased personnel and related expenses and a decrease in lab supplies and other materials.

General and administrative expenses were $164,000 for the three months ended September 30, 2001 compared to $366,000 for the three months ended September 30, 2000. The decrease of $202,000 was due primarily to decreased personnel and related expenses and a decrease in legal, accounting and other administrative expenses.

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 LTC's products, LTC's ability to consummate the merger with Ilion of other strategic partners, technology development problems, and LTC's ability to successfully finance future plant and equipment plans, as well as its current ongoing operations.

PART II
OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

None.

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.

November 19, 2001 LITHIUM TECHNOLOGY CORPORATION

By: /s/ David J. Cade

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