PPG INDUSTRIES INC
Form 4
March 13, 2015

FORM 4

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

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL

OMB Number:	3235-0287
Expires:	January 31, 2005
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(Print or Type Responses)

1. Name and Address of Reporting Person *
FARACI JOHN V

(Last) (First) (Middle)

C/O INTERNATIONAL PAPER COMPANY, 400 ATLANTIC STREET, 13TH FLOOR

(Street)

STAMFORD, CT 06921

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
PPG INDUSTRIES INC [PPG]

3. Date of Earliest Transaction (Month/Day/Year)
03/12/2015

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director _____ 10% Owner
_____ Officer (give title below) _____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative	2. Conversion	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if	4. Transaction	5. Number of	6. Date Exercisable and Expiration Date	7. Title and Amount of Underlying Securities	8. Price of Derivati

Security (Instr. 3)	or Exercise Price of Derivative Security		any (Month/Day/Year)	Code (Instr. 8)		Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		(Month/Day/Year)		(Instr. 3 and 4)		Security (Instr. 5
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares	
Phantom Stock Units	(1)	03/12/2015		A		9.62		(2)	(2)	Common Stock	9.62	$ 229

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
FARACI JOHN V C/O INTERNATIONAL PAPER COMPANY 400 ATLANTIC STREET, 13TH FLOOR STAMFORD, CT 06921	X			

Signatures

Greg E. Gordon, Attorney-in-Fact for John V. Faraci	03/13/2015
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) The security converts to common stock on a one-for-one basis.

(2) After termination of service as a Director of PPG Industries, Inc.

(3) Total of all phantom stock units held by the reporting person in the PPG Industries, Inc. Deferred Compensation Plan for Directors.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. President and Group Executive of the Lighting Group, General Electric Company from 1980 to 1987. He also serves as a director of Metropolitan Savings Bank, Oglebay-Norton Corporation, Thomas Industries and Pacific Scientific, Inc. Arif Maskatia was elected a director of LTC, effective February 23, 1999. Mr. Maskatia has over 27 years of experience in the computer industry. He presently is Vice President of the Advanced Technology & Portable Development Group for Acer Advanced Labs in San Jose, California, responsible for development of new notebook computer platforms. Prior to joining Acer, he held senior technology development positions with Zenith Data Systems and Alcatel/ITT Information Systems. Mr. Maskatia holds Bachelors and Masters degrees in electrical engineering from Cornell University. John D. McKey, Jr. was elected a director of LTC, effective September 8, 1995. He has, since September 1993, been a partner at the law firm of McCarthy, Summers, Bobko & McKey, P.A., and, from June 1986 to September 1993, was a partner at Kohn, Bobko, McKey & Higgins, P.A. Mr.

McKey formerly served as a director of Publishing Company of North America and currently serves as a director of Consolidated Capital of North America, Inc. William D. Walker, formerly the Treasurer and Chief Financial Officer of LTC, resigned from such position effective August 19, 1999. Mr. Walker continues to provide services to LTC as a part-time consultant. LTC's directors hold office until the next annual meeting of LTC's stockholders and until their successors have been duly elected and qualified. LTC's directors do not receive compensation for their services in that capacity. On May 31, 2000, Dr. George R. Ferment, President & Chief Operating Officer and director, resigned to pursue other interests. As a result of the refocus/realignment of the business based on the strategic relationship and planned merger with Ilion, two other executives left LTC: Mr. Joseph Calio, Vice President of Sales and Marketing, on November 1, 2000; and Mr. Joseph Kejha, Chief Scientist, on February 21, 2001. On June 12, 2000, Mr. John McFeeley, director, resigned from the LTC Board due to new responsibilities and time constraints imposed by another undertaking. Dr. A.J. Manning, Vice President of Manufacturing, was promoted to the position of Executive Vice President of Operations on January 15, 2001, reflecting his increased responsibilities with the company. COMPLIANCE WITH SECTION 16(a) OF THE SECURITIES EXCHANGE ACT OF 1934 Section 16(a) of the Securities Exchange Act of 1934 requires LTC's officers and directors, and persons who beneficially own, directly or indirectly, more than ten percent (10%) of the registered class of LTC's equity securities to file reports of ownership and changes in ownership on Forms 3, 4 and 5 with the Securities and Exchange Commission ("SEC") and the National Association of Securities Dealers. Officers, directors and greater than ten percent (10%) beneficial owners are required by SEC regulation to furnish LTC with copies of all Forms 3, 4 and 5 they file. All Forms 3, 4 and 5 that were required to be filed during 2000 pursuant to the provisions of Section 16(a) of the Exchange Act have been filed. However, some of the Forms 3, 4 and/or 5 that were required to be filed by the following were not filed on a timely basis. David J. Cade (1), Ralph Ketchum (1), John D. McKey, Jr. (2), George Ferment (2). (The number in parenthesis after each name represents the number of required forms that were not filed on a timely basis.) 25 26 ITEM 10. EXECUTIVE COMPENSATION The following table sets forth information concerning the compensation paid by LTC during the three years ended on December 31, 2000 to (i) the Chief Executive Officer of LTC and (ii) all other executive officers of LTC, or any of its subsidiaries, who were serving in such capacity on December 31, 2000 and received total salary and bonus in excess of $100,000 during fiscal year 2000 (collectively, "Named Executive Officers"). SUMMARY COMPENSATION TABLE Long-Term Compensation Annual Awards Securities All Name and Principal Compensation Underlying Other Position Year Salary Options/Sars (#) Compensation -------- ---- ------ --------------- ------------ David J. Cade, Chairman of 2000 $165,000 0 0 the Board and Chief 1999 $156,667 165,000 (2) 0 Executive Officer (1) 1998 $148,750 528,029 (3) 0 George R. Ferment, 2000 $ 77,500(4) 0 $77,500(4) President, Chief Operating 1999 $146,667 165,000 (5) 0 Officer and Chief 1998 $138,750 528,029 (6) 0 Technical Officer (4) (1) Mr. Cade was appointed Chief Executive Officer of LTC on November 1, 1999. (2) Mr. Cade was granted 165,000 stock options on September 27, 1999 at an exercise price of $0.26 per share. (3) Mr. Cade was granted 528,029 stock options on December 18, 1998 at an exercise price of $0.28 per share. (4) Dr. Ferment resigned from LTC and the Board of Directors effective May 31, 2000. Pursuant to an Agreement entered into between LTC and Dr. Ferment, LTC paid Dr. Ferment his salary until June 30, 2000 and $77,500 on June 30, 2000. In addition, LTC agreed to cause the 92,520 Ilion stock options to be allocated to Dr. Ferment under the Merger Agreement to be issued to Dr. Ferment on the later of the Ilion IPO or the Merger. (5) Dr. Ferment was granted 165,000 stock options on September 27, 1999 at an exercise price of $0.26 per share. (6) Dr. Ferment was granted 528,029 stock options on December 18, 1998 at an exercise price of $0.28 per share. 26 27 OPTIONS EXERCISED AND OPTIONS OUTSTANDING The following table sets forth information with respect to (i) options exercised by each of the Named Executive Officers in fiscal year 2000 and (ii) the number and value of in-the-money unexercised options held by each of the Named Executive Officers at the end of fiscal year 2000. The value of in-the-money unexercised options held at December 31, 2000 is based on the closing "bid" price of $0.23 per share of Common Stock on December 31, 2000. All of the options held by Named Executive Officers had exercise prices in excess of $.23 as of December 29, 2000, accordingly there were no in-the-money unexercised options as of that date. AGGREGATED OPTION/SAR EXERCISES IN FISCAL YEAR 2000 AND DECEMBER 31, 2000 OPTION/SAR VALUES Number of Securities Value of Underlying Unexercised Unexercised in the Money Options/Sars Options/Sars at Fy-end (#) at Fy-end (#) Shares Acquired on Value Exercisable/ Exercisable/ Name Exercise (#) Realized ($) Unexercisable Unexercisable ---- ------------ ------------ ------------ ------------ David J. Cade 654,529 576,269 701,482/ 0 $0/0 George R. Ferment 582,629 436,298 468,538/ 0 $0/0 In February 2000, the Board approved the acceleration of the vesting of all outstanding stock options, on the condition that the optionee consents to a new termination date of the earlier of (i) the original option termination date and (ii) the date preceding the Merger between LTC and Ilion. This action was taken in connection with the Merger Agreement between LTC and Ilion which contains a covenant that LTC will use its best efforts to cause all outstanding LTC options to be exercised by the holders thereof prior to the Merger. In June 2000, the Board of Directors approved the reduction of the exercise price of each outstanding option having an exercise price in excess of $.28 to $.28. This action was taken in connection with the Merger Agreement between LTC and Ilion which contains a covenant that LTC will use its best efforts to cause all outstanding LTC options to be exercised by the holders thereof prior to the Merger. In connection with the 2000 repricing of the stock options under the 1994 Stock Plan, the Board concluded repricing was advisable and in the best interests of LTC in order to, among other things, provide incentive to management and employees and in order to provide LTC with necessary working capital. No change other than the change in exercise price was approved at that time. 27 28 COMPENSATION OF DIRECTORS Directors receive no cash compensation for serving on LTC's Board of Directors. Each Non-Employee Director receives an option to purchase 13,334 shares of Common Stock under LTC's Directors Stock Option Plan (the "Directors Plan") upon election to the Board. Under the Directors Plan, non-qualified stock options to purchase shares of LTC's Common Stock are granted automatically to Non-Employee Directors at the times specified in the Directors Plan. Each Non-Employee Director receives an initial option to purchase 13,334 shares of the Common Stock on the date on which such director first becomes eligible to participate in the Directors Plan. Thereafter, as long as a Non-Employee Director remains eligible to participate in the Directors Plan, such director will receive on the date LTC consummates a joint venture agreement with an investment in LTC of at least $3,000,000, options to acquire up to an additional 20,000 shares. EMPLOYMENT AGREEMENTS AND CERTAIN EMPLOYEE MATTERS On July 24, 1996, LTC entered into a one-year employment agreement with David J. Cade pursuant to which Mr. Cade was employed as LTC's President and Chief Operating Officer at an annual salary of $140,000. In May 1997, this agreement was extended for one year on the same terms and conditions except that no new options were granted. In June 1998, LTC extended this employment agreement for two years on the same terms and conditions except that no new options were granted, and Mr. Cade's salary was increased to $155,000 per year. Effective November 1, 1999, the Board of Directors elected Mr. Cade LTC's Chairman and Chief Executive Officer and Mr. Cade's salary was increased to $165,000 per year. In January 2000, the Board of Directors approved an extension of the employment agreement between LTC and Mr. Cade until the later of February 28, 2002 and one year after the closing date of the Merger. Mr. Cade is eligible to receive a target bonus of up to 20% of his annual salary in the event certain specified milestones are achieved. Mr. Cade's employment agreement also provides for the issuance of a ten (10) year incentive option to purchase 133,333 shares of LTC's common stock at an exercise price of $1.33 per share. In June 1997, the Board of Directors approved the exchange of options held by each employee (including executive officers) under LTC's Stock Plan for new options with an exercise price of $0.58 per share. The new options became exercisable on November 1, 1997. In addition, Mr. Cade was granted 316,001 stock options on December 2, 1997 at an exercise price of $1.00, 528,029 options on December 18, 1998 at an exercise price of $.28 and 165,000 options on September 28, 1999 at an exercise price of $.26. On September 27, 1999, the Board approved the reduction of the exercise price of all 1994 options to $.26, which included 671,982 options held by Mr. Cade. Mr. Cade's employment agreement provides for certain severance payment benefits in the event of a change in control (as defined in the employment extension agreement) combined with his employment termination resulting from his resignation or LTC's termination of his employment without cause. In connection with the execution of the Merger Agreement between LTC and Ilion, Mr. Cade entered into an agreement with Ilion and LTC agreeing to a modification of the change-in-control and severance provisions of his employment agreement and agreeing to a termination of the employment agreement with LTC effective at the time of the Merger closing. Dr. George Ferment, the President, Chief Operating Officer and Chief Technology Officer and a director of 28 29 LTC, resigned from LTC effective May 31, 2000. Pursuant to an Agreement entered into between LTC and Dr. Ferment, LTC paid Dr. Ferment his salary until June 30, 2001 and $77,500 on June 30, 2000. In addition, LTC agreed to cause the 92,520 Ilion stock options to be allocated to Dr. Ferment under the Merger Agreement to be issued to Dr. Ferment on the later of the Ilion IPO or the Merger. In 2000, 1999 and 1998, LTC paid $38,937, $53,218 and $73,781, respectively to William D. Walker for services rendered to LTC. Mr. Walker served as Treasurer and Chief Financial Officer of LTC until August 1999 and continues to provide services as a consultant. Mr. Walker did not receive a salary from LTC. On October 28, 1999, the Board also approved the acceleration of the vesting of the options owned by Mr. Walker in consideration of consulting services to be provided to LTC. ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT The following table sets forth information as of December 31, 2000 with respect to the equity securities of LTC known by LTC to be beneficially owned by each beneficial owner of more than five percent of LTC's Common Stock, by each current director and Named Executive Officer (as defined in applicable SEC regulations), and by all current directors and executive officers as a group. Number of Shares Name and Address of Beneficial Owner(1) Beneficially Owned(2) Percent of Class(2) -------------------------------------- -------------------- ------------------- David J. Cade 701,482 (3) 1.35% Stephen F. Hope 1,289,607 (4) 2.45% Ralph D. Ketchum 672,438 (5) 1.29% John D. McKey, Jr. 127,535 (6) * Barry Huret 13,334 (3) * Arif Maskatia 13,334 (3) * All Directors and Officers as a Group (6 persons) 2,817,730 (7) 5.21% * Less than 1%. (1) The address of each beneficial owner is c/o Lithium Technology Corporation, 5115 Campus Drive, Plymouth Meeting, PA 19462. (2) Includes shares of Common Stock underlying outstanding warrants, options and convertible securities which are exercisable by the beneficial owner with respect to whom the calculation is made, that may be acquired within 60 days after December 31, 2000 upon the exercise or conversion of warrants, options or convertible securities. (3) Consists of options to acquire shares of Common Stock. (4) Includes options to acquire 35,000 shares of common stock. Includes 90,328 shares of Common Stock held by Hazel Hope, the Executrix of the Estate of Henry Hope. (5) Includes options to acquire 38,334 shares of Common Stock and 249,829 shares held by Mr. Ketchum's spouse. 29 30 (6) Includes options to acquire 58,334 shares of Common Stock. (7) Includes options to acquire 868,818 shares of common stock. ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS On September 22, 1997, LTC entered into a Senior Secured Convertible Note Purchase Agreement (the "1997 Note Purchase Agreement") with Lithium Link LLC ("Lithium Link") for the sale of $5.5 million of LTC's Senior Secured Convertible Notes (the "1997 Notes"). The 1997 Notes were convertible into LTC's Common Stock at a conversion price of $.28 per share. In January 1999, the Notes were converted into 19,642,857 shares of LTC's Common Stock and 562,647 shares of LTC's Common Stock were issued to pay accrued interest to the conversion date (together the "Interlink Shares"). In February 1999, Lithium Link authorized the distribution of the Interlink Shares to its members. Mr. Ketchum, a director of LTC and his wife were members of Lithium Link and received a total of 383,660 shares of Company Common Stock from Lithium Link in the distribution. LTC believes that the transactions described above were fair to LTC and were as favorable to LTC as those which it might have obtained from non-affiliated third parties, given the circumstances under which such transactions were proposed and effectuated. ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K (a) Exhibits. The following Exhibits are filed as part of this Report or incorporated herein by reference: 2.1 Agreement and Plan of Merger dated January 19, 2000 between Ilion Technology Corporation ("Ilion"), formerly known as Pacific Lithium Limited and LTC (Schedules omitted).(1) 2.2 Amendment Agreement No. 1 dated March 31, 2000 between Ilion and LTC.(2) 2.3 Amendment Agreement No. 2 dated May 5, 2000 between Ilion and LTC.(3) 2.4 Amendment Agreement No. 3 dated June 6, 2000 between LTC and Ilion.(4) 2.6 Certificate of Amendment to Certificate of Incorporation effective June 19, 2000.(5) 2.7 Amendment No. 4 to Agreement and Plan of Merger dated February 2, 2001 between LTC and Ilion.(6) 3.1 Certificate of Incorporation.(7) 3.2 By-Laws, as amended.(7) 3.5 Certificate of Designation of Series A Preferred Stock of LTC.(3) 4.1 Specimen Common Stock Certificate.(7) 30 31 10.1 1994 Stock Incentive Plan, as amended.(8) 10.2 Directors Stock Option Plan.(8) 10.3 Employment Agreement, dated July 24, 1996, between David Cade and LTC.(9) 10.4 Employment Agreement, dated July 24, 1996, between George Ferment and LTC.(9) 10.5 Technology Development Agreement, dated March 29, 1996, between Mitsubishi Materials Corporation, Mitsui & Co., Ltd. and LTC.(10) 10.6 Stock Purchase Agreement, dated March 29, 1996, between Mitsubishi Materials Corporation, Mitsui & Co., Ltd. and LTC.(10) (without exhibits) 10.7 Form of Stock Option Agreement relating to LTC's 1994 Stock Incentive Plan, as amended.(10) 10.8 Form of Stock Option Agreement relating to LTC's Directors Stock Option Plan.(10) 10.10 Lease Agreement, dated July 22, 1994, between PMP Whitemarsh Associates and LTC and Addendum dated July 22, 1994. (10) 10.11 Warrant to Purchase Common Stock issued to Robert Pfeffer dated June 20, 1996. (10) 10.12 Warrant to Purchase Common Stock issued to Group III Capital, Inc. dated May 9, 1996.(11) 10.13 Warrant to Purchase Common Stock issued to Nanele Services, Inc., dated May 9, 1996.(11) 10.14 Stock Option Agreement, dated July 24, 1996, between David Cade and LTC.(9) 10.15 Stock Option Agreement, dated July 24, 1996, between George Ferment and LTC.(9) 10.16 Form of Restricted Stock Agreement relating to LTC's 1994 Stock Incentive Plan.(11) 10.17 Form of Warrant Agreement dated October 23, 1996 between LTC and the Placement Agent.(12) 10.18 Form of Registration Rights Agreement dated October 23, 1996 between LTC and the Placement Agent.(12) 10.19 Letter Agreement dated

February 5, 1997 between LTC and Chase Manhattan Bank.(12) 10.20 Form of Common Stock Warrant dated September 22, 1997 issued by LTC in favor of Interlink Management Corporation.(13) 10.21 Employment Agreement Extension, dated June 1, 1998, between David Cade and LTC.(14) 31 32 10.22 Employment Agreement Extension, dated June 1, 1998, between George Ferment and LTC.(14) 10.23 1998 Stock Incentive Plan.(14) 10.24 Form of Stock Option Agreements relating to LTC's 1998 Stock Incentive Plan.(14) 10.25 Form of Stock Purchase Agreement relating to the sale of 4,500,000 shares of Company common stock. (2) 10.26 Bridge Loan Financing Agreement dated as of November 29, 1999 between LTC and Ilion.(1) 10.27 Convertible Secured Promissory Note dated as of November 29, 1999 issued by LTC to Ilion in the principal amount of $125,000.(1) 10.28 Convertible Promissory Note dated January 19, 2000 issued by LTC to Ilion in the amount of $975,000.(1) 10.29 Form of Operating Convertible Promissory Note.(1) 10.30 Security Agreement dated as of November 29, 1999 between LTC and Ilion.(1) 10.31 Warrant to purchase 7,500,000 shares of LTC Common Stock dated as of January 19, 2000.(1) 10.32 License and Option Agreement effective as of October 1, 1999 between LTC and Ilion.(1) 10.33 Form of Security Agreement and Assignment of Lease between LTC and Ilion.(1) 10.34 Agreement between David Cade, Ilion and LTC dated January 19, 2000.(1) 10.35 Employment Agreement Extension dated January 4, 2000 between LTC and David Cade.(1) 10.36 Lease Extension, dated February 3, 2000 between PMP Whitemarsh Associates and LTC (1). 10.37 Agreement dated May 5, 2000 between LTC and Thomas Thomsen (3) 10.38 Agreement dated May 5, 2000 between LTC and George Ferment (3) 10.39 Form of Warrant Amendment Agreement. (5) 10.40 First Amendment to Lease, dated March 19, 2001 between PMP Whitemarsh Associates and LTC.+ 21.1 List of Subsidiaries.(11) 23.1 Consent of Deloitte & Touche, LLP.+ 23.2 Consent of Wiss & Company, LLP+ 32 33 (1) Incorporated herein by reference to LTC's Report on Form 8-K, dated January 19, 2000. (2) Incorporated herein by reference to LTC's Annual Report on Form 10-K for the fiscal year ended December 31, 1999. (3) Incorporated herein by reference to LTC's Form S-4 filed on May 12, 2000. (4) Incorporated herein by reference to LTC's Report on Form 8-K, dated June 6, 2000. (5) Incorporated herein by reference to LTC's Quarterly Report on Form 10- QSB for the quarter ended September 30, 2000. (6) Incorporated herein by reference to LTC's Report on Form 8-K, dated February 14, 2001. (7) Incorporated herein by reference to LTC's Annual Report on Form 10-K for the fiscal year ended October 31, 1989. (8) Incorporated herein by reference to the exhibits contained in LTC's Information Statement Pursuant to Section 14(c) of the Securities Exchange Act of 1934, dated January 19, 1996. (9) Incorporated herein by reference to LTC's Quarterly Report on Form 10-QSB for the quarter ended June 30, 1996. (10) Incorporated herein by reference to LTC's Form 10-KSB for the fiscal year ended December 31, 1995. (11) Incorporated herein by reference to LTC's Registration Statement on Form SB-2, File No. 333-08143, which was filed with the Securities and Exchange Commission on July 15, 1996. (12) Incorporated herein by reference to LTC's Report on Form 8-K, dated October 25, 1996. (13) Incorporated herein by reference to LTC's Report on Form 8-K, dated September 22, 1997. (14) Incorporated herein by reference to LTC's Annual Report on Form 10-KSB, for the year ended December 31, 1998. (15) Incorporated herein by reference to LTC's Quarterly Report on Form 10-QSB for the quarter ended June 30, 2000. + Exhibit filed herewith in this Report. 33 34 LITHIUM TECHNOLOGY CORPORATION AND SUBSIDIARY (DEVELOPMENT STAGE COMPANIES) DECEMBER 31, 2000 INDEX TO CONSOLIDATED FINANCIAL STATEMENTS PAGE F-1 35 INDEPENDENT AUDITORS' REPORT To the Board of Directors and Stockholders of Lithium Technology Corporation and Subsidiary (Development Stage Companies) We have audited the accompanying consolidated balance sheet of Lithium Technology Corporation and subsidiary (development stage companies) as of December 31, 2000, and the related consolidated statements of operations, changes in stockholders' deficiency and cash flows for each of the two years in the period ended December 31, 2000, and for the period from July 21, 1989 (date of inception) to December 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. The Company's financial statements for the period July 21, 1989 (date of inception) through December 31, 1996, were audited by other auditors whose report, dated January 22, 1997, expressed an unqualified opinion on those statements and included explanatory paragraphs that described the uncertainty concerning the Company's ability to continue as a going concern. The financial statements for the period July 21, 1989 (date of inception) through December 31, 1996 reflect a cumulative net loss of $18,877,000, of the total net loss of $44,398,000 for the period July 21, 1989 (date of inception) through December 31, 2000. The other auditors' report has been furnished to us, and our opinion, insofar as it relates to the amounts included for such prior periods, is based solely on the report of such other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinion. In our opinion, based on our audit and the report of other auditors, such consolidated financial statements present fairly in all material respects, the financial position of Lithium Technology Corporation and subsidiary (development stage companies) as of December 31, 2000, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2000, and for the period from July 21, 1989 (date of inception) through December 31, 2000, in conformity with accounting principles generally accepted in the United States of America. The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. The Company is a development stage enterprise engaged in developing and marketing lithium-polymer rechargeable batteries. As discussed in Note 3 to the financial statements, the Company's operating losses since inception and lack of adequate financing to fund its operations raise substantial doubt about its ability to continue as a going concern. Management's plans concerning these matters are also described in Note 3. The financial statements do not include any adjustments that might result from the outcome of these uncertainties. /s/ DELOITTE & TOUCHE, LLP Philadelphia, PA April 11, 2001 F-2 36 INDEPENDENT AUDITORS' REPORT To the Board of Directors and Stockholders of Lithium Technology Corporation and Subsidiary (Development Stage Companies) We have audited the consolidated statements of operations, changes in stockholders' equity (deficit) and cash flows of Lithium Technology Corporation and subsidiary (Development Stage Companies) for the period July 21, 1989 (date of inception) to December 31, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion. In our opinion, the financial statements referred to above present fairly, in all material respects, the results of operations and cash flows of Lithium Technology Corporation and subsidiary (Development Stage Companies) for the period July 21, 1989 (date of inception) to December 31, 1996, in conformity with generally accepted accounting principles. The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Notes 1 and 3 of the financial statements, the Company is a development stage company, has suffered recurring losses from operations and needs significant additional financing to repay existing indebtedness and to continue the development of its technology. These factors raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. /s/ WISS & COMPANY, LLP Woodbridge, New Jersey January 22, 1997 F-3 37 LITHIUM TECHNOLOGY CORPORATION AND SUBSIDIARY (DEVELOPMENT STAGE COMPANIES) CONSOLIDATED BALANCE SHEET DECEMBER 31, 2000 CURRENT ASSETS: Cash and cash equivalent $ 52,000 ------------ Total Current Assets 52,000 ------------ PROPERTY AND EQUIPMENT, LESS ACCUMULATED DEPRECIATION OF $1,159,000 347,000 Security and equipment deposits 21,000 ------------ Total assets $ 420,000 =========== LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIENCY) CURRENT LIABILITIES: Accounts payable $ 248,000 Accrued salaries 201,000 Note payable 88,000 ------------ Total current liabilities 537,000 ------------ LONG-TERM LIABILITIES Convertible Promissory Notes 3,463,000 ----------- Total liabilities 4,000,000 ------------

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 shares 513,000 Additional paid-in capital 47,170,000 Accumulated deficit (6,865,000) Deficit accumulated during development stage (44,398,000) ------------ Total stockholders' equity (deficiency) (3,580,000) ------------ Total liabilities and stockholders' equity (deficiency) $ 420,000 ============ See accompanying notes to consolidated financial statements. F-4 38 LITHIUM TECHNOLOGY CORPORATION AND SUBSIDIARY (DEVELOPMENT STAGE COMPANIES) CONSOLIDATED STATEMENTS OF OPERATIONS YEARS ENDED DECEMBER 31, 2000 AND 1999 AND PERIOD FROM JULY 21, 1989 (DATE OF INCEPTION) TO DECEMBER 31, 2000 Year Ended December 31, Period From ------------ July 21, 1989 (Date of Inception) to 2000 1999 December 31, 2000 ---- ---- ----------------- REVENUES: Development contracts 69,000 168,000 ------------ ------------ ------------ COSTS AND EXPENSES: Engineering, research and development 1,515,000 1,385,000 9,911,000 General and administrative 1,957,000 1,501,000 13,841,000 Stock based compensation expense, primarily general and administrative 25,000 1,769,000 1,794,000 ------------ ------------ ------------ 3,497,000 4,655,000 25,546,000 OTHER INCOME (EXPENSES): Interest expense, net of interest income (6,000) (7,000) (1,829,000) Interest expense related to beneficial conversion feature -- -- (17,841,000) Other non-operating income -- -- 650,000 ------------ ------------ ------------ (6,000) (7,000) (19,020,000) ------------ ------------ ------------ NET LOSS ($ 3,503,000) ($ 4,593,000) ($44,398,000) ============ ============ ============= WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING: 50,541,000 44,354,000 BASIC AND DILUTED NET LOSS PER SHARE: $ (.07) $ (.10) ============ ============ See accompanying notes to consolidated financial statements. F-5 39 LITHIUM TECHNOLOGY CORPORATION AND SUBSIDIARY (DEVELOPMENT STAGE COMPANIES) CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIENCY) PERIOD FROM JULY 21, 1989 (DATE OF INCEPTION) TO DECEMBER 31, 2000 Series A Series B Series C Preferred Stock Convertible Preferred Convertible Preferred Stock Stock ----------------- ----- ----- Shares Amount Shares Amount Shares Amount ------ ------ ------ ------ ------ ------ BALANCES AT JULY 21, 1989 PERIOD ENDED OCTOBER 31, 1989: Net assets received in reverse acquisition -- -- Change in par value -- -- Exchange for debt owed to officer 23,000 2,300,000 -- -- -- -- Shares sold to financial consultant in conjunction with financing -- -- -- -- -- -- Expenses paid by principal shareholder on behalf of Lithium Corporation -- -- -- -- -- -- Net income (loss) for the year ---------- ---------- ---------- ---------- ---------- ---------- BALANCES AT OCTOBER 31, 1989 23,000 2,300,00 -- -- -- -- YEAR ENDED OCTOBER 31, 1990 Issuance of Class B common stock for cash to Investors -- -- -- -- -- -- Exercise of Class B common stock warrants, net of offering costs -- -- -- -- -- -- NET INCOME (LOSS) FOR THE YEAR ---------- ---------- ---------- ---------- ---------- ---------- BALANCES AT OCTOBER 31, 1990 23,000 $2,300,000 -- -- -- -- YEAR ENDED OCTOBER 31, 1991: Conversion of debt due stockholder 10,000 1,000,000 -- -- -- -- Exercise of Class B common stock warrants, net of offering costs of $520,000 -- -- -- -- -- -- Fair value of warrants issued in connection with financial consulting services -- -- -- -- -- -- Net loss -- -- -- -- -- -- BALANCES AT OCTOBER 31, 1991 33,000 3,300,000 -- -- -- -- YEAR ENDED OCTOBER 31, 1992: Issuance of common stock to certain employees for services rendered -- -- -- -- -- -- Net loss -- -- -- -- -- -- BALANCES AT OCTOBER 31, 1992 33,000 3,300,000 -- -- -- -- YEAR ENDED OCTOBER 31, 1993: Net loss -- -- -- -- -- -- BALANCES AT OCTOBER 31, 1993 33,000 $3,300,000 -- -- -- -- See accompanying notes to consolidated financial statements. F-6 40 Deficit Accumulated Class A Class B Additional During Common Stock Common Stock Common Stock Paid-in Accumulated Development Shares Amount Shares Amount Shares Amount Capital Deficit Stage ------ ------ ------ ------ ------ ------ ------- ------- ----- BALANCES AT JULY 21, 1989 2,333,000 1,000 -- -- -- (6,465,000) -- PERIOD YEAR ENDED OCTOBER 31, 1989: Net assets received in reverses acquisition (Note 1) -- -- 210,000 1,000 36,000 -- Change in par value Exchange for debt owed to officer -- 6,000 -- (6,000) Shares sold to financial consultant in conjunction with financing -- -- 697,000 1,000 7,000 -- Expenses paid by principal shareholder on behalf of Lithium Corporation -- -- -- -- 79,000 -- Net income (loss) for the year -- -- -- -- -- 844,000 (502,000) ---------- ------ --------- ------ -------- ----------- ---------- BALANCES AT OCTOBER 31, 1989 2,333,000 7,000 907,000 2,000 116,000 (5,621,000) (502,000) YEAR ENDED OCTOBER 31, 1990 Issuance of Class B common stock for cash to Investors -- -- 57,000 -- 50,000 -- -- Exercise of Class B common stock warrants, net of offering costs -- -- 15,000 -- -- -- -- NET INCOME (LOSS) FOR THE YEAR -- -- -- -- -- 569,000 (498,000) ---------- ------ --------- ------ -------- ----------- ---------- BALANCE AT OCTOBER 31, 1990 2,333,000 $7,000 979,000 $2,000 $166,000 $(5,052,000) (1,000,000)

YEAR ENDED OCTOBER 31, 1991: Conversion of debt due stockholder -- -- -- -- -- -- -- Exercise of Class B common stock warrants, net of offering costs of $520,000 -- -- 145,000 -- 121,000 -- -- Fair value of warrants issued in connection with financial consulting services -- -- -- -- 30,000 -- -- Net loss -- -- -- -- -- (84,000) (560,000) --------- ------ --------- ------ -------- ---------- ---------- BALANCES AT OCTOBER 31, 1991 2,333,000 7,000 1,124,000 2,000 317,000 (5,136,000) (1,560,000) See accompanying notes to consolidated financial statements. F-7 41 Deficit Accumulated Class A Class B Additional During Common Stock Common Stock Common Stock Paid-in Accumulated Development Shares Amount Shares Amount Shares Amount Capital Deficit Stage ------ ------ ------ ------ ------ ------ ------- ------- ----- YEAR ENDED OCTOBER 31, 1992: Issuance of common stock to certain employees for services rendered -- -- 96,000 -- 106,000 Net loss -- -- -- -- -- (23,000) (175,000) --------- ------ --------- ------ -------- BALANCES AT OCTOBER 31, 1992 2,333,000 7,000 1,220,000 2,000 423,000 (5,159,000) (1,735,000) YEAR ENDED OCTOBER 31, 1993: Net loss -- -- -- -- -- (1,706,000) (66,000) --------- ------ --------- ------ -------- ---------- ---------- BALANCES AT OCTOBER 31, 1993 2,333,000 $7,000 1,220,000 $2,000 $423,000 $(6,865,000) (1,801,000) ========= ====== ========= ====== ======== ========== ========= Series A Series B Series C Preferred Stock Convertible Preferred Stock Convertible Preferred Stock -------------- -------------------------- -------------------------- Shares Amount Shares Amount Shares Amount ------ ------ ------ ------ ------ ------ BALANCES AT OCTOBER 31, 1993 33,000 3,300,000 -- -- -- -- TWO MONTHS ENDED DECEMBER 31, 1993: Contribution to capital of Industries accumulated losses in excess of Company's investment -- -- -- -- -- -- Conversion of preferred stock to common stock (33,000) (3,300,000) -- -- -- -- Fair value of option issued in exchange for certain legal services -- -- -- -- -- -- Net loss -- -- -- -- -- -- ------- --------- ------ ------ ------ ------ BALANCE AT DECEMBER 31, 1993 -- -- -- -- -- -- YEAR ENDED DECEMBER 31, 1994: Change in par value of Class B common stock to $.0001 -- -- -- -- -- -- Issuance of common stock: For services relating to warrants exercised in 1995 -- -- -- -- -- -- Upon cancellation of indebtedness -- -- -- -- -- -- In exchange for advances repayable only out of proceeds of public offering -- -- -- -- -- -- Upon exercise of option -- -- -- -- -- -- For cash, less related costs of $152,000 -- -- -- -- -- -- See accompanying notes to consolidated financial statements. F-8 42 Series A Series B Series C Preferred Stock Convertible Preferred Stock Convertible Preferred Stock -------------- -------------------------- -------------------------- Shares Amount Shares Amount Shares Amount ------ ------ ------ ------ ------ ------ Upon conversion of $162,000 of 7% convertible promissory notes and accrued interest thereon -- -- -- -- -- -- Upon exercise of option to acquire laboratory equipment and forgiveness of related accrued rent -- -- -- -- -- -- Upon conversion of preferred stock -- -- (815) -- -- -- Issuance of convertible preferred stock in exchange for convertible promissory notes -- -- 14,151 -- -- -- For cash -- -- -- -- 10,000 -- Issuance of 7% convertible promissory notes -- -- -- -- -- -- Net loss -- -- -- -- -- -- ------- --------- ------ ------ ------ ------ BALANCES AT DECEMBER 31, 1994 -- -- 13,336 -- 10,000 -- ------- --------- ------ ------ ------ ------ YEARS ENDED DECEMBER 31, 1995 YEAR ENDED DECEMBER 31, 1995 Issuance of common stock Upon conversion of convertible preferred stock (6,394) -- -- -- Upon conversion of 7% convertible promissory notes and accrued interest thereon -- -- -- -- Upon exercise of warrants -- -- -- -- Recapitalization of common stock -- -- -- -- Issuance of 12% convertible promissory notes -- -- -- -- Net loss -- -- -- -- BALANCES AT DECEMBER 31, 1995 6,942 $ -- 10,000 $ -- ------ ------ ------ ------ Deficit Accumulated Class A Class B Additional During Common Stock Common Stock Common Stock Paid-in Accumulated Development Shares Amount Shares Amount Shares Amount Capital Deficit Stage ------ ------ ------ ------ ------ ------ ------- ------- ----- BALANCES AT OCTOBER 31, 1993 2,333,000 7,000 1,220,000 2,000 423,000 (6,865,000) (1,801,000) TWO MONTHS ENDED DECEMBER 31, 1993: Contribution to capital of Industries accumulated losses in excess of Company's investment -- -- -- -- 3,659,000 -- -- Conversion of preferred stock to common stock 1,000,000 3,000 667,000 1,000 3,296,000 -- -- See accompanying notes to consolidated financial statements. F-9 43 Deficit Accumulated Class A Class B Additional During Common Stock Common Stock Common Stock Paid-in Accumulated Development Shares Amount Shares Amount Shares Amount Capital Deficit Stage ------ ------ ------ ------ ------ ------ ------- ------- ----- Fair value of option issued in exchange for certain legal services -- -- -- -- 8,000 -- -- Net loss -- -- -- -- -- -- (67,000) --------- ------ --------- ------ --------- ----------- BALANCE AT DECEMBER 31, 1993: 3,333,000 10,000 1,887,000 3,000 7,386,000 (6,865,000) (1,868,000) YEAR ENDED DECEMBER 31, 1994: Change in par value of Class B common stock to $.0001 -- -- -- 3,000 (3,000) -- -- Issuance of common stock: For services relating to warrants exercised in 1995 -- -- 22,000 -- 88,000 -- -- Upon cancellation of Indebtedness -- -- 78,000 -- 445,000 -- -- In exchange for advances repayable only out of proceeds of public offering -- -- 133,000 -- 471,000 -- -- Upon exercise of option -- -- 17,000 -- 8,000 -- -- For cash, less related costs of $152,000 -- -- 907,000 3,000 933,000 -- -- Upon conversion of $162,000 of 7% convertible promissory notes and accrued interest thereon -- -- 79,000 -- 165,000 -- -- Upon exercise of option to acquire laboratory equipment and forgiveness of related accrued rent -- -- 83,000 1,000 271,000 -- -- Upon conversion of preferred stock -- -- 43,000 -- -- -- -- Issuance of convertible preferred stock in exchange for convertible promissory notes -- -- -- -- 356,000 -- -- For cash -- -- -- -- 100,000 -- -- Issuance of 7% convertible promissory notes -- -- -- -- 1,643,000 -- -- Net loss -- -- -- -- -- -- (3,776,000) See accompanying notes to consolidated financial statements. F-10 44 Deficit Accumulated Class A Class B Additional Accumu- During Common Stock Common Stock Common Stock Paid-in lated Develop- Shares Amount Shares Amount Shares Amount Capital Deficit ment Stage ------ ------ ------ ------ ------ ------ --------- ------- ---------- BALANCES AT DECEMBER 31, 1994 3,333,000 10,000 3,249,000 10,000 11,863,000 (6,865,000) (5,644,000) YEARS ENDED DECEMBER 31, 1995: Issuance of common stock Upon conversion of convertible pre- ferred stock -- -- 341,000 1,000 (1,000) -- -- Upon conversion of 7% convertible promissory notes and accrued in- terest thereon -- -- 500,000 1,000 1,050,000 -- -- Upon exercise of warrants -- -- 120,000 1,000 254,000 -- -- Recapitalization of common stock (3,333,000) (10,000) (4,210,000) (13,000) 7,543,000 75,000 (52,000) -- Issuance of 12% convertible -- promissory notes -- -- -- -- 6,377,000 -- -- Net loss -- -- -- -- -- -- (8,849,000) --------- -------- ---------- -------- --------- ------ ---------- ----------- ----------- BALANCES AT DECEMBER 31, 1995 -- $ -- -- $ -- 7,543,000 75,000 19,491,000 $ (6,865,000) $(14,493,000) See accompanying notes to consolidated financial statements. F-11 45 Deficit Accumulated Additional During Common Stock Paid-In Accumulated Development Shares Amount CAPITAL DEFICIT STAGES ------ ------ ---------- ----------- ----------- BALANCES AT DECEMBER 31, 1995 7,543,000 75,000 $ 19,491,000 $ (6,865,000) $(14,493,000) YEAR ENDED DECEMBER 31, 1996 Issuance of common stock: Upon conversion of convertible preferred stock 454,000 4,000 (4,000) -- -- Upon conversion of 7% convertible promissory notes and accrued interest ($20,000) and related costs of $41,000 152,000 2,000 277,000 -- -- Upon conversion of 12% convertible promissory notes and accrued interest thereon of $100,000 net of related costs of $218,000 7,004,000 70,000 1,612,000 -- -- For cash: From consortium, net of placement costs of $212,000 632,000 7,000 2,181,000 -- -- Upon exercise of stock options 193,000 2,000 95,000 -- -- Other 38,000 -- 19,000 -- -- In payment of accrued salaries and accounts Payable 434,000 4,000 260,000 -- -- Upon exercise of warrants 196,000 2,000 98,000 -- -- In connection with costs relating to the Issuance of 10% convertible notes 462,000 5,000 520,000 -- -- Issuance of warrants for services rendered -- -- 175,000 -- -- Issuance of warrants in settlement of litigation -- -- 68,000 -- -- Net loss -- -- -- -- (4,384,000) ---------- ------------ ------------ ------------ ------------ BALANCES AT DECEMBER 31, 1996 17,108,000 $ 171,000 $ 24,792,000 $ (6,865,000) $(18,877,000) ---------- ------------ ------------ ------------ ------------ YEAR ENDED DECEMBER 31, 1997: Issuance of common stock In connection with costs relating to the issuance of 10% convertible notes 493,000 5,000 575,000 In connection with the sale of Escrowed Shares by the Convertible Note 2,669,000 27,000 2,219,000 Purchasers Upon exercise of warrants 100,000 1,000 13,000 In payment of accrued salaries and accounts payable 646,000 6,000 369,000 Issuance of warrants for services rendered 88,000 See accompanying consolidated financial statements. F-12 46 Deficit Accumulated Additional During Common Stock Paid-In Accumulated Development Shares Amount CAPITAL DEFICIT STAGES ------ ------ ---------- ----------- ----------- In connection with the sale of the 8.5% Senior secured convertible notes 400,000 Issuance of the 8.5% senior secured convertible notes 9,821,000 Net loss: (14,164,000) ----------- ----------- ----------- ---------- ----------- BALANCES AT DECEMBER 31, 1997 21,016,000 210,000 38,277,000 (6,865,000) (33,041,000) YEAR ENDED DECEMBER 31, 1998 Issuance of common stock: In connection with settlement of litigation 125,000 1,000 124,000 Upon exercise of stock options 98,000 1,000 53,000 For cash 143,000 2,000 98,000 In lieu of interest: 1,670,000 17,000 451,000 Net loss: (3,261,000) ------------ ------------ ------------ ----------- ------------ BALANCES AT DECEMBER 31, 1998 23,052,000 $ 231,000 $ 39,003,000 $(6,865,000) $(36,302,000) ============ ============ ============ ========== ============ YEAR ENDED DECEMBER 31, 1999: Issuance of common stock: In connection with conversion of senior secured convertible notes 20,206,000 202,000 4,968,000 In connection with services rendered 523,000 5,000 211,000 In connection with repricing of warrants -- -- 602,000 == == In connection with private placement 4,500,000 45,000 1,573,000 Net loss: (4,593,000) ------------ ------------ ------------ ---------- ------------ BALANCES AT DECEMBER 31, 1999 48,281,000 483,000 46,357,000 (6,865,000) (40,895,000) ============ ============ ============ ========== ============ See accompanying financial statements. F-13 47 Deficit Accumulated Additional During Common Stock Paid-In Accumulated Development Shares Amount CAPITAL DEFICIT STAGES ------ ------ ---------- ----------- ----------- YEAR ENDED DECEMBER 31, 2000: Issuance of common stock: Upon exercise of stock options 3,022,000 30,000 788,000 In connection with repricing of common stock -- 25,000 Net loss: (3,503,000) =========== BALANCES AT DECEMBER 31, 2000 51,303,000 513,000 47,170,000 (6,865,000) (44,398,000) ---------- ------- ---------- ----------- ------------ See accompanying financial statements. F-14 48 LITHIUM TECHNOLOGY CORPORATION AND SUBSIDIARY (DEVELOPMENT STAGE COMPANIES) CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2000 AND 1999 AND PERIOD FROM JULY 21, 1998 (DATE OF INCEPTION) TO DECEMBER 31, 2000 Period From Year Ended July 21, 1989 December 31, (Date of Inception) to 2000 1999 December 31, 2000 ---- ---- ----------------- CASH FLOWS FROM OPERATING ACTIVITIES Net loss $ (3,503,000) $ (4,593,000) $(44,398,000) 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 -- -- 17,841,000 Depreciation 135,000 227,000 1,161,000 Amortization of debt issue costs -- 8,000 1,070,000 Common stock issued at prices below fair market value -- 1,167,000 1,167,000 Repricing of outstanding options 25,000 -- 25,000 Repricing of outstanding warrants -- 602,000 602,000 Reduction of accrued expenses -- -- (270,000) Common stock issued in lieu of interest -- 159,000 1,915,000 Fair value of warrants and option granted for services rendered -- -- 209,000 Common stock issued for services provided -- 67,000 273,000 Common stock issued upon settlement of litigation -- -- 125,000 Expenses paid by shareholder on behalf of Company -- -- 79,000 Changes in operating assets and liabilities: Accounts receivable 21,000 56,000 0 Other current assets 18,000 (1,000) 16,000 Security and equipment deposits -- 74,000 (21,000) Accounts payable, accrued expenses and customer deposits (93,000) 125,000 2,054,000 Due to related parties -- -- (118,000) ------------ ------------ ------------ Net cash used in operating activities (3,397,000) (2,109,000) (18,270,000) ============ ============ ============ CASH FLOWS FROM INVESTING ACTIVITIES Purchase of property and equipment (52,000) (194,000) (1,258,000) Other -- 94,000 ------------ ------------ ------------ Net cash used in investing activities (52,000) (194,000) (1,164,000) ============= ============ ============= See accompanying notes to consolidated financial statements. F-15 49 CASH FLOW FROM FINANCING ACTIVITIES: Proceeds received from Convertible Promissory Notes 2,645,000 818,000 3,463,000 Net advance repayable only out of proceeds of public offering -- -- 471,000 Proceeds received upon issuance of common stock -- 450,000 3,789,000 Proceeds received from issuance of preferred stock, net of related Costs -- -- 100,000 Proceeds received upon exercise of options and warrants, net of Costs 818,000 1,455,000 Net advances by former principal Stockholder -- -- 321,000 Proceeds from sale of convertible debt -- -- 10,874,000 Debt issue costs -- -- (887,000) Repayment of convertible debt -- -- (100,000) Net cash provided by financing activities 3,463,000 1,268,000 $ 19,486,000 ============ ============ ============ NET CHANGE IN CASH AND CASH EQUIVALENTS 14,000 (1,035,000) 52,000 CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD 38,000 1,073,000 -- ------------ ------------ ------------ CASH AND CASH EQUIVALENTS, END OF PERIOD $ 52,000 $ 38,000 $ 52,000 ============ ============= ============ SUPPLEMENTAL CASH FLOW INFORMATION Contribution to capital by former principal stockholder -- $ 3,659,000 Related party debt exchanged for convertible debt -- $ 321,000 Exchange of indebtedness to former principal stockholder for common stock -- $ 445,000 Issuance of common stock for services and accrued salaries $ 149,000 $ 501,000 Exchange of equipment and accrued rent for common stock -- $ 271,000 Subordinated notes and related accrued interest exchanged for Series A preferred stock -- $ 3,300,000 Exchange of convertible debt for convertible preferred stock -- $ 356,000 See accompanying notes to consolidated financial statements. F-16 50 Conversion of convertible debt and accrued interest into common stock, net of unamortized debt discount $ 5,171,000 $ 9,947,000 Exchange of advances repayable only out of proceeds of public offering for common stock -- 471,000 Deferred offering costs on warrants exercised -- 88,000 Issuance of warrants in settlement of litigation for debt issue costs and for services rendered -- 364,000 Common stock issued for costs related to 10% promissory notes -- 525,000 See accompanying notes to consolidated financial statements. F-17 51 LITHIUM TECHNOLOGY CORPORATION AND SUBSIDIARY (DEVELOPMENT STAGE COMPANIES) NOTES TO CONSOLIDATED FINANCIAL STATEMENTS NOTE 1 - 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 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 $3,462,500 as of December 31, 2000. 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 F-18 52 LITHIUM TECHNOLOGY CORPORATION AND SUBSIDIARY (DEVELOPMENT STAGE COMPANIES) NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 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 December 31, 2000, no royalties have been earned under this agreement. NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES CONSOLIDATION - The consolidated financial statements include the accounts of LTC and Lithion. All significant intercompany accounts and transactions have been eliminated. ESTIMATES AND UNCERTAINTIES - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results, as determined at a later date, could differ from those estimates. FINANCIAL INSTRUMENTS - Financial instruments include cash and cash equivalents, other assets, accounts payable and convertible promissory notes payable. With the exception of convertible promissory notes payable, management believes that the amounts reported for financial instruments are reasonable approximations of their fair values due to their short-term nature. CASH AND CASH EQUIVALENTS - LTC considers all highly liquid investment instruments purchased with a maturity of three months or less to be cash equivalents. PROPERTY AND EQUIPMENT - Property and equipment are recorded at cost. Furniture and fixtures, computer equipment and software and laboratory equipment are depreciated primarily using the straight-line method over their estimated useful lives of 3 to 7 years. Leasehold improvements are amortized over the period of the respective lease using the straight-line method. INCOME TAXES - Deferred tax assets and liabilities are computed for temporary differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the temporary differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. F-19 53 LITHIUM TECHNOLOGY CORPORATION AND SUBSIDIARY (DEVELOPMENT STAGE COMPANIES) NOTES TO CONSOLIDATED FINANCIAL STATEMENTS STOCK OPTIONS - In accordance with Statement of Financial Accounting Standard ("SFAS") No. 123, "Accounting for Stock-Based Compensation" (SFAS No. 123), LTC has elected to account for stock option grants to employees using the intrinsic value based method prescribed by APB Opinion No. 25. NET LOSS PER COMMON SHARE - LTC has presented net loss per common share pursuant to SFAS No. 128, "Earnings Per Share". Net loss per common share is based upon the weighted average number of outstanding common shares. For the years ended December 31, 2000 and 1999, LTC's potential common shares have an anti-dilutive effect on earnings per share and, therefore, have not been used in determining the total weighted average number of common shares outstanding. Potential common shares resulting from convertible notes payable, stock options and warrants that would be used to determine diluted earnings per share for the years ended December 31, 2000 and 1999 were as follows: POTENTIAL COMMON SHARES 2000 1999 --------- --------- Stock options 2,517,000 5,474,000 Warrants 4,186,000 4,590,000 -- --------- ---------- Total 6,703,000 10,064,000 ========= ========== (The table above does not give effect to the conversion of shares from the convertible promissory notes with Ilion as those notes will only be convertible in the event the proposed merger is not closed.) COMPREHENSIVE INCOME - A statement of comprehensive income has not been provided as comprehensive loss equals net loss for all periods presented. BUSINESS SEGMENTS - As a development stage enterprise, LTC considers itself to have one operating segment. RECENT ACCOUNTING PRONOUNCEMENTS - In June 1998, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities" which is effective for all financial years beginning after June 15, 2000. SFAS 133, as amended by SFAS No. 137 and SFAS No. 138, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. Under SFAS No. 133, certain contracts that were not formerly considered derivatives may now meet the definition of a derivative. LTC adopted SFAS No. 133 effective F-20 54 LITHIUM TECHNOLOGY CORPORATION AND SUBSIDIARY (DEVELOPMENT STAGE COMPANIES) NOTES TO CONSOLIDATED FINANCIAL STATEMENTS January 1, 2000. The adoption of SFAS No. 133 did not have a significant impact on the financial position of results of operations of LTC because LTC does not have significant derivative activity. In March 2000, the FASB issued Financial Accounting Series Interpretation No. 44 ("FIN 44") entitled "Accounting for Certain Transactions involving Stock Compensation," which provides clarification to Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." The adoption of this Interpretation had no effect on the Company's financial position or results of operations for the current year, but does require that the Company's option plans be accounted for under variable plan accounting (See Note 9). NOTE 3 - OPERATING 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 and preferred stock. Continuation of LTC'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 in Note 1. 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 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 large footprint cell manufacturing technology and market activities to concentrate on automotive battery applications, including Hybrid Electric Vehicles (HEVs). 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 Original Equipment Manufacturers ("OEMs"). LTC has an experienced management team and a strong F-21 55 LITHIUM TECHNOLOGY CORPORATION AND SUBSIDIARY (DEVELOPMENT STAGE COMPANIES) NOTES TO CONSOLIDATED FINANCIAL STATEMENTS technical staff with relevant experience in battery technology and applications, thin-film manufacturing, capital raising, and global marketing, sales and strategic alliances. 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 has further indicated that it intends to fund LTC at $100,000 per month under the Bridge Loan Agreement. Funding at $100,000 per month will not be adequate to cover LTC's current operating expenses. LTC is currently in discussions with Ilion regarding the funding level proposed by Ilion and the capital required by LTC to meet LTC's ongoing operating expenses. If Ilion funds LTC at $100,000 per month, LTC will be forced to 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 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 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. 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. NOTE 4 - PROPERTY AND EQUIPMENT: Property and equipment at December 31, 2000 is summarized as follows: 2000 ---- Laboratory equipment $1,352,000 Furniture and office equipment 106,000 Leasehold improvements 48,000 ---------- 1,506,000 ---------- Less: Accumulated depreciation and amortization 1,159,000 ---------- $ 347,000 ---------- F-22 56 NOTE 5 - NOTE PAYABLE: LTC is currently in default on a note for a research and development funding agreement. Under the agreement, starting in 1999 LTC was obligated to pay a total of $100,000 for principal and $50,000 for interest through January 2004. LTC did not make payments on the note until 2000. The principal balance remaining under the note is $88,000. As the note is in default, the principal amount can be due immediately. The note is secured by the intellectual property rights and equipment developed from the funds provided by this agreement. Management is in the process of renegotiating the payment terms of this note. NOTE 6 - CONVERTIBLE PROMISSORY NOTES As of December 31, 2000, in connection with the Bridge Loan Financing Agreement, Ilion has advanced to LTC working capital of $3,462,500 in the form of Convertible Promissory Notes which have no stated interest rate (See Note 1). If the Merger, as described in Note 1, is not consummated for any reason, the notes may be converted into shares of LTC common stock at a price of $0.10 per share. In the event of conversion, LTC will recognize interest expense related to the beneficial conversion feature of the note. In addition, the principal amount of the notes will be decreased by any royalties Ilion owes to LTC under their non-exclusive worldwide license to use LTC's thin film technology and manufacturing methods related to lithium-ion polymer batteries. NOTE 7 - INCOME TAXES: Deferred income taxes reflect the net effects of temporary differences between the amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The principal temporary difference arises from the net operating loss carryforwards and results in a deferred tax asset of approximately $9,700,000 at December 31, 2000. A valuation allowance is provided when it is more likely than not that some portion of the deferred tax asset will not be realized. LTC has determined, based on its recurring net losses, lack of a commercially viable product and limitations under current tax law, that a full valuation allowance is appropriate at December 31, 2000. At December 31, 2000, LTC had net operating loss carryforwards for federal income tax purposes of approximately $25,000,000 expiring in the years 2005 through 2015 and net operating loss carryforwards of approximately $12,000,000 for state income tax purposes, expiring in the years 2001 through 2003. Current tax law limits the use of net operating loss carryforwards after there has been a substantial change in ownership (as defined) during a three year period. Due to changes in ownership between 1993 and 1997, and the conversion of the Senior Secured Convertible Notes in January 1999 (see Note 9), there exists substantial risk that LTC's use of net operating losses may be severely limited under the Internal Revenue Code. F-23 57 LITHIUM TECHNOLOGY CORPORATION AND SUBSIDIARY (DEVELOPMENT STAGE COMPANIES) NOTES TO CONSOLIDATED FINANCIAL STATEMENTS NOTE 8 - COMMITMENTS AND CONTINGENCIES: LTC leases a 12,400 square foot research facility and corporate headquarters in a free-standing building at 5115 Campus Drive in Plymouth Meeting, Pennsylvania pursuant to a Lease Agreement between PMP Whitemarsh Associates and LTC dated July 22, 1994. The lease had an initial five year term (which expired on October 31, 1999) and had an additional five year extension option. By letter agreements, LTC and the landlord extended the initial term of the lease (see Note 10). Rental expense under the agreement was $141,000 and $136,000 in 2000 and 1999, respectively. EMPLOYMENT AGREEMENTS - LTC has an employment agreement with its Director of Research/Senior Scientist providing for annual compensation of $125,000 through February, 2001. The employment agreement was not renewed in 2001. In May 1996, LTC entered into a one year employment agreement with its Chief Executive Officer at an annual salary of $185,000 and other incentives, including performance bonuses and stock options. The agreement was extended through October 1999. Effective November 1, 1999, the Chief Executive Officer resigned. The officer had voluntarily elected to defer his compensation in 1997 and 1998. At December 31, 2000, $201,000 of deferrals from 1997 and 1998 have been included in accrued salaries in the accompanying financial statements. In 2000, the Board of Directors approved payment of the officer's $366,000 deferred salary fifty percent in cash and fifty percent in common stock at fair value on the date of issuance. The former officer received $165,000 in cash during 2000. Effective November 1, 1999, LTC extended the employment agreements with its Chairman/Chief Executive Officer, Mr. Cade, and its President, Chief Operating Officer/Chief Technical Officer at an annual salary of $165,000 plus other incentives, including performance bonuses and stock options until the later of February 28, 2002 or one year after the merger with Ilion. Mr. Cade's employment agreement provides for certain severance payment benefits in the event of a change in control (as defined in the employment extension agreement) combined with his employment termination resulting from his resignation or LTC's termination of his employment without cause. In connection with the execution of the Merger Agreement between LTC and Ilion, Mr. Cade entered into an agreement with Ilion and LTC agreeing to a modification of the change-in-control and severance provisions of his employment agreement and agreeing to a termination of the employment agreement with LTC effective at the time of the Merger closing. F-24 58 LITHIUM TECHNOLOGY CORPORATION AND SUBSIDIARY (DEVELOPMENT STAGE COMPANIES) NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Dr. George Ferment, the President, Chief Operating Officer and Chief Technology Officer and a director of LTC, resigned from LTC effective May 31, 2000. Pursuant to an Agreement entered into between LTC and Dr. Ferment, LTC paid Dr. Ferment his salary until June 30, 2000 and paid $77,500 on June 30, 2000. In addition, LTC agreed to cause the 92,520 Ilion stock options to be allocated to Dr. Ferment under the Merger Agreement to be issued to Dr. Ferment on the later of the Ilion IPO or the Merger. NOTE 9 - STOCKHOLDERS' EQUITY PREFERRED STOCK - LTC is authorized to issue up to 100,000 shares of preferred stock, all of which is currently undesignated and may be divided and issued from time to time in one or more series as may be designated by the Board of Directors. In the event of liquidation, dissolution or winding up of LTC, the holders of the preferred stock will be entitled to a liquidation preference over the Common Stock. The preferred stock may be entitled to such dividends, redemption rights, liquidation rights, conversion rights and voting rights as the Board of Directors, in its discretion, may determine, in a resolution or resolutions providing for the issuance of any such stock. Rights granted by the Board of Directors may be superior to those of existing shareholders, (including the right to elect a controlling number of directors as a class). Preferred stock can be issued without the vote of the holders of Common Stock. No shares of preferred stock are outstanding at December 31, 2000. ACCOUNTS PAYABLE - In December 1999, LTC issued 523,000 shares of its Common Stock in settlement of accounts payable of $149,000. The fair value of the shares was $216,000. Additional expense of $67,000 was recognized as a result of the transaction. PRIVATE PLACEMENT OFFERING - During 1999, LTC held a private placement offering of common stock of LTC. As a result of the offering, 4,500,000 shares were issued at a price of $0.10 per share. The shares were issued to the Board of Directors below the fair market value of the stock on the date of grant as compensation for services and therefore LTC recognized additional compensation expense of $1,167,000 as a result of this transaction. STOCK INCENTIVE PLAN - LTC's Board of Directors adopted the 1994 Stock Incentive Plan (the "1994 Stock Plan") in February 1994. The 1994 Stock Plan terminates in February 2004, unless terminated earlier by the Board of Directors. A total of 5,333,334 shares of common stock were reserved and available for grants. Stock options permitting the holder to purchase a specified number of shares of common stock are to be granted at an exercise price not less than 100% of the fair value of such stock on the date of grant; however, for any non-qualified Stock Option the option price per share of Common Stock, may alternatively, be fixed at any price deemed to be fair and reasonable, as of the date of grant. The stock options may be in the form of an incentive stock option or a non-qualified stock option. All options outstanding under the 1994 Stock Plan were 100% vested in February 2000. Options granted will be cancelled immediately upon termination of the grantee's employment or F-25 59 LITHIUM TECHNOLOGY CORPORATION AND SUBSIDIARY (DEVELOPMENT STAGE COMPANIES) NOTES TO CONSOLIDATED FINANCIAL STATEMENTS association with LTC, except in certain situations such as retirement, death or disability. DIRECTORS STOCK OPTION PLAN - In August 1995, the Board of Directors adopted the Directors Stock Option Plan (the "Directors Plan"). The Directors Plan terminates in August 2005, unless terminated earlier by the Board of Directors. A total of 333,333 shares of LTC's common stock are reserved and available for grant. Stock options permitting the holder to purchase a specified number of shares of common stock are to be granted at an exercise price equaling the then fair market value of the common stock on the date of grant. All options outstanding under the Directors Plan were 100% vested in February 2000. Upon the termination of a participant's association with LTC, options granted will remain exercisable for a period of three months or until the stated expiration of the stock option, if earlier. 1998 STOCK INCENTIVE PLAN - LTC's Board of Directors adopted the 1998 Stock Incentive Plan (the "1998 Plan") in December 1998. The 1998 Plan terminates in December 2008. A total of 3,000,000 shares of common stock are reserved and available for grant. The exercise price of an option granted under the 1998 Plan will not be less than the fair market value of LTC's Common Stock on the date of grant; however, for any non-qualified Stock Option the option price per share of Common Stock, may alternatively, be fixed at any price deemed to be fair and reasonable, as of the date of grant. All options outstanding under the 1998 Plan were 100% vested in February 2000. Options granted will be cancelled immediately upon termination of the grantee's employment or association with LTC, except in certain situations such as retirement, death or disability. In September 1999, LTC decreased the exercise price of all outstanding options issued under the 1994 Stock Plan to an exercise price of $0.26 and in June 2000, LTC decreased the exercise price of all outstanding options issued under the Directors Plan and the 1998 Plan having an exercise price in excess of $.28 to $.28. The repricing resulted in approximately $25,000 of additional stock compensation expense to LTC. In February 2000, the Board approved the acceleration of the vesting of all outstanding stock options, on the condition that the optionee consents to a new termination date of the earlier of the original option termination date or the date preceding the merger. As a result of the repricings, all of LTC's option plans require variable plan accounting beginning on July 1, 2000, as prescribed by FIN 44. This did not result in any additional compensation expense for the year ended December 31, 2000. Options under the 1994 Stock Plan, the Directors Plan and the 1998 Plan as of December 31 are summarized as follows: 2000 1999 ---- ---- Weighted Weighted Average Average Options Exercise Price Options Exercise Price ------- ------------- ------- ------------- Outstanding, beginning of year 5,474,000 0.27 4,598,000 $0.55 Granted 65,000 0.48 946,000 $0.27 Exercised (3,022,000) 0.27 Cancelled 0 0.27 (70,000) $0.57 --------- ---- --------- ----- Outstanding, end of year 2,517,000 0.27 5,474,000 $0.27 --------- ---- --------- ----- Options exercisable, end of year 2,517,000 0.27 4,025,000 $0.27 --------- ---- --------- ----- F-26 60 LITHIUM TECHNOLOGY CORPORATION AND SUBSIDIARY (DEVELOPMENT STAGE COMPANIES) NOTES TO CONSOLIDATED FINANCIAL STATEMENTS The following table summarizes information about stock options outstanding at December 31, 2000: Weighted Weighted Average Weighted Range of Average Remaining Average Exercise Options Exercise Contractual Options Exercise Prices Outstanding Price Life Exercisable Price ------ ----------- ----- ---- ----------- ----- 0.22 14,590 .22 8 years 14,590 0.22 0.25 13,334 .25 8 years 13,333 0.25 0.26 1,910,057 .26 4 years 1,910,057 0.26 0.28 512,979 .28 8 years 512,979 0.28 0.48 65,600 .48 8 years 65,000 0.48 The per share weighted-average fair value of stock options granted during 2000 and 1999 was $.27 and $.48 on the date of grant. LTC applies Accounting Principles Board Opinion No. 25 and related Interpretations in accounting for its stock option plans. Accordingly, no compensation cost has been recognized for its stock option plans. Had the compensation cost for LTC's stock option plans been determined based on the fair value at the grant dates for awards under those plans consistent with the method of FASB Statement 123, LTC's pro forma net loss for the years ended December 31, 2000 and 1999 would have been $3,732,000 ($.07 per share) and $4,904,000 ($.11 per share), respectively. The fair value of options granted under LTC's stock option plans was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions used: 2000 - no dividend yield, expected volatility of 131%, risk-free interest rate of 6.3% and expected life of 2 years; 1999 - no dividend yield, expected volatility of 103%, risk-free interest rate of 6.3% and expected life of 5 years. F-27 61 LITHIUM TECHNOLOGY CORPORATION AND SUBSIDIARY (DEVELOPMENT STAGE COMPANIES) NOTES TO CONSOLIDATED FINANCIAL STATEMENTS WARRANTS - Warrants as of December 31 are summarized as follows: 2000 1999 ---- ---- Weighted Weighted Average Average Exercise Exercise Warrants Price Warrants Price --------- -------- -------- -------- Outstanding, beginning of year 4,590,000 $.15 4,590,000 $.15 Cancelled (404,000) $.15 Outstanding, end of year 4,186,000 $.15 4,590,000 $.15 --------- --------- ---- Exercisable 4,186,000 $.15 4,590,000 $.15 ========= ========= ---- There were no warrants granted or exercised during 2000 or 1999. In November 1999, LTC approved the decrease of the exercise price of all of the outstanding warrants to $0.15. LTC recognized an expense of $602,000 in connection with the repricing. The following table summarizes information about warrants outstanding at December 31, 2000: Weighted Weighted Average Weighted Range of Warrants Average Remaining Warrants Average Exercise Price Outstanding Exercise Price Contractual Life Exercisable Exercise Price ------------- ----------- ------------- --------------- ---------- ------------- $0.15 4,186,000 $.15 .48 years 4,186,000 $.15 NOTE 10 - SUBSEQUENT EVENTS AMENDMENT TO MERGER AGREEMENT On February 2, 2001, LTC and Ilion entered into Amendment No. 4 to the Merger Agreement ("Amendment No. 4") amending the following provisions of the Merger Agreement relating the Merger Securities to be issued in the Merger, the application of the proceeds of the exercise of any options or warrants, and the lock-up of the Merger Securities for a maximum of 180 days after the Merger. The following provisions of the Amendment No. 4 to Merger Agreement will become effective only if and when Ilion files a Registration Statement with the Securities and Exchange Commission (the "SEC") relating to the Ilion IPO (the "IPO Registration Statement"). Such provisions may be terminated by LTC or Ilion by giving written notice to the other in accordance with the Merger Agreement if the IPO Registration Statement has not been declared effective by the SEC on or before July 31, 2001, and upon any such termination the Merger Agreement will be restored to the same terms and conditions as if such provisions of Amendment. 4 had never become effective. F-28 62 LITHIUM TECHNOLOGY CORPORATION AND SUBSIDIARY (DEVELOPMENT STAGE COMPANIES) NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Amendment No. 4 provides that in the Merger, LTC will merge with and into Ilion and all of the outstanding shares of LTC's common stock will be exchanged for an aggregate of the number of shares of Ilion common stock ("Ilion Common Stock") determined by dividing $25 million by the Ilion Common Price (as hereinafter defined), but in no event will LTC shares be exchanged for more than 5,000,000 shares or less than 2,500,000 shares of Ilion Common Stock. The term "Ilion Common Price" means the average of the daily closing prices of Ilion Common Stock as reported by the NASDAQ market during the period of the thirty consecutive trading days on which Ilion's share price is quoted on the NASDAQ market ending on the date of the second to last trading day prior to the Closing Date of the Merger. The Merger Securities will be issued to the LTC stockholders on a pro-rata basis. Amendment No. 4 also provides that in the event that any holder of LTC warrants or options exercises any warrants or options prior to the Merger, LTC will use all proceeds thereof (the "Exercise Funds") as follows: (i) first, to pay a portion of the advances made by Ilion to LTC pursuant to the Bridge Loan Financing Agreement in an aggregate amount up to three hundred fifty thousand dollars ($350,000); (ii) second, to pay certain liabilities of LTC with respect to the accrued salary due and owing to Mr. Thomsen, LTC's former Chairman and Chief Executive Officer, in the aggregate amount of two hundred thousand dollars ($200,000); and (iii) third, to pay LTC's employee, operating and administrative expenses, excluding capital costs ("LTC's Continuing Costs"). Amendment No. 4 provides that from and after the closing under the Merger Agreement, the Merger Securities will be held in an escrow established jointly by LTC and Ilion under the terms of which the holders of the Merger Securities issued pursuant to the Merger Agreement will not be permitted to sell or offer to sell or otherwise dispose of any shares of Common Stock of Ilion without the prior written consent of a designated IPO underwriter until the earlier of (1) the date of termination of the offer, sale and disposition lock-up period which is applied by the Ilion IPO underwriters to a majority of the Ilion shareholders or (2) the date which is 180 days after the closing of the Ilion IPO. AMENDMENT TO LEASE AGREEMENT By letter agreements, LTC and PMP White Marsh Associates extended the initial term of LTC's lease for its facility in Plymouth Meeting through March 31, 2001. On March 19, 2001, LTC landlord entered into an amendment to the lease pursuant to which the five year extension option was amended to a two year extension option which LTC exercised. The two year extension commences on April 1, 2001 and ends on March 31, 2003. The annual rent under the lease during the two year extension is approximately $134,000 and $136,000 in years one and two, respectively. 11. QUARTERLY FINANCIAL DATA (UNAUDITED) QUARTERS ENDED (AMOUNTS IN THOUSANDS, EXCEPT PER SHARE DATA) --- MARCH 31 JUNE 30 SEPTEMBER 30 DECEMBER 31 --- 1999: Net revenues $ 22,000 $ 22,000 $ 5,000 $ 20,000 Net loss $ 717,000 $ 670,000 $ 617,000 $ 2,589,000 Basic and diluted earnings (loss) per share $ 0.02 $ 0.02 $ 0.01 $ 0.06 =========== =========== =========== =========== Weighted average common shares outstanding 38,349,000 43,367,000 46,507,000 44,354,000 =========== =========== =========== =========== 2000: Net revenues $ $ $ $ Net Income loss $ 855,000 $ 1,128,000 $ 700,000 $ 770,000 Basic and diluted loss per share $ 0.02 $ 0.02 $ 0.01 $ 0.02 =========== =========== =========== =========== Weighted average common shares outstanding 49,212,000 50,002,000 50,922,000 50,541,000 =========== =========== =========== =========== Basic and diluted net income (loss) per common share for the year ended December 31, 2000 and 1999, differs from the sum of basic and diluted net income (loss) per common share for the quarters during the respective year due to the different periods used to calculate net income (loss) and weighted average shares outstanding. F-29 63 SIGNATURES In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized. LITHIUM TECHNOLOGY CORPORATION Date: April 19, 2001 By: /s/ David J. Cade ----------------- David J. Cade, Chairman and Chief Executive Officer (Principal Executive Officer and Acting Principal Financial and Accounting

Officer) In accordance with the Securities Exchange Act of 1934, this report has been signed by the following persons and in the capacities and on the dates indicated. Signature Title Date --------- ----- ---- /s/ David J. Cade ----------------- Director April 19, 2001 David J. Cade __________________ Director April __, 2001 Stephen F. Hope /s/ Barry Huret --------------- Director April 19, 2001 Barry Huret /s/ Ralph D. Ketchum -------------------- Director April 19, 2001 Ralph D. Ketchum /s/ Arif Maskatia ----------------- Director April 19, 2001 Arif Maskatia __________________ Director April __, 2001 John D. McKey, Jr.