

LITHIUM TECHNOLOGY CORP
Form 424B3
December 02, 2004
Table of Contents

PROSPECTUS SUPPLEMENT NO. 1
(To Prospectus dated July 9, 2004)

Filed Pursuant to Rule 424(B)(3)
Registration No. 333-114998

LITHIUM TECHNOLOGY CORPORATION

68,709,282 Shares of Common Stock

This prospectus supplement supplements the prospectus dated July 9, 2004, relating to the offer and sale by the selling stockholders identified in the prospectus of up to 68,709,282 shares of common stock of Lithium Technology Corporation.

This prospectus supplement includes our Quarterly Report on Form 10-QSB for the quarter ended September 30, 2004, which was filed with the Securities and Exchange Commission on November 24, 2004.

The information contained in the report included in this prospectus supplement is dated as of the period of such report. This prospectus supplement should be read in conjunction with the prospectus dated July 9, 2004, which is to be delivered with this prospectus supplement. This prospectus supplement is qualified by reference to the prospectus except to the extent that the information in this prospectus supplement updates and supersedes the information contained in the prospectus dated July 9, 2004.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this Prospectus Supplement is December 1, 2004

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 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 September 30, 2004

OR

TRANSITION REPORT PURSUANT TO 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

(Name of Small Business Issuer in Its Charter)

DELAWARE
(State or Other Jurisdiction of
Incorporation or Organization)

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

5115 CAMPUS DRIVE, PLYMOUTH MEETING, PENNSYLVANIA 19462

(Address of Principal Executive Offices) (Zip Code)

(610) 940-6090

(Issuer's Telephone Number, Including Area Code)

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

Check whether the issuer has 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 November 19, 2004, 40,840,340 shares of common stock.

Transitional Small Business Disclosure Format (check one): Yes No

Table of Contents

LITHIUM TECHNOLOGY CORPORATION AND SUBSIDIARIES

FORM 10-QSB

FOR THE QUARTER ENDED SEPTEMBER 30, 2004

INDEX

	PAGE
<u>PART I FINANCIAL INFORMATION</u>	
ITEM 1. <u>FINANCIAL STATEMENTS</u>	3
<u>Condensed Consolidated Balance Sheets September 30, 2004 and December 31, 2003</u>	3
<u>Condensed Consolidated Statements of Operations and Comprehensive Loss-Three and Nine Months Ended September 30, 2004 and 2003, and period from February 12, 1999 (inception of development stage) to September 30, 2004</u>	4
<u>Condensed Consolidated Statements of Changes in Stockholders Equity (Deficit) Nine Months Ended September 30, 2004</u>	5
<u>Condensed Consolidated Statements of Cash Flows Nine Months Ended September 30, 2004 and 2003, and period from February 12, 1999 (inception of development stage) to September 30, 2004</u>	6
<u>Notes to Condensed Consolidated Financial Statements September 30, 2004</u>	7
ITEM 2. <u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	20
ITEM 3. <u>CONTROLS AND PROCEDURES</u>	41
<u>PART II OTHER INFORMATION</u>	
ITEM 1. <u>LEGAL PROCEEDINGS</u>	43
ITEM 2. <u>CHANGES IN SECURITIES AND USE OF PROCEEDS</u>	43
ITEM 3. <u>DEFAULTS UPON SENIOR SECURITIES</u>	44
ITEM 4. <u>SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS</u>	44
ITEM 5. <u>OTHER INFORMATION</u>	44
ITEM 6. <u>EXHIBITS AND REPORTS ON FORM 8-K</u>	44

Table of Contents**PART I FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****LITHIUM TECHNOLOGY CORPORATION AND SUBSIDIARIES****(DEVELOPMENT STAGE COMPANIES)****CONDENSED CONSOLIDATED BALANCE SHEETS**

	September 30, 2004	December 31, 2003
	<u>(Unaudited)</u>	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 63,000	\$ 127,000
Accounts receivable	54,000	16,000
Inventories	83,000	105,000
Related party receivable	143,000	124,000
Prepaid expenses and other current assets	694,000	627,000
	<u>1,037,000</u>	<u>999,000</u>
Total current assets	1,037,000	999,000
Due from related parties	3,323,000	3,203,000
Property and equipment, net	6,018,000	5,635,000
Intangibles, net	8,490,000	9,084,000
Other assets	225,000	20,000
	<u>19,093,000</u>	<u>18,941,000</u>
Total assets	\$ 19,093,000	\$ 18,941,000
LIABILITIES AND STOCKHOLDERS DEFICIT		
CURRENT LIABILITIES:		
Accounts payable	\$ 3,393,000	1,381,000
Accrued salaries	626,000	509,000
Notes payable		63,000
Current portion of long term debt	636,000	659,000
Payable to related party	808,000	1,453,000
Shares issued subject to exchange into convertible notes, net of cost of issue	3,977,000	
Other current liabilities and accrued expenses	1,316,000	440,000
	<u>10,756,000</u>	<u>4,505,000</u>
Total current liabilities	10,756,000	4,505,000
LONG-TERM LIABILITIES, LESS CURRENT PORTION	12,193,000	35,067,000
CONVERTIBLE DEBT SECURITIES	3,064,000	12,609,000
	<u>26,013,000</u>	<u>52,181,000</u>
Total liabilities	26,013,000	52,181,000
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS DEFICIT		
Preferred stock, par value \$.01 per share, Authorized 100,000 shares; Issued and outstanding none and 1000 shares Series A Convertible Preferred Stock		
Common stock, par value \$.01 per share, Authorized 125,000,000 shares; Issued and outstanding 39,840,340 and 4,411,770 shares	398,000	44,000

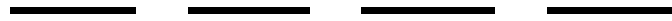
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Additional paid-in capital	49,553,000	10,678,000
Cumulative translation adjustments	(5,947,000)	(6,383,000)
Accumulated Deficit	(200,000)	(200,000)
Deficit accumulated during development stage	(50,724,000)	(37,379,000)
Total stockholders' deficit	(6,920,000)	(33,240,000)
Total liabilities and stockholders' deficit	\$ 19,093,000	\$ 18,941,000

See accompanying notes to consolidated financial statements.

Table of Contents**LITHIUM TECHNOLOGY CORPORATION AND SUBSIDIARIES****(DEVELOPMENT STAGE COMPANIES)****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS****(UNAUDITED)**

	PERIOD FROM FEBRUARY 12, 1999 (INCEPTION OF				
	THREE MONTHS ENDED		NINE MONTHS ENDED		DEVELOPMENT STAGE)
	SEPTEMBER 30,		SEPTEMBER 30,		TO SEPTEMBER 30
	2004	2003	2004	2003	2004
REVENUES					
Development contracts and prototype sales	\$ 93,000	\$ 126,000	\$ 424,000	\$ 285,000	\$ 775,000
COSTS AND EXPENSES					
Engineering, research and development	1,300,000	1,182,000	4,208,000	3,326,000	17,719,000
General and administrative	1,024,000	845,000	3,124,000	2,689,000	12,183,000
Depreciation and amortization	442,000	369,000	1,383,000	1,123,000	9,613,000
Intangibles expensed					3,700,000
Loss (gain) on sale of assets		11,000	(4,000)	(5,000)	46,000
	2,766,000	2,407,000	8,711,000	7,133,000	43,261,000
OTHER INCOME (EXPENSE)					
Foreign government subsidies	95,000	239,000	430,000	645,000	2,837,000
Interest expense, net of interest income	(1,916,000)	(388,000)	(2,898,000)	(1,272,000)	(8,485,000)
Interest expense related to beneficial conversion	367,000		(2,590,000)		(2,590,000)
	(1,454,000)	(149,000)	(5,058,000)	(627,000)	(8,238,000)
NET LOSS	\$ (4,127,000)	\$ (2,430,000)	\$ (13,345,000)	\$ (7,475,000)	\$ (50,724,000)
OTHER COMPREHENSIVE INCOME (LOSS)					
Currency translation adjustments	(733,000)	(337,000)	436,000	(2,579,000)	(5,947,000)
COMPREHENSIVE LOSS	\$ (4,860,000)	\$ (2,767,000)	\$ (12,909,000)	\$ (10,054,000)	\$ (56,671,000)
Weighted average number of common shares outstanding:	39,430,742	9,978,797	28,496,047	9,978,797	
Basic and diluted net loss per share:	\$ (0.10)	\$ (0.24)	\$ (0.47)	\$ (0.75)	



See accompanying notes to consolidated financial statements.

Table of Contents**LITHIUM TECHNOLOGY CORPORATION AND SUBSIDIARIES****(DEVELOPMENT STAGE COMPANIES)****CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY (DEFICIT)****(UNAUDITED)**

	<u>Convertible Preferred Stock</u>		<u>Common Stock</u>		<u>Additional Paid-in Capital</u>	<u>Cumulative Translations Adjustments</u>	<u>Accumulated Deficit</u>	<u>Deficit</u>			
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>				<u>Capital</u>	<u>Adjustments</u>	<u>Deficit</u>	<u>Accumulated</u>
											<u>During</u>
								<u>Development</u>			
Balances at December 31, 2003	1,000	\$	4,411,459	\$ 44,000	\$ 10,678,000	(\$ 6,383,000)	(\$ 200,000)	(\$ 37,379,000)			
Common stock issued upon conversion of preferred stock	(1,000)		5,567,027	56,000	(56,000)						
Stock issued upon conversion of convertible notes			29,045,650	291,000	33,546,000						
Issuance of convertible debt with beneficial conversion feature					5,000,000						
Stock issued for services			54,216		105,000						
Stock issued upon conversion of 10% convertible debentures			761,988	7,000	280,000						
Foreign currency translation adjustments						436,000					
Net loss								(13,345,000)			
Balances at September 30, 2004		\$	39,840,340	\$ 398,000	\$ 49,553,000	(\$ 5,947,000)	(\$ 200,000)	(\$ 50,724,000)			

See accompanying notes to consolidated financial statements.

Table of Contents**LITHIUM TECHNOLOGY CORPORATION AND SUBSIDIARIES****(DEVELOPMENT STAGE COMPANIES)****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**

	NINE MONTHS ENDED		PERIOD FROM
	SEPTEMBER 30,		FEBRUARY 12, 1999
			(INCEPTION OF
			DEVELOPMENT
			STAGE) TO
	2004	2003	SEPTEMBER 30, 2004
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss	\$ (13,345,000)	\$ (7,475,000)	\$ (50,724,000)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	1,383,000	1,123,000	9,613,000
In-process research and development expensed			3,700,000
Loss on sale of assets	(4,000)	(5,000)	46,000
Non cash interest expense	5,296,000	1,104,000	9,334,000
Change in operating assets and liabilities, net of business acquisitions:			
Accounts receivable	(39,000)	2,000	(53,000)
Inventories	19,000	36,000	(64,000)
Prepaid expenses and other current assets	(126,000)	51,000	(290,000)
Accounts payable and accrued expenses	1,586,000	526,000	3,944,000
Net cash used in operating activities	(5,230,000)	(4,638,000)	(24,494,000)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property and equipment	(812,000)	(269,000)	(4,491,000)
Investment in intangibles	(36,000)	(22,000)	(167,000)
Cash received in connection with Share Exchanges			20,000
Deposit on equipment		(100,000)	(200,000)
Proceeds from sale of assets	4,000	61,000	137,000
Net cash used in investing activities	(844,000)	(330,000)	(4,701,000)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayments of loans from financial institutions	(328,000)	(6,000)	(2,047,000)
Proceeds (repayments) of silent partnership loans			102,000
Proceeds from related party loans			16,908,000
Proceeds from 10% convertible debentures, net of cost of issue	1,686,000		1,686,000
Proceeds from series A & B units, net of cost of issue	432,000		432,000
Proceeds received from Non-convertible Promissory			
Notes from related party	4,223,000	4,830,000	12,183,000
Net cash provided by financing activities	6,013,000	4,824,000	29,264,000

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Effect of exchange rate changes on cash	(3,000)	10,000	(9,000)
Net increase (decrease) in cash and cash equivalents	(64,000)	(134,000)	60,000
Cash and cash equivalents, beginning of period	127,000	165,000	3,000
Cash and cash equivalents, end of period	\$ 63,000	\$ 31,000	\$ 63,000
SUPPLEMENTAL CASH FLOW INFORMATION			
Cash paid for interest	\$ 192,000	\$ 103,000	\$ 678,000
Conversion of convertible debt into common stock	\$ 33,546,000	\$	\$ 35,461,000
Conversion of convertible debt into preferred stock subject to rescission	\$ 3,545,000	\$	\$ 3,545,000
Capital contribution by affiliate of Arch Hill in lieu of debt payment	\$	\$	\$ 1,734,000

See accompanying notes to consolidated financial statements.

Table of Contents

**LITHIUM TECHNOLOGY CORPORATION
AND SUBSIDIARIES
(DEVELOPMENT STAGE COMPANIES)**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and rules and regulations of the Securities and Exchange Commission (the "SEC") 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, 2003. Operating results for three and nine months ended September 30, 2004 are not necessarily indicative of the results that may be expected for the year ending December 31, 2004 or any interim period.

NOTE 2 ORGANIZATION, BUSINESS OF THE COMPANY AND RECENT DEVELOPMENTS

On October 4, 2002, Lithium Technology Corporation ("LTC" or the "Company") closed share exchanges in which LTC acquired ownership of 100% of GAIA Holding B.V. ("GAIA Holding") from Arch Hill Ventures, N.V., a private company limited by shares, incorporated under the laws of the Netherlands ("Arch Hill Ventures"), which is controlled by Arch Hill Capital N.V. ("Arch Hill Capital"), a private company limited by shares, incorporated under the laws of the Netherlands (the "Share Exchanges").

Subsequent to the Share Exchanges, Arch Hill Capital effectively controls LTC. As a result, the Share Exchanges have been accounted for as a reverse acquisition, whereby for financial reporting purposes, GAIA Holding is considered the acquiring company. Hence, the historical financial statements of GAIA Holding became the historical financial statements of the Company and include the results of operations of LTC only from the acquisition date.

GAIA Holding, a private limited liability company incorporated under the laws of the Netherlands, is the 100% beneficial owner of GAIA Akkumulatorenwerke GmbH ("GAIA"). GAIA Holding (formerly known as Hill Gate Investments B. V.) was incorporated in 1990 and only had limited operations until the acquisition of GAIA on February 12, 1999 (inception of development stage). GAIA is a private limited liability company incorporated under the laws of Germany. GAIA Holding's ownership interest in GAIA is held through certain trust arrangements (see Note 3).

The date of inception of the Company's development stage is February 12, 1999. Prior to inception of development stage activities, the Company incurred accumulated losses of \$200,000, and these losses have been segregated from the Company's deficit accumulated during the development stage in the accompanying consolidated financial statements.

The Company considers itself to have one operating segment. The Company is a development and pilot-line production stage company that develops large format lithium-ion rechargeable batteries to be used as a new power source for emerging applications in the automotive, stationary power, and national security markets.

Effective July 28, 2003, LTC implemented a one-for-twenty reverse stock split of the Company's common stock (See Note 11). On May 9, 2003, the Company reduced the outstanding and authorized Series A Preferred Stock from 100,000 to 1,000 shares. The reverse stock split and Preferred Stock reduction have been reflected retroactively in the consolidated financial statements and notes for all periods presented and all applicable references as to the number of common shares and per share information, preferred shares, stock option data and market prices have been restated to reflect the reverse stock split and Preferred Stock reduction. In addition, stockholders' deficit has been restated retroactively for all periods presented for the par value of the number of shares that were eliminated.

Table of Contents

NOTE 3 SIGNIFICANT ACCOUNTING POLICIES

GAIA HOLDING DEEMED ACQUIRER OF LTC

The Share Exchanges in 2002 between LTC and GAIA Holding have been accounted for as a reverse acquisition (see Note 2). As a result, GAIA Holding is considered the acquiring company; hence, the historical consolidated financial statements of GAIA Holding became the historical financial statements of LTC and include the operating results of LTC only from the effective dates of the Share Exchanges.

BASIS OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany accounts and transactions have been eliminated.

The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or classification of liabilities that might be necessary should the Company be unable to operate in the normal course of business.

GAIA Holding is the beneficial owner of all of the issued and outstanding shares of GAIA. Legal ownership of the outstanding shares of GAIA are held pursuant to certain Dutch and German trust agreements by two Netherlands entities (the Nominal Stockholders) for the risk and account of GAIA Holding. Based on the Dutch and German trust agreements, the Nominal Stockholders are obligated to transfer the legal ownership of the shares in GAIA without any further payments to GAIA Holding. Pursuant to the trust agreements, GAIA Holding has the right to vote the shares of GAIA held by the Nominal Stockholders. The results of GAIA are included in the results of GAIA Holding as of the date of acquisition.

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 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 these estimates.

FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value estimates, assumptions and methods used to estimate fair value of the Company's financial instruments are made in accordance with the requirements of SFAS No. 107, Disclosures about Fair Value of Financial Instruments. The Company has used available information to derive its estimates. However, because these estimates are made as of a specific point in time, they are not necessarily indicative of amounts the

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Company could realize currently. The use of different assumptions or estimating methods may have a material effect on the estimated fair value amounts.

The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable, accrued expenses and short-term notes payable approximate fair value due to the short-term nature of the instruments.

Long-term liabilities are comprised of the loans from financial institutions, related party loans and other long-term loans. The Company's long-term loans from financial institutions and other long-term loans approximate fair value.

CASH AND CASH EQUIVALENTS

The Company considers all highly liquid investment instruments purchased with an initial remaining maturity of three months or less to be cash equivalents.

INVENTORIES

Inventories primarily include raw materials and auxiliary materials required for the production process. Inventories are valued at the lower of cost or net realizable value. The cost of inventories is determined by using the weighted average method. Cost elements included in inventories comprise all costs of purchase and other costs incurred to bring the inventories to their present location and condition.

Table of Contents

PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost and primarily consist of buildings, technical and lab equipment, furniture and office equipment and leasehold improvements. In the period assets are retired or otherwise disposed of, the costs and accumulated depreciation are removed from the accounts, and any gain or loss on disposal is included in results of operations. Property and equipment are depreciated using the straight-line method over their estimated useful lives as follows:

Buildings	25 years
Technical and laboratory equipment	7-14 years
Office equipment and other	1-5 years

INTANGIBLES

Intangibles consist of amounts capitalized by GAIA for patents, which are recorded at cost and are amortized using the straight-line method over their estimated useful lives of 13 to 17 years commencing upon final approval by the foreign regulatory body. Intangibles also include amounts relating to the core patented technology of LTC, as determined by an independent valuation, in connection with the allocation of the purchase price resulting from the Share Exchanges. These intangibles are being amortized using the straight-line method over their estimated useful lives of 12 years commencing October 4, 2002.

LONG-LIVED ASSETS

The Company periodically evaluates the carrying value of long-lived assets when events and circumstances indicate the carrying amounts may not be recoverable. The carrying value of a long-lived asset is considered impaired when the anticipated undiscounted cash flows expected to result from the use and eventual disposition from such assets are less than the carrying value. If the sum of the expected cash flows (undiscounted and without finance charges) is less than the carrying amount of the asset, the Company recognizes an impairment loss on the asset. In that event, a loss is recognized for the amount by which the carrying value exceeds the fair value of the long-lived asset. Fair value is determined by quoted market prices in active markets, if available, or by using the anticipated cash flows discounted at a rate commensurate with the risks involved.

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.

REVENUES

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The Company performs certain research and development for other companies and sells prototypes to third parties. Revenue is recognized as services are rendered or products are delivered, the price to the buyer is fixed and determinable, and collectibility is reasonably assured.

OTHER INCOME

The Company receives subsidies from foreign governmental agencies to reimburse the Company for certain research and development expenditures. Subsidies are recorded as other income.

FOREIGN CURRENCY TRANSLATION

The functional currency for foreign operations is the local currency. For these foreign entities, the Company translates assets and liabilities at end-of-period exchange rates. The Company records these translation adjustments in cumulative other comprehensive income (loss), a separate component of equity in the consolidated balance sheet. For revenues, expenses, gains and losses, the weighted average exchange rate for the period is used to translate those elements.

Table of Contents**STOCK OPTIONS**

In accordance with Statement of Financial Accounting Standard (SFAS) No. 123, Accounting for Stock-based Compensation (SFAS No. 123), the Company has elected to account for stock option grants to employees using the intrinsic value based method prescribed by APB Opinion No. 25.

In connection with the Share Exchanges, the Company has stock options post acquisition. All such options were fully vested at the acquisition and valued as part of the purchase price. If the Company had applied the fair value recognition provisions of SFAS No. 123, there would be no material effect on net income and earnings per share.

NET LOSS PER COMMON SHARE

The Company 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. The Company has determined that the as-if converted common shares related to the preferred shares should be included in the weighted average shares outstanding for purposes of calculating basic earnings per share for the three and nine months ended September 30, 2003. The Company made such determination because: 1) Arch Hill Capital, which controls the Company, had the ability to authorize the necessary shares for conversion; 2) the preferred shares had no significant preferential rights above the common shares; and 3) the preferred shares would automatically convert at a later date upon proper share authorization. The Preferred Stock was converted into 5,567,027 shares of LTC s common stock on February 25, 2004. As a result, weighted average shares outstanding included in the calculation of basic and diluted net loss per common share for the three and nine months ended September 30, 2004 and 2003 was as follows:

	Three Months Ended	Three Months Ended	Nine Months Ended	Nine Months Ended
	September 30, 2004	September 30, 2003	September 30, 2004	September 30, 2003
Series A Preferred Stock		5,567,027		5,567,027
Common Stock	39,430,732	4,411,770	28,496,047	4,411,770
Total	39,430,742	9,978,797	28,496,047	9,978,797

Due to net losses in the three and nine months ended September 30, 2004 and 2003, the effect of the potential common shares resulting from convertible promissory notes payable, convertible debentures, stock options and warrants in those years was excluded, as the effect would have been anti-dilutive.

RECENT ACCOUNTING PRONOUNCEMENTS

In May 2003, the FASB issued SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity (SFAS 150). SFAS 150 requires certain financial instruments that embody obligations of the issuer and have characteristics of both liabilities and equity to be classified as liabilities. The provisions of SFAS 150 are effective for financial instruments entered into or modified after May

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31, 2003 and to all other instruments that exist as of the beginning of the first interim financial reporting period beginning after June 15, 2003. The adoption of this statement did not have any impact on the Company's consolidated financial statements.

In January 2003, the FASB issued FASB Interpretation No. 46, "Consolidation of Variable Interest Entities - An Interpretation of Accounting Research Bulletin (ARB) No. 51 (FIN 46)" and amended the Interpretation in December 2003. This interpretation clarifies how to identify variable interest entities and how a company should assess its interests in a variable interest entity to decide whether to consolidate the entity. The Company does not have any ownership in variable interest entities.

Table of Contents

NOTE 4 OPERATING AND LIQUIDITY DIFFICULTIES AND MANAGEMENT'S PLANS TO OVERCOME

The accompanying consolidated financial statements of the Company have been prepared on a going concern basis, which contemplates the continuation of operations, realization of assets and liquidation of liabilities in the ordinary course of business. Since its inception, the Company has incurred substantial operating losses and expects to incur additional operating losses over the next several years. Operations have been financed primarily through the use of proceeds from equity financings, loans including loans from Arch Hill Capital and other related parties, loans from silent partners and bank borrowings secured by assets. Continuation of the Company's operations in 2004 is dependent upon obtaining further financing from either Arch Hill Capital or other related parties, continued bridge financing from Arch Hill Capital or a new debt or equity financing. These conditions raise substantial doubt about the Company'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

Over the past four years, the Company has refocused its unique extrusion-based manufacturing process, cell technology, large battery assembly expertise, and market activities to concentrate on large-format, high rate battery applications. The Company's commercialization efforts are focused on applying its lithium-ion rechargeable batteries in the national security, transportation and stationary power markets.

The Company's operating plan seeks to minimize the Company's capital requirements, but commercialization of the Company's battery technology will require additional capital. The Company expects that technology development and operating and production expenses will increase significantly as the Company continues to advance its battery technology and develop products for commercial applications.

Effective April 1, 2003, a 20% salary reduction was implemented for all employees of LTC at the GAIA USA unit. The reduced salaries are to be repaid by the Company if a third party debt or equity financing of at least \$3,000,000 in gross proceeds is closed by the Company by December 31, 2004. Salary reduction deferrals of \$177,000 had been accrued in the financial statements as of December 31, 2003. Upon the completion of the January 2004 debenture financing, the Company reinstated the base salary of each employee to 100% of the base salary in effect on March 31, 2003.

Although Arch Hill Capital has been providing funding to the Company under a Bridge Financing Agreement since December 2001, (see Note 9), there can be no assurance that funding will continue to be provided by Arch Hill Capital in the amounts necessary to meet all the Company's obligations until the closing of a third party debt or equity financing or that the Company will be able to consummate such a financing.

On January 22, 2004, the Company sold \$2,000,000 of 10% Convertible Debentures Due 2006 with warrants to purchase up to 1,000,000 shares of LTC common stock. (See Note 9).

From August 30, 2004, through September 30, 2004, the Company issued \$4,065,000 of securities in a private placement consisting of \$520,000 of A Units for cash, \$1,705,000 of A Units for debt and \$1,840,000 of B Units for debt. Subsequent to September 30, 2004, the Company issued additional A Units for cash in the private placement. No assurance can be given that the Company will be successful in completing this or any other financing. See Notes 10, 12 and 13.

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The Company is currently seeking sources of additional financing, in the form of equity financing, to provide the additional capital in order to fund its current operations, scale-up its production capabilities to take advantage of near-term market opportunities, expand its scope of operations and pursue its business strategy. The Company believes that if it raises approximately \$10,000,000 to \$12,000,000 in an equity financing, it would have sufficient funds to meet its operating and capital expenditure needs for at least twelve months. If the Company is unsuccessful in completing its current private placement or another financing, it will not be able to fund its current expenses or pursue its business strategy and the Company will assess all available alternatives including a sale of its assets or merger, a restructuring, the suspension of operations and possibly liquidation, auction, bankruptcy, or other measures.

Table of Contents**NOTE 5 RECEIVABLE FROM RELATED PARTY**

The Company has a receivable from Tamarchco GmbH (Tamarchco), a 100% owned subsidiary of Arch Hill Capital, of \$2,296,000 in principal. The receivable bears interest at 7% per annum. Tamarchco used the proceeds for investing in a silent partnership participation in GAIA for an equal amount (refer to Note 10) under identical terms. The receivable at September 30, 2004 includes accrued interest of \$1,027,000. Under the existing agreement, the principal including accumulated interest is due on December 31, 2008. These amounts are included in due from related parties in the accompanying financial statements.

NOTE 6 PROPERTY AND EQUIPMENT

Property and equipment at September 30, 2004 and December 31, 2003 is summarized as follows:

	September 30	December 31
	<u> </u>	<u> </u>
Land and buildings	\$ 2,719,000	\$ 2,779,000
Technical and laboratory equipment	6,170,000	4,889,000
Asset under construction and equipment deposit	11,000	301,000
Office equipment and other	554,000	513,000
	<u>9,454,000</u>	<u>8,482,000</u>
Less: Accumulated depreciation and amortization	(3,436,000)	(2,847,000)
	<u>\$ 6,018,000</u>	<u>\$ 5,635,000</u>

Assets under construction at September 30, 2004 included equipment being constructed that was not yet placed into service.

NOTE 7 INTANGIBLES

Intangibles at September 30, 2004 and December 31, 2003 are summarized as follows:

	September 30	December 31
	<u> </u>	<u> </u>
Patents	\$ 10,166,000	\$ 10,133,000
Less: Accumulated amortization	(1,676,000)	(1,049,000)
Total	<u>\$ 8,490,000</u>	<u>\$ 9,084,000</u>

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Intangibles consist primarily of amounts relating to the core patented technology of LTC, as determined by an independent valuation, in connection with the allocation of the excess purchase price resulting from the Share Exchanges (see Note 2). Intangibles also include patents held by GAIA Holding.

Estimated future amortization expense on intangible assets for the next five years at December 31, 2003 is approximately \$840,000 per year.

Table of Contents

NOTE 8 NOTES PAYABLE

On February 23, 2004, the balance of a note payable of \$63,000 principal amount was paid in full. As of September 30, 2004, the Company has no notes payable.

NOTE 9 CONVERTIBLE DEBT SECURITIES

Convertible debt securities are comprised of bridge notes held by Arch Hill Capital and 10% Convertible Debentures Due 2006 held by an investment group and Arch Hill Capital.

BRIDGE NOTES

The bridge notes were issued under a Bridge Financing Agreement, as amended, between LTC and Arch Hill Capital (the Bridge Financing Agreement). All amounts outstanding under the Bridge Financing Agreement through April 13, 2004 were converted to Company securities on April 13, 2004, pursuant to a Debt Exchange Agreement between the Company, GAIA Holding, GAIA, Arch Hill Capital and Arch Hill Ventures (the April Bridge Exchange).

In the April Bridge Exchange, \$1,587,375 of bridge notes held by Arch Hill Capital and issued by the Company in 2002 were exchanged for \$1,587,375 of the Company 10% Convertible Debentures Due 2006 (April 2004 debentures) and warrants to purchase up to 793,688 shares of the Company common stock exercisable at \$2.00 per share. \$1,412,625 of bridge notes held by Arch Hill Capital and issued by the Company in 2003 were exchanged for \$1,412,625 of April 2004 debenture and warrants to purchase up to 706,312 shares of the Company common stock exercisable at \$2.00 per share. \$5,459,502 of bridge notes issued in 2003 and \$918,159 of bridge notes issued by the Company from January 1, 2004 through April 13, 2004 and \$323,284 of interest on the bridge notes issued in 2003 and 2004 were exchanged for 6,069,697 shares of the Company common stock and warrants to purchase up to 10,500,000 shares of the Company common stock exercisable at \$2.40 per share.

During the period April 14, 2004 to June 30, 2004, Arch Hill Capital advanced \$2,241,000 to the Company under the Bridge Financing Agreement. During the period July 1, 2004, to August 30, 2004, Arch Hill Capital advanced \$1,064,000 to the Company under the Bridge Financing Agreement. On August 30, 2004, Arch Hill Capital exchanged \$3,545,000 of bridge notes for \$1,705,000 of A Units and \$1,840,000 of B Units. (See Note 12).

From the period August 31, 2004 to September 30, 2004, no funds were advanced to the Company by Arch Hill Capital under the Bridge Financing Agreement.

The Bridge Financing Agreement does not contain a maximum of the amount of funding that may be advanced under such Agreement. The amount of any additional notes provided will be related to the working capital advances made by Arch Hill Capital to the Company.

APRIL 2004 10% CONVERTIBLE DEBENTURES

The April 2004 debentures have a maturity date of April 13, 2006 at which time the principal amount and all accrued interest on the April 2004 debentures is due and payable. Interest payments on the April 2004 debentures are due and payable in cash, or at the option of Arch Hill Capital, in Company common stock at a price equal to the conversion price of our common stock as described below. Interest is due quarterly commencing September 30, 2004. Any amount of principal or interest on the April 2004 debentures which is not paid when due bears interest at 15% per annum from the due date of such payment default.

The April 2004 debentures are convertible at any time at the option of the holder into shares of Company common stock. The conversion price of Company common stock used in calculating the number of shares issuable upon conversion, or in payment of interest on the April 2004 debentures, is the lesser of:

50% of the average of the lowest three trading prices of our common stock for the twenty trading days ending one trading day prior to the date the Company receives a conversion notice from a 10% debenture holder; and

a fixed conversion price of \$2.00.

Table of Contents

The Company has the right to prepay all or a portion of the outstanding April 2004 debentures and accrued and unpaid interest upon prior written notice to the holders of the April 2004 debentures in an amount equal to 130% of principal and interest for prepayments occurring from April 13, 2004 through June 12, 2004, 140% for prepayments of principal and interest occurring from June 13, 2004 through July 12, 2004 or 150% for prepayment of principal and interest occurring after July 12, 2004.

In the debt exchange, the Company issued warrants to Arch Hill Capital to purchase 1,500,000 shares of Company common stock at an exercise price of \$2.00 per share and warrants to purchase 10,500,000 shares of Company common stock at \$2.40 per share.

The warrants issued to Arch Hill Capital expire on April 13, 2009. The warrants are subject to exercise price adjustments upon the occurrence of certain events including stock dividends, stock splits, mergers, reclassifications of stock or our recapitalization. The exercise price of the warrants is also subject to reduction if the Company issues any rights, options or warrants to purchase shares of Company common stock at a price less than the market price of Company shares as quoted on the OTC Bulletin Board, subject to certain exceptions. Also, if at any time, the Company declares a distribution or dividend to the holders of Company common stock in the form of cash, indebtedness, warrants, rights or other securities, the holders of the warrants are entitled to receive the distribution or dividend as if the holder had exercised the warrant.

The above formula resulted in the debentures and warrants being issued with an embedded beneficial conversion feature. Accordingly, pursuant to EITF Abstracts Issue No. 98-5, the Company has allocated \$3,000,000 of the proceeds received to additional paid in capital based on the intrinsic value of the embedded beneficial conversion feature. \$1,530,000 of the discount resulting from this allocation was recognized as interest expense as of April 13, 2004 (the date of issuance), which is the earliest date of conversion. The remainder of \$1,470,000, which represents the fair value of the warrants, will be recognized as interest over the two year life of the debentures.

JANUARY 2004 - 10% CONVERTIBLE DEBENTURES

On January 20, 2004, the Company entered into a securities purchase agreement with an investment group to purchase \$2,000,000 of the Company's 10% Convertible Debentures Due 2006 (the January 2004 debentures) with attached warrants to purchase up to 1,000,000 shares of LTC common stock. On January 22, 2004 the Company closed the convertible debenture financing.

The January 2004 debentures have a maturity date of January 20, 2006. Interest payments on the January 2004 debentures are due and payable in cash, or at the option of the January 2004