LITHIUM TECHNOLOGY CORP
Form 10QSB
May 14, 2002

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

(Mark One)

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

For The Quarterly Period Ended March 31, 2002

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

For the transition period from ____________ to ____________

Commission file number 1-10446

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

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

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

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

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

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

Yes X No __

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

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

Yes __ No __

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: As of May 1, 2002: 64,303,305 shares of Common Stock

Transitional Small Business Disclosure Format (check one):

Yes __ No X

LITHIUM TECHNOLOGY CORPORATION AND SUBSIDIARY
FORM 10-QSB
FOR THE QUARTER ENDED MARCH 31, 2002

INDEX

PART 1 - FINANCIAL INFORMATION

2

PART I - FINANCIAL INFORMATION

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

March 31

ASSETS:	
CURRENT ASSETS:	
Cash and cash equivalents	$ 16
Prepaid insurance	1
Total Current Assets	18
PROPERTY AND EQUIPMENT, LESS ACCUMULATED DEPRECIATION OF $1,336,000 AND $1,301,000	21
SECURITY DEPOSIT	2
Total assets	$ 42
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIENCY)	
CURRENT LIABILITIES:	
Accounts payable and accrued expenses	$ 27
Accrued salaries	20
Note Payable	7
Covertible promissory notes	1,04
Total current liabilities	1,58
LONG-TERM LIABILITIES:	
Convertible promissory notes	3,94
Total liabilities	5,53
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 - 64,303,305 and 51,303,305 shares	64
Additional paid-in capital	69,59
Accumulated deficit	(6,86
Deficit accumulated during development stage	(68,48
Total stockholders' equity (deficiency)	(5,11
	$ 42

See accompanying notes to condensed consolidated financial statements.

LITHIUM TECHNOLOGY CORPORATION
AND SUBSIDIARY
(DEVELOPMENT STAGE COMPANIES)

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	Three Months Ended March	
	2002	20
REVENUES:		
Development contracts	$ 0	$
COSTS AND EXPENSES:		
Engineering, research and development	394,000	4
General and administrative	440,000	2
Stock based compensation expense	2,755,000	
	3,589,000	6
OTHER INCOME (EXPENSE):		
Interest expense, net of interest income	(2,000)	
Interest expense related to beneficial conversion feature	(17,950,000)	
Other non-operating income	--	
	(17,952,000)	
NET LOSS	$(21,541,000)	$ (6
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING:	63,147,735	51,2
BASIC AND DILUTED NET LOSS PER SHARE:	$ (.34)	$

See accompanying notes to condensed consolidated financial statements.

4

LITHIUM TECHNOLOGY CORPORATION
AND SUBSIDIARY
(DEVELOPMENT STAGE COMPANIES)

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

	Common Stock		Additional
	Shares	Amount	Paid-In Capital

BALANCES AT DECEMBER 31, 2001	51,303,305	$ 513,000	$ 47,719,000
Three months ended March 31, 2002:			
Issuance of Warrants			2,755,000
Beneficial conversion feature related to convertible notes			17,950,000
Upon conversion of convertible notes	13,000,000	130,000	1,170,000
Net loss			
BALANCES AT MARCH 31, 2002	64,303,305	$ 643,000	$ 69,594,000

See accompanying notes to condensed consolidated financial statements.

5

LITHIUM TECHNOLOGY CORPORATION
AND SUBSIDIARY
(DEVELOPMENT STAGE COMPANIES)
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Three Months E March 31 2002
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net Loss	$(21,541,000)
Adjustments to reconcile net loss to net cash flows from operating Activities:	
Interest expense relating to the beneficial conversion feature of the Convertible Notes	17,950,000
Depreciation	35,000
Amortization of debt issue costs	--
Common stock and warrants issued at prices below fair market value	2,755,000
Repricing of outstanding options	--
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	(6,000)
Security and equipment deposits	--
Accounts payable, accrued expenses and customer deposits	(29,000)
Due to related parties	--
Net cash used in operating activities	(836,000)

CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchases of property and equipment	(18,000)
Other	--
Net cash provided by (used in) investing activities	$ (18,000)

See accompanying notes to condensed consolidated financial statements.

6

	Three Months March 31 2002
CASH FLOW FROM FINANCING ACTIVITIES:	
Proceeds received from Convertible Promissory Notes	962,000
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	962,000
NET CHANGE IN CASH AND CASH EQUIVALENTS	108,000
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	60,000
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 168,000

See accompanying notes to condensed consolidated financial statements.

7

LITHIUM TECHNOLOGY CORPORATION
AND SUBSIDIARY
(DEVELOPMENT STAGE COMPANIES)

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

Three Mo

	Mar 2002
SUPPLEMENTAL CASH FLOW INFORMATION:	
Contribution to capital by former principal stockholder	--
Related party debt exchanged for convertible debt	--
Exchange of indebtedness to former principal stockholder for common stock	--
Issuance of common stock for services and accrued salaries	--
Exchange of equipment and accrued rent for common stock	--
Subordinated notes and related accrued interest exchanged for Series A preferred stock	--
Exchange of convertible debt for convertible preferred stock	--
Conversion of convertible debt and accrued interest into common stock, net of unamortized debt discount	$1,300,000
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	--
Issuance of warrants	$2,755,000

See accompanying notes to condensed consolidated financial statements.

8

LITHIUM TECHNOLOGY CORPORATION
AND SUBSIDIARY
(DEVELOPMENT STAGE COMPANIES)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
MARCH 31, 2002

1. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America applicable to interim periods. In the opinion of management, all adjustments (consisting only of normal recurring accruals) considered necessary for a fair presentation have been included. These financial statements should be read in conjunction with the Company's audited financial statements included in the Company's Annual Report on Form 10-KSB filed with the Securities and Exchange Commission for the year ended December 31, 2001. Operating results for the three months ended March 31, 2002 are not necessarily indicative of the results that may be expected for the year ending December 31, 2002 or any interim period.

2. CRITICAL ACCOUNTING POLICIES AND RECENT PRONOUNCEMENTS

CONSOLIDATION -- The consolidated financial statements include the accounts of Lithium Technology Corporation and Lithion Corporation. All significant intercompany accounts and transactions have been eliminated.

ESTIMATES AND UNCERTAINTIES -- The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("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.

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.

CONVERTIBLE SECURITIES WITH BENEFICIAL CONVERSION FEATURES -- LTC accounts for convertible securities with beneficial conversion features in accordance with Emerging Issues Task Force 98-5, "Accounting for convertible securities with beneficial conversion features or contingently adjustable conversion ratios."

STOCK-BASED COMPENSATION -- 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).

RECENT ACCOUNTING PRONOUNCEMENTS -- The FASB issued SFAS No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets" in June 2001. These statements address how intangible assets that are acquired individually, with a group of other assets or in connection with a business combination should be accounted for in financial statements upon and subsequent to their acquisition. The new statements require that all business combinations initiated after June 30, 2001 be accounted for using the purchase method and establish specific criteria for the recognition of intangible assets separately from goodwill. LTC adopted SFAS No. 141 on July 1, 2001, as required by the new statement. The adoption of SFAS No. 141 did not have any impact on LTC's financial position or its results of operations. LTC adopted SFAS No. 142 on January 1, 2002 and the adoption did not have any impact on LTC's financial position or its results of operations.

The FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations," in June 2001. SFAS No. 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002. While LTC is currently evaluating the impact the adoption of SFAS No. 143 will have on its financial position and results of operations, it does not expect such impact to be material.

The FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," in August 2001. SFAS No. 144, which addresses financial accounting and reporting for the impairment of long-lived assets and for long-lived assets to be disposed of, supercedes SFAS No. 121 and is effective for fiscal years beginning after December 15, 2001. While LTC is currently evaluating the impact the adoption of SFAS No. 144 will have on its financial position and results of operations, it does not expect such impact to be material.

3. 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-ion and lithium polymer rechargeable batteries. LTC is engaged in technology development activities and pilot line manufacturing operations to further advance this battery technology and holds various patents relating to such batteries. LTC has developed innovative flat lithium ion batteries for large, high rate applications including Hybrid Electric Vehicles (HEVs), other automotive applications and energy storage devices for the distributed power/renewable energy market.

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.

PENDING TRANSACTION WITH GAIA - In December 2001, LTC entered into a non-binding letter of intent (the "LOI") with the German lithium polymer battery company GAIA Akkumulatorenwerke GmbH, headquartered in Nordhausen/Thuringia, Germany ("GAIA") and Arch Hill Capital N.V. of the Netherlands ("Arch Hill"), the beneficial owner of all of the outstanding shares of GAIA. The LOI contemplates a potential share exchange (the "GAIA Share Exchange") whereby LTC would acquire an equity interest in GAIA in exchange for the issuance to Arch Hill of an equity interest in LTC. If LTC consummates the GAIA

Share Exchange, management anticipates that LTC would enter into a strategic alliance agreement with GAIA and operate the two companies as a single entity with two operating locations - at Plymouth Meeting, Pennsylvania and at Nordhausen, Germany.

LTC has agreed in the LOI to use its best efforts to consummate the GAIA Share Exchange by May 31, 2002. LTC has not yet entered into any definitive agreements relating to the GAIA Share Exchange and no assurance can be given that the GAIA Share Exchange will be consummated as described herein or at all. The applicable accounting for the contemplated transactions between LTC, GAIA, Arch Hill and any other parties will be determined when and if any definitive agreements are executed.

In order to have sufficient capital resources for its development, production, operating and administrative needs and in order to implement the new strategy of combining its operations with GAIA, LTC will need to raise at least $6,000,000 in a new equity financing (the "New Financing"). LTC expects that the New Financing will be a condition precedent to the GAIA Share Exchange. If LTC raises $6,000,000 in the New Financing, management believes that LTC would have sufficient funds to meet its needs until approximately June 2003. Management believes that a second financing will be necessary during the twelve months after the completion of the GAIA Share Exchange, if such transaction is consummated, in order to fully implement the Company's new business plan.

LTC has not entered into any definitive agreements relating to the New Financing and no assurance can be given that the New Financing will be consummated.

BRIDGE FINANCING BY ARCH HILL - Pursuant to the terms of a bridge loan entered into as of January 8, 2002, as amended on March 22, 2002 Arch Hill has agreed to advance working capital to LTC until the earlier of the closing of the New Financing and May 31, 2002. Notes issued to Arch Hill under the bridge financing agreement are convertible, at any time prior to repayment of the Notes, into LTC common stock at $.08 per share. Arch Hill has advanced a total of $1,042,025 through March 31, 2002 convertible into 13,025,312 shares of LTC common stock. LTC believes that provided Arch Hill advances the needed working capital to it under the bridge loan, LTC will have sufficient capital resources to meet its needs and satisfy its obligations through May 31, 2002.

TERMINATION OF MERGER WITH ILION - On December 31, 2001, LTC entered into a

Termination Agreement with Ilion Technology corporation ("Ilion") which was closed on January 8, 2002 when all closing conditions were met (the "Termination Agreement"). Pursuant to the Termination Agreement, the then existing Merger Agreement between LTC and Ilion, dated January 19, 2000, as amended from time to time, and all other agreements between LTC and Ilion, were terminated. Pursuant to the Merger Agreement between LTC and Ilion, which had a termination date of February 28, 2002, LTC had proposed to merge its lithium battery business with Ilion's. That merger was contingent on an initial public offering by Ilion, which did not occur.

Under the provisions of the Termination Agreement, all rights and obligations of Ilion and LTC under the Merger Agreement, the related bridge financing agreement in effect since October 1999, and all other agreements between LTC and Ilion, were terminated. In connection with the Termination Agreement, Ilion sold to Arch Hill $3,949,000 of LTC notes originally held by Ilion and the remaining $1,300,000 of LTC notes held by Ilion were

10

converted into 13,000,000 restricted shares of LTC common stock (the "Ilion Conversion Shares"). LTC recognized $16,483,000 of interest expense related to the beneficial conversion feature during the three months ended March 31, 2002. (See Note 7).

The Termination Agreement provides that after the termination closing and from time to time as requested by Ilion, LTC will take all appropriate actions to nominate or remove or replace one person designated by Ilion to LTC's Board of Directors provided that Ilion (i) is the beneficial owner of at least 1% of LTC common stock then outstanding during the two year period after the termination closing or (ii) is the beneficial owner of at least 5% of LTC common stock then outstanding at any time after the termination closing.

As a condition to the Termination Agreement, the existing Warrant Agreement between LTC and Ilion, dated as of January 19, 2000 (the "Warrant Agreement"), relating to 7,500,000 shares of our common stock was amended (the "Warrant Amendment") to increase the number of shares of LTC common stock subject to the Warrant Agreement to 12,500,000 (the "Warrant Shares") and to extend the termination date of the Warrants to January 10, 2004. The Warrants are currently exercisable at $.15 per share. In connection therewith, LTC recognized $2,755,000 of stock based compensation expense during the three months ended March 31, 2002.

The Termination Agreement also provides that if after the closing of the New Financing and the GAIA Share Exchange the Ilion Conversion Shares and the Warrant Shares do not equal at least 9% of LTC capital stock on a fully diluted basis, then LTC will issue to Ilion warrants to purchase LTC common stock (the "New Warrant Shares") having the same terms as the warrant and warrant amendment so that the Ilion Conversion Shares, the Warrant Shares and the New Warrant Shares equal 9% of LTC's capital stock on a fully diluted basis immediately after the GAIA Share Exchange.

In connection with the Bridge Loan from Ilion, LTC granted Ilion a non-exclusive worldwide license to use LTC's thin film technology and manufacturing methods solely as it relates to lithium-ion polymer batteries (the "Original Ilion License"). The Original Ilion License provided that all improvements that were developed by LTC or Ilion during the course of the licensing arrangement are owned by Ilion (the "Improvements"). Under the Termination Agreement, the Original Ilion License was terminated and LTC and Ilion entered into cross licensing agreements whereby worldwide, non-exclusive, royalty free, perpetual license were granted by each to the other with respect to certain specified technology. The cross licensing agreement gives LTC, among other things, the right to use the Improvements owned by Ilion and gives Ilion, among other things, the right to use certain LTC technology that did not constitute Improvements. The license from LTC to Ilion covers all product designs, processing techniques and knowledge known to "those skilled in the art" whether or not patented or patentable which LTC owned or possessed on December 31, 2001 and have communicated to Ilion or was developed by us pursuant to the LTC-Ilion Merger Agreement, solely as the foregoing relates to the materials, design and architecture of lithium-ion/lithium-ion polymer batteries and excluding any of the foregoing as it relates to lithium metal polymer batteries and excluding any improvements to the technology after December 31, 2001. The license from Ilion to LTC covers all product designs, processing techniques and knowledge known to "those skilled in the art" whether or not patented or

patentable which Ilion owned or possessed on December 31, 2001 and has communicated to LTC or was developed by LTC pursuant to the LTC-Ilion Merger Agreement, solely as the foregoing relates to the materials, design and architecture of lithium-ion /lithium-ion polymer batteries and excluding any improvements to the technology after December 31, 2001.

As part of the licensing arrangement LTC agreed not to duplicate Ilion's High Power Device product or design or any other aspect of the high power device system that could be protected by patent, provided however, LTC may duplicate aspects of the system that may be determined by third party analysis. LTC also agreed to not enter the power conditioning reliability market for a period of two years after Proteus Power LLC (or its successor) ("Proteus") enters commercial production or three years after December 31, 2001, whichever is earlier. Subject to the foregoing, LTC has the right to use known conventional construction designs which exist in the commercial marketplace outside of Ilion-Proteus.

With respect to the Ilion Conversion Shares, the Warrant Shares and the shares issuable upon conversion of the Ilion Notes and the Arch Bridge Notes, LTC granted certain demand and piggy back registration rights commencing May 1, 2002.

As a further condition to the Termination Agreement on December 31, 2001, LTC entered into a Note Purchase and Sale Agreement with Ilion and Arch Hill (the "Note Purchase and Sale Agreement") which was closed on January 8, 2002 when all closing conditions were met. Under the terms of the Note Purchase and Sale Agreement, Arch Hill acquired from Ilion $3,949,000 principal amount of LTC promissory notes held by Ilion (the "Ilion Notes"), convertible into 39,490,000 shares of our Common Stock. The Ilion Notes were previously issued by LTC to Ilion in connection with the LTC-Ilion Merger Agreement and related bridge financing agreement.

4. 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 2002 is dependent upon the bridge financing from Arch Hill and completion of the New Financing described in Note 3. 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 has worked closely with selected portable electronics Original Equipment Manufacturers ("OEMs") in the past, exploring various notebook computer, PDA and wireless handset applications. Over the past few years LTC has refocused its unique large footprint cell technology and market activities to concentrate on

large, high rate battery applications including advanced automotive batteries for 42-volt systems, Hybrid Electric Vehicles (HEVs) and energy storage devices for the distributed power/renewable energy market. In September 2000, LTC completed its first working prototype lithium-ion HEV battery, complete with battery management and control electronics. A second generation prototype HEV battery, designed to meet the specifications of an existing HEV, was completed in January 2001. LTC is currently working on a prototype 42-volt automotive battery which LTC expects to deliver to a European auto manufacturer in the second quarter of 2002. LTC has not yet delivered a prototype HEV, 42-volt or stationary power battery for testing by a third party.

As described in Note 3, LTC and GAIA have entered into a LOI relating to a share exchange and a New Financing.

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, technological advances, the status of competitors and the ability of LTC and GAIA to collaborate subsequent to the GAIA Share Exchange.

LTC does not currently have sufficient cash to achieve all its development and production objectives. LTC needs to raise approximately $6,000,000 in the New Financing in order to have sufficient capital resources for its development, production, operating and administrative needs until approximately June 2003. LTC contemplates that a second financing transaction will be necessary during the twelve months after the completion of the GAIA Share Exchange in order to fully implement the new business plan.

LTC has not yet entered into any definitive agreements relating to the GAIA Share Exchange or the New Financing.

Pursuant to the terms of a bridge loan entered into as of January 8, 2002, Arch Hill has agreed to advance working capital to LTC until the earlier of the closing of the New Financing or May 31, 2002. Arch Hill has advanced a total of $1,294,567 through April 24, 2002 convertible at $.08 per share into 16,182,087 shares of LTC common stock. LTC believes that provided Arch Hill advances the needed working capital to it under the bridge loan, LTC will have sufficient capital resources to meet its needs and satisfy its obligations through May 31, 2002.

There can be no assurance that funding will continue to be provided by Arch Hill in the amounts necessary to meet all of LTC's obligations until the closing of the New Financing or that LTC will be able to consummate the New Financing. If the New Financing is not consummated, LTC will assess all available alternatives including a sale of its assets or merger, the suspension of operations and possibly liquidation, auction, bankruptcy, or other measures.

13

The Arch Hill 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 Arch Hill. The amount of the notes will be related to the working capital advances made by Arch Hill to LTC and the length of time until the New Financing is completed.

5. PROPERTY AND EQUIPMENT

Property and equipment at March 31, 2002 are summarized as follows:

Laboratory equipment	$ 1,396,000
Furniture and office equipment	110,000
Leasehold improvements	48,000
	$ 1,554,000
Less: Accumulated depreciation and amortization	(1,336,000)
	$ 218,000

6. NOTE PAYABLE

As of December 31, 2001, LTC was 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. On February 28, 2002, LTC remedied the condition of default. As of March 31, 2002, the principal balance remaining under the note is $73,000. The note is secured by the intellectual property rights and equipment developed from the funds provided by this agreement.

7. CONVERTIBLE PROMISSORY NOTES

As of December 31, 2001, in connection with the Bridge Loan Financing Agreement, Ilion has advanced to LTC working capital of $5,249,000 in the form of Convertible Promissory Notes which have no stated interest rate and are convertible at $.10 per share into LTC common stock if the LTC Ilion merger was not consummated for any reason (See Note 3). Since the Convertible Promissory Notes became convertible on January 8, 2002, the entire $16,483,000 of interest expense related to the beneficial conversion venture was recognized as expense during January 2002. During January 2002, in connection with the Termination Agreement, Ilion sold to Arch Hill $3,949,000 of LTC notes originally held by Ilion and the remaining $1,300,000 of LTC notes held by Ilion were converted into 13,000,000 restricted shares of LTC common stock (the "Ilion Conversion Shares").

As of March 31, 2002, Arch Hill advanced to LTC working capital of $1,042,025 (including $962,025 advanced during the three months ended March 31, 2002) in the form of Convertible Promissory Notes which have no stated interest rate (See Note 3). The notes are convertible at any time commencing on the date of issuance into 13,025,312 shares of LTC common stock at $0.08 per share. Since the Convertible Promissory Notes totaling $962,025 payable to Arch Hill are convertible at inception, the entire $1,467,000 of interest expense related to the beneficial conversion feature of these Notes was recognized as expense during the three months ended March 31, 2002. (See Note 10).

14

8. COMMITMENTS AND CONTINGENCIES

EMPLOYMENT AGREEMENTS - LTC has entered into an Employment Agreement with David Cade, for a period of three years commencing as of January 1, 2002 (the "Term"), pursuant to which Mr. Cade serves as LTC's Chairman and Chief Executive Officer at a salary of $207,500 per year until the closing of the LTC-GAIA Transaction and thereafter at $250,000 per year, subject to increase at the discretion of the Board of Directors. The Agreement provides that during each fiscal year, Mr. Cade will be eligible to receive a target bonus of up to 40% of his annual salary for such fiscal year with the exact amount of such bonus to be determined at the discretion of the Board of Directors or the applicable committee of the Board of Directors in accordance with performance thresholds for such fiscal year to be agreed upon prior to March 1 of the fiscal year to which the bonus and the performance thresholds relate. Mr. Cade's employment agreement provides for certain severance payment benefits in the event his employment is terminated by LTC other than for cause and includes certain confidentiality, non-solicitation and non-competition provisions.

LTC has entered into an Employment Agreement with Andrew J. Manning, for a period of three years commencing as of January 1, 2002 (the "Term"), pursuant to which Dr. Manning serves as LTC's Executive Vice President, Chief Operating Officer and Chief Technical Officer at a salary of $150,000 per year until the closing of the LTC-GAIA Transaction and thereafter at $175,000 per year, subject to increase at the discretion of the Board of Directors. The Agreement provides that during each fiscal year, Dr. Manning will be eligible to receive a target bonus of up to 20% of his annual salary for such fiscal year with the exact amount of such bonus to be determined at the discretion of the Board of Directors or the applicable committee of the Board of Directors in accordance performance thresholds for such fiscal year to be agreed upon prior to March 1 of the fiscal year to which the bonus and the performance thresholds relate. Dr. Manning's employment agreement provides for certain severance payment benefits in the event his employment is terminated by LTC other than for cause and includes certain confidentiality, non-solicitation and non-competition provisions.

9. STOCKHOLDERS' EQUITY

2002 STOCK INCENTIVE PLAN - LTC's Board of Directors adopted the 2002 Stock Incentive Plan (the "2002 Plan") in January 2002. The 2002 Plan terminates in January 2012. A total of 7,000,000 shares of common stock are reserved and available for grant. The exercise price of an option granted under the 2002 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. Options granted that are not vested 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. Vested options are exercisable for up to sixty months upon termination of the Grantee's employment or association with LTC.

In January 2002, 750,000 options were issued under the 2002 Plan to employees and directors of LTC, having an exercise price of $.20, a term of ten years, with one-half of such options

15

vesting July 1, 2002 and one-half vesting January 22, 2003.

Options under the 1994 Stock Plan, The Directors Plan, the 1998 Plan and the 2002 Plan as of March 31, 2002 are summarized as follows:

	OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding, beginning of period	2,350,000	$ 0.27
Granted	750,000	$ 0.20
Exercised	0	0
Cancelled	0	0
Outstanding, end of period	3,100,000	$ 0.25
Options exercisable, end of period	2,350,000	$ 0.27

Warrants as of March 31, 2002 are summarized as follows:

	WARRANTS	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding, beginning of period	4,186,000	$ 0.15
Granted	12,500,000(1)	$ 0.15
Cancelled	0	0
Outstanding, end of period	16,686,000	$ 0.15
Exercisable	16,686,000	$ 0.15

(1) In connection therewith, LTC recognized $2,755,000 of stock based compensation expenses using the Black-Scholes option pricing model as prescribed by FASB Statement 123 using the following assumptions: no dividend yield, expected volatility of 198%, risk free interest rate of 4.34% and expected life of 2 years. (See Note 3).

10. SUBSEQUENT EVENT

On April 24, 2002, Arch Hill advanced an additional $252,542 to LTC under terms of the bridge loan agreement that is convertible at any time commencing on the date of issuance into 3,156,775 shares of LTC common stock at $.08 per share.

16

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

We are a pre-production stage company in the process of commercializing unique, solid-state, lithium-ion and lithium polymer rechargeable batteries. We are engaged in technology development activities and pilot line manufacturing operations to further advance this battery technology and we hold various patents relating to such batteries.

We have worked closely with selected portable electronics original equipment manufacturers (OEMs) in the past, exploring various notebook computer, PDA and wireless handset applications. Over the past few years we have refocused our large footprint cell technology and market activities to concentrate on large, high rate battery applications including advanced automotive batteries for 42-volt systems, HEVs and energy storage devices for the distributed power/renewable energy market. In September 2000, we completed our first working prototype lithium-ion HEV battery, complete with battery management and control electronics. A second generation prototype HEV battery, designed to meet the specifications of an existing HEV, was completed in January 2001. We are currently working on a prototype 42-volt automotive battery which we expect to deliver to a European auto manufacturer in the second quarter of 2002. We have not yet delivered a prototype HEV, 42-volt or stationary power battery for testing by a third party.

In December 2001 we entered into a non-binding LOI with GAIA and Arch Hill, the beneficial owner of all of the outstanding shares of GAIA. The LOI contemplates a potential share exchange whereby we would acquire an equity interest in GAIA in exchange for the issuance to Arch Hill of an equity interest in us. If we consummate the GAIA Share Exchange we anticipate that we would enter into a strategic alliance agreement with GAIA and operate the two companies as a single entity with two operating locations - at Plymouth Meeting, Pennsylvania and at Nordhausen, Germany.

We have agreed in the LOI to use our best efforts to consummate the GAIA Share Exchange by May 31, 2002. We have not entered into any definitive agreements relating to the GAIA Share Exchange as of the date of this Report and no assurance can be given that the GAIA Share Exchange will be consummated as described herein or at all.

In January 2002 as amended on March 22, 2002, we entered into a bridge loan with Arch Hill pursuant to which Arch Hill has agreed to advance working capital to us until the earlier of the closing of the New Financing and May 31, 2002.

For a further description of the GAIA Share Exchange, the bridge financing with Arch Hill and the termination of the Merger Agreement with Ilion see our Form 10-KSB for the year ended December 31, 2001.

We have been unprofitable since inception, expect to incur substantial additional operating losses over the next few years and need significant additional financing to continue the development and

17

commercialization of our technology. We do not expect to generate revenues from commercial operations during the year ended December 31, 2002.

LIQUIDITY, CAPITAL RESOURCES, AND FINANCIAL CONDITION

We have financed our operations since inception with convertible debt and private placements of common stock and have raised approximately $20.7 million, including $5,249,000 from Ilion and $1,042,025 from Arch Hill as of March 31, 2002.

At March 31, 2002, we had cash and cash equivalents of $168,000, fixed assets of $218,000 and other assets of $37,000. Our total liabilities were $5,538,000 consisting of accounts payable, accrued salaries, accrued expenses and a convertible promissory note to Arch Hill in the amount of $1,589,000 and convertible promissory notes held by Arch Hill (formerly held by Ilion - see

Note 2) in the amount of $3,949,000. We had a working capital deficit of $1,405,000 on March 31, 2002 as compared to a working capital deficit of $586,000 on December 31, 2001. The increase in the working capital deficit is primarily attributable to the convertible note payable to Arch Hill.

Our cash and cash equivalents increased by approximately $108,000 from December 31, 2001 to March 31, 2002. The cash increase is attributable primarily to funding from Arch Hill in advance of payments to trade creditors.

Our stockholders' deficiency was $5,115,000 at March 31, 2002, after giving effect to an accumulated deficit of $75,352,000 which consisted of $68,487,000 accumulated deficit during the development stage from July 21, 1989 through March 31, 2002 and $6,865,000 accumulated deficit from prior periods. We expect to incur substantial operating losses as we continue our commercialization efforts.

We do not currently have sufficient cash to achieve all of our development and production objectives. In order to have sufficient capital resources for our development, production, operating and administrative needs and in order to implement the new strategy of combining our operations with GAIA we will need to raise at least $6,000,000 in a new equity financing. We expect that the New Financing will be a condition precedent to the GAIA Share Exchange. If we raise $6,000,000 in the New Financing we believe that we would have sufficient funds to meet our needs until approximately June 2003. We believe that a second financing transaction will be necessary during the twelve months after the completion of the GAIA Share Exchange, if such transaction is consummated, in order to fully implement our new business plan.

We have not entered into any definitive agreements relating to the New Financing as of the date of this Report.

Pursuant to the terms of a bridge loan entered into as of January 8, 2002 as amended on March 20, 2002, Arch Hill has agreed to advance working capital to us until the earlier of the closing of the New Financing and May 31, 2002. Arch Hill has advanced a total of $1,294,567 through April 24, 2002 convertible at $.08 per share into 16,182,087 shares of our common stock. We believe that provided Arch Hill advances the needed working capital to us under the bridge loan, we will have sufficient capital resources to meet our needs and satisfy our obligations through May 31, 2002.

18

There can be no assurance that funding will continue to be provided by Arch Hill in the amounts necessary to meet all of our obligations until the closing of the New Financing or that we will be able to consummate the New Financing. If the New Financing is not consummated, we will assess all available alternatives including a sale of our assets or merger, the suspension of operations and possibly liquidation, auction, bankruptcy, or other measures.

RESULTS OF OPERATIONS

We had no revenues from commercial operations for the three months ended March 31, 2002 and 2001.

Engineering, research and development expenses were $394,000 for the three months ended March 31, 2002 compared to $417,000 for the three months ended March 31, 2001. The decrease of $23,000 was due primarily to decreased salaries and temporary technical assistance offset by increased lab supplies.

General and administrative expenses were $440,000 for the three months ended March 31, 2002 compared to $250,000 for the three months ended March 31, 2001. The increase of $190,000 was due to increased legal, accounting and other expenses.

Stock based compensation expenses were $2,755,000 for the three months ended March 31, 2002 compared to $0 for the three months ended March 31, 2001. The $2,755,000 of expense was caused by the issuance of 12,500,000 warrants to Ilion pursuant to terms of the Termination Agreement (See Note 2).

Interest expense increased to $2,000 (net of interest income of $1,000) for the three months ended March 31, 2002 compared to $1,000 (net of interest income of $2,000) for the three months ended March 31, 2001.

In connection with the additional $962,025 of convertible promissory notes payable to Arch Hill, $1,457,000 of interest expense related to the beneficial conversion feature was recognized as expense for the three months ended March 31, 2002. Since the Convertible Promissory Note payable to Arch Hill is convertible at inception, the entire $1,467,000 of interest expense related to the beneficial conversion feature was recognized as expense during the three months ended March 31, 2002.

In connection with the Bridge Loan Financing Agreement, Ilion had advanced to LTC working capital of $5,249,000 in the form of Convertible Promissory Notes which have no stated interest rate and are convertible at $.10 per share into LTC common stock if the LTC Ilion merger was not consummated for any reason (See Notes 3 and 7). Since the Convertible Promissory Notes became convertible on January 8, 2002, the entire $16,483,000 of interest expense related to the beneficial conversion feature was recognized as expense during January 2002.

19

SAFE HARBOR STATEMENT

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements. This report contains certain forward-looking statements and information that are based on the beliefs of management as well as assumptions made by and information currently available to management. The statements contained in this report relating to matters that are not historical facts are forward-looking statements that involve risks and uncertainties, including, but not limited to, the successful commercialization of our batteries, future demand for our products, general economic conditions, government and environmental regulation, competition and customer strategies, technological innovations in the battery industries, changes in our business strategy or development plans, capital deployment, business disruptions, our ability to consummate the share exchange and financing described herein and other risks and uncertainties, certain of which are beyond our control. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may differ materially form those described herein as anticipated, believed, estimated or expected.

20

PART II
OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 2. CHANGES IN SECURITIES

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

a) The following Exhibits are filed as part of this Report or incorporated herein by reference:

10.4 2002 Stock Incentive Plan. (1)

10.9 Form of Incentive Stock Option Agreement relating to LTC's 2002 Stock Incentive Plan. (1)

10.10 Form of Non-Qualified Incentive Stock Option Agreement relating to LTC's 2002 Stock Incentive Plan [For Employees]. (1)

10.11 Form of Non-Qualified Incentive Stock Option Agreement relating to LTC's 2002 Stock Incentive Plan [For Consultants and Non-Employee Directors]. (1)

10.24 Form of Third Warrant Amendment Agreement. (1)

10.27 Employment Agreement dated as of January 1, 2002 between David J. Cade and LTC. (1)

21

10.30 Employment Agreement dated as of January 1, 2002 between Andrew J. Manning and LTC. (1)

10.31 Termination Agreement, dated as of December 31, 2001, between LTC and Ilion [Schedules and Exhibits omitted]. (1)

10.32 Warrant Amendment Agreement, dated as of December 31,2001, between LTC and Ilion. (2)

10.33 License Agreement, dated as of December 31, 2001, from LTC to Ilion [Schedules omitted]. (2)

10.34 License agreement, dated as of December 31,2001 from Ilion to LTC [Schedules omitted]. (2)

10.35 Note Purchase and Sale Agreement, dated as of December 31, 2001, among Ilion, Arch Hill and LTC. [Schedules omitted]. (2)

10.36 Interim Financing Letter Agreement, dated as of December 31, 2001 between LTC and Arch Hill [Schedules and Exhibits omitted]. (2)

10.37 Form of Convertible Promissory Note to be issued under the Interim Financing Letter Agreement between LTC and Arch. (2)

10.38 Bridge Financing Amendment Agreement, dated as of March 20, 2002, between LTC and Arch Hill. (1)

b) Form 8-K Reports during the Quarter Ended March 31, 2002:

Form 8-K dated January 8, 2002 reporting on the termination of the LTC-Ilion merger agreement, the closing of the Note Purchase and Sale Agreement among Ilion, Arch Hill and LTC and the execution and delivery of the Interim Financing Letter Agreement between LTC and Arch Hill.

(1) Incorporated herein by reference to LTC's Annual Report on Form 10-KSB for the fiscal year ended December 31, 2001.

(2) Incorporated herein by reference to LTC's Report on Form 8-K dated January 23, 2002.

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.

May 14, 2002 LITHIUM TECHNOLOGY CORPORATION

By: /s/ David J. Cade

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

By: /s/ William D. Walker

William D. Walker, Chief Financial Officer (Principal Financial and Accounting Officer)