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LITHIUM TECHNOLOGY CORP
Form 10QSB
August 24, 2001

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

(Mark One)

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

For The Quarterly Period Ended June 30, 2001

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

For the transition period from _____ to _____

Commission file number 1-10446

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

DELAWARE	13-3411148
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

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

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

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

Check whether the issuer: (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

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

Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: As of August 21, 2001:
51,294,305 shares of Common Stock

Transitional Small Business Disclosure Format (check one):

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Yes ___ No X

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

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PART I - FINANCIAL INFORMATION

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

ITEM 1. FINANCIAL STATEMENTS	
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	June 30, 2001 ----- (Unaudited)	December 31, 2000 ----- (Unaudited)
CURRENT ASSETS:		
Cash and cash equivalents	\$ 32,000 -----	\$ 52,000 -----
Total Current Assets	32,000 -----	52,000 -----
PROPERTY AND EQUIPMENT, LESS ACCUMULATED DEPRECIATION OF \$1,229,000 AND \$1,159,000	305,000 -----	347,000 -----
SECURITY DEPOSITS	21,000 =====	21,000 =====
Total assets		
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIENCY)	\$ 358,000 =====	\$ 420,000 =====
CURRENT LIABILITIES:		
Accounts payable	\$ 285,000	\$ 248,000
Accrued salaries	201,000	201,000
Other accrued expenses	82,000 -----	88,000 -----
Total current liabilities	568,000 -----	537,000 -----
LONG-TERM LIABILITIES:		
Convertible Promissory Notes	4,474,000 -----	3,463,000 -----
Total liabilities	5,042,000 -----	4,000,000 -----
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY (DEFICIENCY):		
Common stock, par value \$.01 per share:		
Authorized - 125,000,000 shares		
Issued and outstanding - 51,294,305 shares	513,000	513,000
Additional paid-in capital	47,170,000	47,170,000
Accumulated deficit	(6,865,000)	(6,865,000)
Deficit accumulated during development stage	(45,502,000) -----	(44,398,000) -----
Total stockholders' equity (deficiency)	(4,684,000) -----	(3,580,000) -----
	\$ 358,000 =====	\$ 420,000 =====

See accompanying notes to consolidated financial statements.

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LITHIUM TECHNOLOGY CORPORATION AND SUBSIDIARY (DEVELOPMENT STAGE COMPANIES)

CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended June 30,	
	2001	2000
	-----	-----
	(Unaudited)	(Unaudited)
REVENUES:		
Development contracts	\$ 0	\$ 0
Other	7,000	0
	7,000	0
	-----	-----
COSTS AND EXPENSES:		
Engineering, research and development	210,000	481,000
General and administrative	232,000	651,000
	442,000	1,132,000
	=====	=====
OTHER INCOME (EXPENSE):		
Interest expense, net of interest income	(1,000)	4,000
	(1,000)	4,000
	-----	-----
NET LOSS	\$ (436,000)	\$ (1,128,000)
	=====	=====
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING:		
	51,294,305	50,002,000
	=====	=====
BASIC AND DILUTED NET LOSS PER SHARE:		
	\$ (0.01)	\$ (0.02)
	=====	=====

See accompanying notes to consolidated financial statements.

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	Six Months Ended June 30,	
	2001	2000
	(Unaudited)	(Unaudited)
REVENUES:		
Development contracts	\$ 0	\$
Other	7,000	
	-----	-----
	7,000	
	-----	-----
COSTS AND EXPENSES:		
Engineering, research and development	627,000	827,000
General and administrative	482,000	1,163,000
Stock based compensation expense	--	
	-----	-----
	1,109,000	1,990,000
	-----	-----
OTHER INCOME (EXPENSE):		
Interest expense, net of interest income	(2,000)	7,000
Interest expense related to beneficial conversion feature	--	
Other non-operating income - Notes	--	
	-----	-----
	(2,000)	7,000
	-----	-----
NET LOSS	\$ (1,104,000)	\$ (1,983,000)
	=====	=====
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING:	51,294,000	49,607,000
	=====	=====
BASIC AND DILUTED NET LOSS PER SHARE:	\$ (0.02)	\$ (0.04)
	=====	=====

See accompanying notes to consolidated financial statements.

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	Common Stock		Additional Paid-In Capital
	Shares	Amount	
BALANCES AT DECEMBER 31, 2000	51,294,305	\$ 513,000	\$ 47,170,000
Six months ended June 30, 2001:			
Net loss	--	--	--
BALANCES AT JUNE 30, 2001	51,294,305	\$ 513,000	\$ 47,170,000

See accompanying notes to consolidated financial statements.

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LITHIUM TECHNOLOGY CORPORATION
AND SUBSIDIARY
(DEVELOPMENT STAGE COMPANIES)

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months June 30
	2001
	(Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net Loss	\$ (1,104,000)
Adjustments to reconcile net loss to net cash flows from operating activities:	
Interest expense relating to the beneficial conversion feature of the Senior Secured Convertible Note	--
Depreciation	71,000
Amortization of debt issue costs	--
Common stock issued at prices below fair market value	--
Repricing of outstanding warrants	--
Reduction of accrued expenses	--
Common stock issued in lieu of interest	--
Fair value of warrants and option granted for services rendered	--
Common stock issued for services provided	--
Common stock issued upon settlement of litigation	--
Expenses paid by shareholder on behalf of Company	--
Changes in operating assets and liabilities:	
Accounts receivable	--
Other current assets	--
Security and equipment deposits	--
Accounts payable, accrued expenses and customer deposits	31,000
Due to related parties	--

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Net cash used in operating activities	(1,002,000)

CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchases of property and equipment	(29,000)
Other	--

Net cash provided by (used in) investing activities	(29,000)

CASH FLOW FROM FINANCING ACTIVITIES:	
Proceeds received from Convertible Promissory Notes	1,011,000
Net advance repayable only out of proceeds of public offering	--
Proceeds received upon issuance of common stock	--
Proceeds received from issuance of preferred stock, net of related costs	--
Proceeds received upon exercise of options and warrants, net of costs	--
Net advances by former principal stockholder	--
Proceeds from sale of convertible debt	--
Debt issue costs	--
Repayment of convertible debt	--

Net cash provided by financing activities	1,011,000

NET CHANGE IN CASH AND CASH EQUIVALENTS	(20,000)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	52,000

CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 32,000
	=====

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LITHIUM TECHNOLOGY CORPORATION
AND SUBSIDIARY
(DEVELOPMENT STAGE COMPANIES)

CONSOLIDATED STATEMENTS OF CASH FLOWS -- CONTINUED

	Six Months
	June
	2001

	(Unaudited)
SUPPLEMENTAL CASH FLOW INFORMATION:	
Contribution to capital by former principal stockholder	--
Related party debt exchanged for convertible debt	--
Exchange of indebtedness to former principal stockholder for common stock	--
Issuance of common stock for services and accrued salaries	--
Exchange of equipment and accrued rent for common stock	--

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Subordinated notes and related accrued interest exchanged for Series A preferred stock	--
Exchange of convertible debt for convertible preferred stock	--
Conversion of convertible debt and accrued interest into common stock, net of unamortized debt discount	--
Exchange of advances repayable only out of proceeds of public offering for common stock	--
Deferred offering costs on warrants exercised	--
Issuance of warrants in settlement of litigation for debt issue costs and for services rendered	--
Common stock issued for costs related to 10% promissory notes	--

See accompanying notes to consolidated financial statements.

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LITHIUM TECHNOLOGY CORPORATION
AND SUBSIDIARY
(DEVELOPMENT STAGE COMPANIES)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

JUNE 30, 2001

1. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles applicable to interim periods. In the opinion of management, all adjustments (consisting only of normal recurring accruals) considered necessary for a fair presentation have been included. These financial statements should be read in conjunction with LTC's audited financial statements included in LTC's Annual Report on Form 10-KSB filed with the Securities and Exchange Commission for the year ended December 31, 2000. Operating results for the six months ended June 30, 2001 are not necessarily indicative of the results that may be expected for the year ending December 31, 2001 or any interim period.

2. HISTORY OF THE BUSINESS

Lithium Technology Corporation and its wholly-owned subsidiary, Lithion Corporation, collectively referred to as "LTC", are pre-production stage companies in the process of commercializing unique, solid-state, flat lithium ion rechargeable batteries.

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

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

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

The accompanying consolidated financial statements of LTC have been prepared on a going concern basis, which contemplates the continuation of operations, realization of assets and liquidation of liabilities in the ordinary course of business. Since its inception, LTC has incurred substantial operating losses and expects to incur additional operating losses over the next several years. Since December 1993, operations have been financed primarily through the use of proceeds from the sale of convertible debt and private placements of common stock.

Continuation of LTC's operations in 2001 is dependent upon Ilion's ability to make additional advances under the Bridge Loan Financing Agreement described below and, ultimately, the closing of the Merger described herein. These conditions raise substantial doubt about LTC's ability to continue as a going concern. The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

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MANAGEMENT'S PLANS - LTC is engaged in technology development activities and pilot line manufacturing operations to further advance its battery technology. LTC holds various patents relating to its batteries. LTC is developing innovative flat lithium ion batteries for large, high rate applications including Hybrid Electric Vehicles (HEVs), other automotive applications and energy storage devices for the rapidly growing distributed power market. In September 2000, LTC completed the first working prototype lithium-ion HEV battery, complete with electronics. A second generation prototype HEV battery was completed in January 2001. 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 described below.

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

MERGER WITH ILION TECHNOLOGY CORPORATION AND RELATED BRIDGE FINANCING - On January 19, 2000, LTC and Pacific Lithium Limited ("PLL") of Auckland, New Zealand signed an Agreement and Plan of Merger (the "Merger Agreement") to merge their respective companies (the "Merger"). On October 2, 2000, PLL domesticated into the U.S. and became a private Delaware corporation and changed its name to Ilion Technology Corporation ("Ilion"). Ilion has advised LTC that 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.

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The Merger Agreement provides that 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. 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 the Ilion IPO or the Merger will be consummated by February 28, 2002 or at all.

LTC's management is engaged in contingency planning in the event the Ilion IPO and Merger do not occur by February 28, 2002 for any reason, and the Merger Agreement date is not extended beyond February 28, 2002. As Ilion has not yet filed a registration statement for the Ilion IPO, Ilion may not be able to consummate the Ilion IPO by February 28, 2002. If the Ilion IPO is not consummated by February 28, 2002, and such closing date is not extended, either Ilion or LTC may terminate the Merger Agreement. Contingency plans under consideration by LTC include seeking alternative sources of financing as well as seeking potential technology partners and customers and possibly restructuring the transaction with Ilion. If LTC is unable to close or restructure the transaction with Ilion or complete any new transaction, it may be forced to suspend operations and possibly liquidate, auction its assets, or file for bankruptcy.

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Pursuant to the terms of a Bridge Loan Financing Agreement entered into as of November 29, 1999 (the "Bridge Loan"), Ilion has agreed to advance working capital to LTC. Ilion has advanced a total of \$4,474,000 as of June 30, 2001. The Bridge Loan Agreement does not contain a maximum of the amount of funding that may be advanced under such agreement. Accordingly, there is no maximum amount of notes that may be issued to Ilion under the Bridge Loan. The amount of the notes will be related to the working capital advances made by Ilion to LTC and the length of time until the Merger is completed.

Management is depending on the Bridge Loan Agreement funding from Ilion to meet LTC's obligations through February 28, 2002. In 2001, Ilion reduced the amount of funding it has been providing to LTC on a monthly basis. Ilion indicated that it had reduced its operating expenses throughout Ilion and indicated in March 2001 that it intended to fund LTC at \$100,000 per month under the Bridge Loan Agreement. Ilion and LTC subsequently entered into discussions regarding funds required by LTC to meet its operating expenses and in April 2001 Ilion agreed to support an LTC monthly operating budget of \$150,000 and subject to Ilion's review and reconciliation of LTC's past due payables, agreed to effect payment of LTC's outstanding payables over a three month period. During April, May and June 2001, Ilion provided \$151,236, \$187,865 and \$123,282, to LTC, respectively, or a total of \$462,383 for such three month period. No additional funds were provided to LTC by Ilion during such time and at June 30, 2001, LTC had outstanding accounts payable of \$285,000.

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

If Ilion does not provide the monthly funding required by LTC or does not

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forward funds to meet LTC's outstanding payables, LTC will be forced to further curtail its current operations, further reduce the number of LTC employees, and take other measures to reduce its operating expenditures.

In connection with the Bridge Loan, LTC has granted Ilion a non-exclusive worldwide license to use LTC's thin film technology and manufacturing methods solely as it relates to lithium-ion batteries. Pursuant to the licensing agreement, Ilion will pay to LTC a royalty equal to the higher of one percent of the net sales price of each licensed product manufactured, sold or otherwise disposed of during the term of the licensing agreement or the rate that applies to any license agreement entered into subsequent to October 1, 1999. The funds advanced by Ilion to LTC under the Bridge Loan Financing Agreement will be deemed as an advance payment of royalty fees due under the licensing agreement. All improvements developed by LTC or Ilion during the course of the licensing agreement will be owned by Ilion. As of June 30, 2001, no royalties have been earned under this agreement.

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

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

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

4. PROPERTY AND EQUIPMENT

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

Laboratory equipment	\$1,380,000
Furniture and office equipment	106,000
Leasehold improvements	48,000

	\$1,534,000
Less: Accumulated depreciation and amortization	1,229,000

	\$305,000

5. SUBSEQUENT EVENTS

In July and August 2001, Ilion advanced an additional \$247,000 to LTC for working capital under the Bridge Loan, bringing the total Bridge Loan to \$4,721,000 as of August 21, 2001.

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

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

GENERAL AND PLAN OF OPERATION

LTC is a pre-production stage company in the process of commercializing unique, solid-state, lithium ion rechargeable batteries. LTC is engaged in technology development activities and pilot line manufacturing operations to further advance this battery technology and also holds various patents relating to such batteries. LTC is developing innovative flat lithium ion batteries for large, high rate applications including HEVs, other automotive applications and energy storage devices for the rapidly growing distributed power market.

LTC has an experienced management team and a strong technical staff with experience in battery technology and applications, thin-film manufacturing, capital raising, and global marketing, sales and strategic alliances. LTC maintains a current commercial awareness of products, materials, manufacturing processes, battery applications, competition and markets on a worldwide basis.

On January 19, 2000, LTC and Pacific Lithium Limited ("PLL") of Auckland, New Zealand signed an Agreement and Plan of Merger (the "Merger Agreement") to merge their respective companies (the "Merger"). On October 2, 2000, PLL domesticated into the U.S. and became a private Delaware corporation (the "Domestication") and changed its name to Ilion Technology Corporation ("Ilion"). Ilion has advised LTC that 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. For a complete description of the terms of the Merger with Ilion and the related Bridge Financing see LTC's Form 10-KSB for the year ended December 31, 2000.

The Merger Agreement provides that 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. 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

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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 the Ilion IPO or the Merger will be consummated by February 28, 2002 or at all.

LTC's management is engaged in contingency planning in the event the Ilion IPO and Merger do not occur by February 28, 2002 for any reason, and the Merger Agreement date is not extended beyond February 28, 2002. As Ilion has not yet filed a registration statement for the Ilion IPO, Ilion may not be able to consummate the Ilion IPO by February 28, 2002. If the Ilion IPO is not consummated by February 28, 2002, and such closing date is not extended, either Ilion or LTC may terminate the Merger Agreement. Contingency plans under consideration by LTC include seeking alternative sources of financing as well as seeking potential technology partners and customers and possibly restructuring the transaction with Ilion. If LTC is unable to close or restructure the transaction with Ilion or complete any new transaction, it may be forced to suspend operations and possibly liquidate, auction its assets, or file for bankruptcy.

Pursuant to the terms of a Bridge Loan Financing Agreement entered into as of November 29, 1999 (the "Bridge Loan"), Ilion has agreed to advance working capital to LTC. At June 30, 2001, Ilion held \$4,474,000 of convertible notes convertible into 44,740,000 shares of Common Stock at a conversion price of at \$.10 (which are only convertible in the event of a default or if the Merger does not close by February 28, 2002), which would represent approximately 47% of LTC's outstanding Common Stock upon conversion. Additional notes may be issued by LTC to Ilion under the Bridge Loan convertible into shares of Common Stock at a conversion price of \$.10 per share and LTC may issue to Ilion warrants to purchase 7,500,000 shares of LTC Common Stock exercisable at \$0.15 per share. The notes will not be converted into LTC Common Stock and the warrants will not be issued to Ilion if the Merger is completed. The percentage ownership of LTC that Ilion will own if there is a default under the Bridge Loan or in the event the Merger is not closed will depend on the amount of funds advanced by Ilion to LTC.

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Ilion has established joint venture manufacturing and distribution relationships with selected partners around the world. The first such joint venture, with Eldor Corporation of Italy, regarding manufacturing and distribution of lithium-ion batteries for portable electronics applications worldwide, was signed in August, 2000. In November 2000, Ilion entered into a joint venture agreement with Powercell Corporation. Pursuant to the agreement, Ilion and Powercell formed Proteus Power LLC, which is owned 75% by Ilion and 25% by Powercell, to develop and manufacture lithium-ion based energy storage devices for (1) the management and enhancement of electricity reliability and power quality (excluding devices under 50 kW), (2) the electric vehicle market (excluding HEVs) and (3) the renewable energy market, which includes wind and solar energy. LTC continues to provide technology support to Ilion in large footprint cell structures, large battery assemblies and manufacturing process automation and scale-up for all applications. At present, LTC's principal support function is to supply Ilion with components for the assembly of prototype high power devices for the Proteus joint venture.

With Ilion's approval, LTC has accepted certain external subcontract work for several companies involving rapid prototyping and integration of lithium-ion cells and batteries for various stationary and mobile applications. These external initiatives, leveraging LTC's know-how, are expected to continue and increase with the result of providing revenues to LTC.

As previously reported, to facilitate moving forward with the Ilion IPO, and in

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turn to facilitate the closing of the Merger, on February 2, 2001, Ilion and LTC entered into Amendment No. 4 to the Merger Agreement under which the Merger was to be restructured from a variable price arrangement (approximately 3.9 to 4.1 million Ilion shares) to a fixed price arrangement (\$25 million of Ilion shares, but in no event more than 5 million shares or less than 2.5 million Ilion shares). As further reported, these provisions of Amendment No. 4 were only to become effective if and when Ilion filed a Registration Statement with the Securities and Exchange Commission (the "SEC") relating to the Ilion IPO (the "Registration Statement") and could be terminated by LTC or Ilion by giving written notice to the other if the Registration Statement had not been declared effective by the SEC on or before July 31, 2001. As Ilion has not yet filed the Registration Statement, the provisions set forth in Amendment No. 4 changing the terms of the Merger are no longer effective and these provisions of Amendment No. 4 may be terminated by LTC or Ilion by giving written notice to the other. Upon termination of the provisions of Amendment No. 4 the Merger Agreement will be restored to the same terms and conditions as if such provisions of Amendment No. 4 had never become effective. Management of LTC is considering whether to terminate these provisions of Amendment No. 4 to the Merger Agreement. No decision has been made as of the date of this filing.

On May 15, 2001, LTC extended the termination or expiration date of LTC's outstanding warrants until the earlier of (i) the date three business days prior to the closing of the Merger or (ii) the original termination date set forth in the warrant, provided however, if there is no registration statement registering the underlying warrant shares effective within ninety days prior to the original warrant termination date, the original warrant termination date is extended to the date three business days prior to the closing of the Merger.

On July 12, 2001, Barry Huret resigned from the LTC Board of Directors since Board matters were requiring more time than Mr. Huret was able to commit to and without such increased time commitment Mr. Huret felt he would be unable to continue to contribute positively to the LTC Board.

LIQUIDITY, CAPITAL RESOURCES, AND FINANCIAL CONDITION

LTC has financed its operations since inception with convertible debt and private placements of common stock and has raised approximately \$18.9 million, including \$4,474,000 from Ilion as of June 30, 2001.

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

At June 30, 2001, LTC had cash and cash equivalent of \$32,000, fixed assets of \$305,000 and other assets of \$21,000. LTC's total liabilities were \$5,042,000 consisting of accounts payable, accrued salaries, and a note payable in the amount of \$568,000 and convertible promissory notes payable to Ilion in the amount of \$4,474,000. LTC had a working capital deficit of \$536,000 on June 30, 2001 as compared to a working capital deficit of \$380,000 on December 31, 2000.

LTC's cash and cash equivalents decreased by approximately \$20,000 from December 31, 2000 to June 30, 2001.

The working capital and cash decrease is attributable primarily to the decrease in bridge loan financing from Ilion.

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LTC's stockholders' deficiency was \$4,684,000 at June 30, 2001, after giving effect to an accumulated deficit of \$52,367,000 which consisted of \$45,502,000 accumulated deficit during the development stage from July 21, 1989 through June 30, 2001 and \$6,865,000 accumulated deficit from prior periods. LTC expects to incur substantial operating losses as it continues its commercialization efforts.

Pursuant to the terms of a Bridge Loan, Ilion has agreed to advance working capital to LTC until the closing of the Merger. Ilion has advanced a total of \$4,474,000 through June 30, 2001 and \$4,721,000 as of August 21, 2001. Ilion has agreed to advance to LTC ongoing funds required by LTC for ongoing employee, operating and administrative expenses excluding capital expenses.

Management is depending on the Bridge Loan Agreement funding from Ilion to meet LTC's obligations through February 28, 2002. In 2001, Ilion reduced the amount of funding it has been providing to LTC on a monthly basis. Ilion has indicated that it has reduced its operating expenses throughout Ilion and indicated in March 2001 that it intended to fund LTC at \$100,000 per month under the Bridge Loan Agreement. Ilion and LTC subsequently entered into discussions regarding funds required by LTC to meet its operating expenses and in April 2001 Ilion agreed to support an LTC monthly operating budget of \$150,000 and subject to Ilion's review and reconciliation of LTC's past due payables, agreed to effect payment of LTC's outstanding payables over a three month period. During April, May and June 2001, Ilion provided \$151,236, \$187,865 and \$123,282, to LTC, respectively, or a total of \$462,383 for such three month period. No additional funds were provided to LTC by Ilion during such time and at June 30, 2001, LTC had outstanding accounts payable of \$285,000.

In July and August 2001, Ilion advanced an additional \$247,000 to LTC for working capital under the Bridge Loan, bringing the total Bridge Loan to \$4,721,000 as of August 21, 2001. As of August 21, 2001 LTC's outstanding accounts payable were approximately \$157,000.

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

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

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RESULTS OF OPERATIONS

SIX MONTHS ENDED JUNE 30, 2001

LTC had \$7,000 in revenues from commercial operations for the six months ended June 30, 2001 and no revenues in 2000. Engineering, research and development expenses were \$627,000 for the six months ended June 30, 2001 compared to \$827,000 for the six months ended June 30, 2000. The decrease of \$200,000 was

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due primarily to decreased salaries and benefits due to a decrease in the number of technical personnel and a decrease in lab supplies and other materials.

General and administrative expenses were \$482,000 for the six months ended June 30, 2001 compared to \$1,163,000 for the six months ended June 30, 2000. The decrease of \$681,000 was due primarily to a decrease in salary and benefits due to a decrease in the number of administrative personnel and related expenses and decreased legal, accounting and other administrative expenses.

Interest expense for the six months ended June 30, 2001 was \$5,000 with interest income of \$3,000 compared to \$7,000 of interest income with no interest expense for the six months ended June 30, 2000. The increase in interest expense for the comparable periods is attributable to interest on notes payable.

THREE MONTHS ENDED JUNE 30, 2000

LTC had \$7,000 in revenues from commercial operations for the three months ended June 30, 2001 and no revenues for 2000. Engineering, research and development expenses were \$210,000 for the three months ended June 30, 2001 compared to \$481,000 for the three months ended June 30, 2000. The decrease of \$271,000 was due primarily to decreased personnel and related expenses and a decrease in lab supplies and other materials.

General and administrative expenses were \$232,000 for the three months ended June 30, 2001 compared to \$651,000 for the three months ended June 30, 2000. The decrease of \$419,000 was due primarily to decreased personnel and related expenses and a decrease in legal, accounting and other administrative expenses.

Interest expense for the three months ended June 30, 2001 was \$2,500 with interest income of \$1,500 compared to \$4,000 of interest income with no interest expense for the three months ended June 30, 2000. The increase in interest expense for the comparable periods is attributable to interest on notes payable.

SAFE HARBOR STATEMENT

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for certain forward-looking statements. Statements contained in this report that are not historical facts are forward-looking statements that involve risks and uncertainties that could cause actual results to differ materially from those stated in the forward-looking statements. Factors that could cause actual results to differ materially include, among others: general economic conditions, changes in laws and government regulations, fluctuations in demand for LTC's products, LTC's ability to consummate the merger with Ilion or other strategic partners, technology development problems, and LTC's ability to successfully finance future plant and equipment plans, as well as its current ongoing operations.

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PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 2. CHANGES IN SECURITIES

None.

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ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

None

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

None.

SIGNATURE

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

August 22, 2001

LITHIUM TECHNOLOGY CORPORATION

By: /s/ David J. Cade

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