

LITHIUM TECHNOLOGY CORP
Form 10QSB
August 29, 2008

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 March 31, 2007

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)

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DELAWARE
(State or Other Jurisdiction of

13-3411148
(I.R.S. Employer

Incorporation or Organization)

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)

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

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

August 28, 2008, 670,924,782 shares of common stock.

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

SEC2334(9-05) **Persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a current valid OMB control number.**

EXPLANATORY NOTE

The Staff of the Division of Corporation Finance of the Securities and Exchange Commission (the SEC) has granted the Company's request to file its quarterly results for the quarters ended March 31, 2006 and March 31, 2007 together in this Report in lieu of two separate filings on Form 10-QSBs. This Report amends and supersedes in its entirety the March 31, 2006 Form 10-QSB that was filed by the Company with the SEC on May 22, 2006.

LITHIUM TECHNOLOGY CORPORATION AND SUBSIDIARIES

FORM 10-QSB

FOR THE QUARTERS ENDED MARCH 31, 2007 AND 2006

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

LITHIUM TECHNOLOGY CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2007 (unaudited)	December 31, 2006 (audited)	March 31, 2006 (unaudited)
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	\$ 308,000	\$ 1,976,000	\$ 164,000
Accounts receivable	566,000	172,000	500,000
Inventories	1,812,000	1,882,000	881,000
Prepaid expenses and other current assets	175,000	200,000	288,000
Total current assets	2,861,000	4,230,000	1,833,000
Property and equipment, net	6,006,000	5,844,000	5,367,000
Related party receivables	517,000	516,000	154,000
Other assets	125,000	160,000	120,000
Debt issue costs			142,000
Total assets	\$ 9,509,000	\$ 10,750,000	\$ 7,616,000
LIABILITIES AND STOCKHOLDERS DEFICIT			
CURRENT LIABILITIES:			
Accounts payable	\$ 2,762,000	\$ 1,952,000	\$ 1,562,000
Related party accounts payable	1,419,000	1,388,000	1,224,000
Accrued salaries	80,000	70,000	214,000
Accrued interest	1,521,000	2,172,000	715,000
Current portion of long term debt	15,721,000	13,992,000	10,014,000
Related party debt	5,348,000	4,770,000	4,104,000
Other current liabilities and accrued expenses	1,929,000	1,839,000	898,000
Warrant liability	7,036,000	5,575,000	2,861,000
Total current liabilities	35,816,000	31,758,000	21,592,000
Total liabilities	\$ 35,816,000	\$ 31,758,000	\$ 21,592,000
COMMITMENTS AND CONTINGENCIES			
STOCKHOLDERS DEFICIT			
Total Preferred Stock Authorized 100,000,000 Convertible Preferred stock A, par value \$.01 per share, authorized, issued and outstanding: 1,000 at March 31, 2007, December 31, 2006 and March 31, 2006	1,000,000	1,000,000	1,000,000
Convertible Preferred stock B, par value \$.01 per share, authorized, issued and outstanding: 100,000 at March 31, 2007, December 31, 2006 and March 31, 2006	1,000	1,000	1,000
Convertible Preferred stock C, par value \$.01 per share, authorized 300,000, issued and outstanding: 107,979 at March 31, 2007, 97,635 at December 31, 2006 and 0 at March 31, 2006	1,000	1,000	
Dividends in Arrears	133,000	113,000	53,000
Common stock, par value \$.01 per share, authorized 750,000,000 at March 31, 2007, December 31, 2006 and March 31, 2006 respectively; issued and outstanding 422,994,852, 422,994,852 and 350,230,744 shares at March 31,	4,230,000	4,230,000	3,569,000

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2007, December 31, 2006 and March 31, 2006, respectively.

Additional paid-in capital	85,001,000	83,469,000	72,114,000
Cumulative translation adjustments	(3,598,000)	(3,154,000)	(3,309,000)
Accumulated deficit	(113,075,000)	(106,668,000)	(87,404,000)
Total stockholders' deficit	(26,307,000)	(21,008,000)	(13,976,000)
Total liabilities and stockholders' deficit	\$ 9,509,000	\$ 10,750,000	\$ 7,616,000

See accompanying notes to condensed consolidated financial statements.

LITHIUM TECHNOLOGY CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

	THREE MONTHS ENDED MARCH 31,	
	2007 (unaudited)	2006 (unaudited)
REVENUES		
Products and services sales	\$ 580,000	\$ 523,000
COSTS AND EXPENSES		
Cost of goods sold	983,000	321,000
Engineering, research and development	737,000	743,000
General and administrative	1,253,000	820,000
Sales and marketing	71,000	82,000
Depreciation	224,000	198,000
Amortization		672,000
Total costs and expenses	3,268,000	2,836,000
OTHER INCOME (EXPENSE)		
Interest expense, net of interest income	(636,000)	(337,000)
Interest expense related to amortization of discount on convertible debt	(1,575,000)	(1,706,000)
Change in fair value of warrants	(1,461,000)	3,353,000
Other	(47,000)	(22,000)
Total other income (expense)	(3,719,000)	1,288,000
NET LOSS	\$ (6,407,000)	\$ (1,025,000)
Dividends on preferred shares	(20,000)	(23,000)
NET LOSS TO COMMON SHAREHOLDERS	\$ (6,427,000)	\$ (1,048,000)
OTHER COMPREHENSIVE INCOME (LOSS)		
Currency translation adjustments	(444,000)	1,318,000
COMPREHENSIVE (LOSS)/INCOME	\$ (6,871,000)	\$ 270,000
Weighted average number of common shares outstanding:	945,486,735	568,585,207
Basic and diluted net (loss)/income per share:	\$ (0.01)	\$ 0.00

See accompanying notes to condensed consolidated financial statements.

LITHIUM TECHNOLOGY CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	THREE MONTHS ENDED MARCH 31,	
	2007	2006
CASH FLOW FROM OPERATING ACTIVITIES		
Net loss	\$ (6,407,000)	\$ (1,025,000)
Adjustments		
Depreciation expense	224,000	198,000
Amortization expense		672,000
Loss on sale of property and equipment		30,000
Other non cash		(53,000)
Warrant income/change in fair value	1,461,000	(3,353,000)
Interest expense beneficial conversion feature	1,575,000	1,706,000
(Increase)/decrease in assets		
Inventories	79,000	(299,000)
Accounts receivable	(391,000)	(265,000)
Prepaid expenses and other assets	17,000	24,000
Increase/(Decrease) in liabilities		
Accounts payable & accrued expenses	249,000	108,000
Other current liabilities		(167,000)
Net cash used in operating activities	\$ (3,193,000)	\$ (2,424,000)
CASH FLOW FROM INVESTING ACTIVITIES		
Capital Expenditures	(153,000)	(95,000)
Net cash used in investing activities	\$ (153,000)	\$ (95,000)
CASH FLOW FROM FINANCING ACTIVITIES		
Repayment of debt		(304,000)
Proceeds from borrowing	136,000	1,641,000
Proceeds from equity issuance	1,552,000	1,466,000
Net cash provided by financing activities	\$ 1,688,000	\$ 2,803,000
NET INCREASE (DECREASE) IN CASH	\$ (1,658,000)	\$ 284,000
CURRENCY EFFECTS ON CASH	\$ (10,000)	\$ (166,000)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	1,976,000	46,000
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 308,000	\$ 164,000

See accompanying notes to consolidated financial statements.

LITHIUM TECHNOLOGY CORPORATION AND SUBSIDIARIES

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 considered necessary for a fair presentation have been included. These financial statements should be read in conjunction with the Company's financial statements included in the Company's Annual Reports on Forms 10-KSB filed with the Securities and Exchange Commission for the years ended December 31, 2007 and 2006. Operating results for the interim periods shown in this report are not necessarily indicative of the results for the full year.

NOTE 2 ORGANIZATION, BUSINESS OF THE COMPANY AND LIQUIDITY

In 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, NV, a private company limited by shares, incorporated under the laws of the Netherlands ("Arch Hill Ventures"), which is controlled by Arch Hill Capital NV ("Arch Hill Capital"), a private company limited by shares, incorporated under the laws of the Netherlands (the "Share Exchanges"). In November 2004, Arch Hill Capital and Arch Hill Ventures transferred all LTC securities owned by such entities to Stichting Gemeenschappelijk Bezit GAIA ("Stichting GAIA") and Stichting Gemeenschappelijk Bezit LTC ("Stichting LTC"), entities controlled by Arch Hill Capital.

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 of October 4, 2002.

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 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.

The Company was in the development stage from February 12, 1999 through December 31, 2005. The year 2006 was the first year for which the Company was considered an operating company and was no longer in development stage.

The Company considers itself to have one operating segment. The Company is an early stage 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.

The Company's operating plan seeks to minimize its capital requirements, but the expansion of its production capacity to meet increasing sales and refinement of its manufacturing process and equipment will require additional capital. The Company expects that operating and production expenses will increase significantly. The Company has recently entered into a number of financing transactions (see Notes 7 and 9) and is continuing to seek other financing initiatives. The Company needs to raise additional capital to meet its working capital needs, for the repayment of debt and for capital expenditures. Such capital is expected to come from the sale of securities. The Company believes that if it raises approximately \$14 to \$20 million in debt and equity financings it would have sufficient funds to meet its needs for working capital, repayment of debt and for capital expenditures over the next twelve months to meet expansion plans.

No assurance can be given that the Company will be successful in completing any financings at the minimum level necessary to fund its capital equipment, debt repayment or working capital requirements, or at all. If the Company is unsuccessful in completing these financings, it will not be able to meet its working capital, debt repayment or capital equipment needs or execute its business plan. In such case the Company 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. These conditions raise substantial doubt about the Company's ability to continue as a going concern. The accompanying financial statements do not include any adjustments relating to the recoverability of the carrying amount of recorded assets or the amount of liabilities that might result should the Company be unable to continue as a going concern.

NOTE 3 SIGNIFICANT ACCOUNTING POLICIES

As of March 31, 2007, there have been no material changes to any of our significant accounting policies, except that we adopted Financial Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes-An Interpretation of FASB Statement No. 109* effective January 1, 2007 (see Note 6).

IMPACT OF RECENT ACCOUNTING PRONOUNCEMENTS

Effective January 1, 2007, the Company adopted Financial Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes-An Interpretation of FASB Statement No. 109*. This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The interpretation contains a two-step approach to recognizing and measuring uncertain tax positions accounted for in accordance with SFAS No. 109. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount which is more than fifty percent likely of being realized upon ultimate settlement. The interpretation also provides guidance on derecognition, classification, interest and penalties, and other matters. The adoption did not have an effect on the Consolidated Financial Statements.

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

Over the past six years, we have refocused our unique extrusion-based manufacturing process, cell technology, large battery assembly expertise, and market activities to concentrate on large-format, high rate battery applications. Our commercialization efforts are focused on applying our lithium-ion rechargeable batteries in the national security, transportation and stationary power markets.

Our operating plan seeks to minimize our capital requirements, but expansion of our production capacity to meet increasing sales and refinement of our manufacturing process and equipment will require additional capital. We expect that operating and production expenses will increase significantly as we continue to ramp up our production and continue our battery technology and develop, produce, sell and license products for commercial applications.

We have recently entered into a number of financing transactions (see Notes 7, 9 and 12). We are continuing to seek other financing initiatives. We need to raise additional capital to meet our working capital needs, for the repayment of debt and for capital expenditures. Such capital is expected to come from the sale of securities and debt financing. We believe that if we raise approximately \$14 to \$20 million in debt and equity financings, we would have sufficient funds to meet our needs for working capital and repayment of debt and for capital expenditures over the next twelve months.

No assurance can be given that we will be successful in completing any financings at the minimum level necessary to fund our capital equipment, debt repayment or working capital requirements, or at all. If we are unsuccessful in completing these financings, we will not be able to meet our working capital, debt repayment or capital equipment needs or execute our business plan. In such case 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.

NOTE 5 PROPERTY AND EQUIPMENT

Property and equipment at March 31, 2007, December 31, 2006 and March 31, 2006 is summarized as follows:

Assets under construction included equipment being constructed that was not yet placed into service.

	March 31, 2007 (unaudited)	December 31, 2006 (audited)	March 31, 2006 (unaudited)
Land and buildings	\$ 2,856,000	\$ 2,667,000	\$ 2,672,000
Technical and laboratory equipment	6,807,000	6,706,000	5,914,000
Asset under construction and equipment deposit	477,000	382,000	30,000
Office equipment and other	780,000	753,000	776,000
Less: Accumulated depreciation and amortization	(4,914,000)	(4,664,000)	(4,025,000)

\$ 6,006,000 \$ 5,844,000 \$ 5,367,000

NOTE 6 INCOME TAXES

Dutch tax legislation does not permit a Dutch parent company and its foreign subsidiaries to file a consolidated Dutch tax return. Dutch resident companies are taxed on their worldwide income for corporate income tax purposes at a statutory rate of 35%. No further taxes are payable on this profit unless that profit is distributed. If certain conditions are met, income derived from foreign subsidiaries is tax exempt in the Netherlands under the rules of the Dutch participation exemption. However, certain costs such as acquisition costs and interest on loans related to foreign qualifying participations are not deductible for Dutch corporate income tax purposes, unless those cost are attributable to Dutch taxable income. When income derived by a Dutch company is subject to taxation in the Netherlands as well as in other countries, generally avoidance of double taxation can be obtained under the extensive Dutch tax treaty network or Dutch domestic law.

For subsidiaries, local commercial and tax legislation contains provisions that may imply more than one treatment for a transaction. Thus, management's judgment of the companies' business activities and transactions may not coincide with the interpretation of the tax authorities. In the event that a particular transaction is challenged by the tax authorities the subsidiaries may incur penalties and taxes on present and past transactions. Management believes that the financial statements adequately reflect the activities of the subsidiaries.

Deferred income taxes reflect the net effects of temporary differences between the amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The breakdown of the deferred tax asset as of

March 31, 2007 is as follows:

	Foreign	Domestic	Total
Tax loss carry forwards	\$ 20,195,000	\$ 18,246,000	\$ 38,441,000
Less valuation allowance	(20,195,000)	(18,246,000)	(38,441,000)
	\$	\$	\$

As a result of the Company's continuing tax losses, the Company has recorded a full valuation allowance against a net deferred tax asset. Additionally, the Company has not recorded a liability for unrecognized tax benefits subsequent to the adoption of FIN 48.

The last nine years remain open to examination by the major taxing jurisdictions to which the Company is subject as a result of not filing tax returns for certain of those years.

NOTE 7 DEBT

	March 31, 2007	December 31, 2006	March 31, 2006
Current debt is summarized as follows:			
March 2005 12% Convertible Deb., net of discount	\$	\$	\$ 2,000,000
October 2005 8% Debenture, net of discount	3,000,000	1,425,000	3,000,000
June 2005 12% Debenture			1,350,000
Portfolio Lenders II, LLC Convertible Note			200,000
8 % Convertible Note			47,000
2006 GAIA and Dilo Debt Financing	10,002,000	9,910,000	
May 2006 12% Convertible Debenture, net of discount	500,000	500,000	
Loans From Financial Institutions	174,000	130,000	1,565,000
Silent Partner loans-TBG	2,045,000	2,027,000	1,852,000
<i>Sub total current debt</i>	\$ 15,721,000	\$ 13,992,000	\$ 10,014,000
Related party debt:			
Subordinated Loans from related party	\$ 5,243,000	\$ 4,665,000	\$ 4,044,000
Promissory Notes	105,000	105,000	60,000
<i>Sub total Related party debt</i>	\$ 5,348,000	\$ 4,770,000	\$ 4,104,000

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Warrant liability	\$ 7,036,000	\$ 5,575,000	\$ 2,861,000
<i>Total current Debt</i>	\$ 28,105,000	\$ 24,337,000	\$ 16,979,000

MARCH 2005 12% DEBENTURE

On March 11, 2005, the Company entered into a debenture purchase agreement with a third party lender, pursuant to which the Company issued debentures in the principal amount of \$2,500,000. Pursuant to an amendment dated January 31, 2006, the original maturity date of June 15, 2006 was amended to December 31, 2006 and the original interest rate of 12% per year was amended to 15% per year effective as of October 15, 2005. No monthly payments of principal or interest are due and owing by the Company prior to December 31, 2006.

In connection with the debenture purchase agreement, the Company entered into an escrow agreement under which put notices under the standby equity distribution agreement were deposited and certain monies received under that agreement will be received and forwarded to the debenture holder if the Company does not repay the debenture from other sources of capital. As of March 31, 2006, \$2,000,000 in principal of the debentures is outstanding.

On December 8, 2006, the Company entered into an amendment to the debenture, in the original principal amount of \$2,500,000, to provide that the \$2,000,000 remaining principal and accrued interest payable on the debenture may be converted into shares of Company common stock at such times as shares of the Company common stock are available for conversion of such debenture. The amendment further provided that until such time as Company common stock is available for conversion, the debenture may be converted into shares of the Company's Series C Preferred Stock which are convertible into shares of Company common stock. On December 8, 2006, the holders of the debenture converted \$2,344,800 of principal and accrued interest into 73,275 shares of the Company's Series C Preferred Stock. See Note 9 below for a description of the Company's Series C Preferred Stock. Per EITF 00-27, the maximum discount recorded upon the amendment of the debenture was up to the face value of the converted note, therefore, the value of the beneficial conversion of \$2,000,000 was recorded as a discount upon amendment with the offset to additional-paid-in capital. On the same day, upon the conversion of the note, the Company recorded an interest expense related to beneficial conversion feature of \$2,000,000. On March 31, 2006 the balance of the debenture was \$2,000,000. On December 31, 2006 and March 31, 2007 no amount was due under this debenture.

OCTOBER 2005 8% DEBENTURE (CORNELL CAPITAL)

On October 7, 2005, the Company entered into a Securities Purchase Agreement with Cornell Capital pursuant to which the Company issued convertible debentures in the principal amount for \$3,000,000, with an original maturity date of October 1, 2006. The debentures are convertible at the option of Cornell Capital any time up to maturity at a conversion price equal to \$0.06 per share. The debentures have a one-year term and accrued interest at 8% per year. Interest and principal payments on the debenture were to commence on January 1, 2006 and end on October 1, 2006. The debenture was issued with five-year warrants to Cornell Capital to purchase 20,000,000 shares of common stock at the following exercise prices: 10,000,000 at \$0.06 per share 5,000,000 at \$0.07 per share and 5,000,000 at \$0.10 per share. The terms of the Cornell Capital debenture were subsequently amended as described in Note 11.

The Company entered into a Pledge and Escrow Agreement pursuant to which the Company agreed to issue to Cornell Capital shares of common stock in the event of default under the debenture as security for its obligations there under. The Company also granted Cornell Capital a security interest in the assets of LTC. In the event of default, Cornell Capital, in addition to any other remedies, may convert any or all of the outstanding principal of the debentures into common stock at a fixed conversion price equal to \$0.0128 per share (234,375,000 shares). As of December 31, 2005, the Company has 250,000,000 shares of common stock pledged under this Agreement.

The Cornell Capital debenture was recorded using the guidance of EITF No. 00-27, Application of Issue No. 98-5 to Certain Convertible Instruments, which involved allocation of the proceeds received between the convertible debenture and the warrants issued to the debenture holder. The Company measured the intrinsic value of the embedded conversion option using guidance of EITF No. 98-5, Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios. The value of the beneficial conversion was recorded as a discount on the debt with the offset to additional-paid-in capital and has been amortized to interest expense using the effective interest method.

The Company determined that the warrants issued to the debenture holder qualified for classification as a liability under EITF 00-19, Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock. The Company measured the fair value of the warrants at issuance and subsequently at each year end using the Black-Scholes option-pricing model with changes in fair value recognized in earnings. The value of the warrants is recorded as a liability with the offset in warrant expense.

The default penalty put option of the Cornell Capital debenture qualified for accounting as a derivative under the guidance of FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*, paragraph 61(d) and DIG Issue B-16. As the likelihood of the occurrence of a default payment is remote, the value of the derivative liability is determined to be zero.

On January 31, 2006, the Company entered into an amendment of the 8% debenture held by Cornell Capital (the *First Amendment*) which provided that all payments of principal and accrued interest on the debenture otherwise due on or before March 15, 2006 were due on March 15, 2006. The First Amendment also provided that in the event the Company closes on any debt or equity financing, the Company must use fifty percent of the proceeds of the new financing (net of placement fees and commissions) to repay principal and interest outstanding under the debenture.

The First Amendment further provided that in the event the Company did not repay all outstanding principal and accrued interest on the debenture on March 15, 2006, (i) the Company must repay \$900,000 of principal and accrued interest on March 15, 2006 and repay the balance of the outstanding principal and interest on the debenture over seven equal payments commencing April 1, 2006 until October 1, 2006, and (ii) the exercise price of the 20,000,000 Warrants issued to Cornell Capital in connection with the debenture would be reduced to \$0.0128 on a pro-rata basis in relation to the amount of principal of the debenture not repaid by the Company as of March 15, 2006.

The First Amendment also provided that at any time prior to March 15, 2006 the Company could at its option with three business days advance written notice redeem a portion or all amounts outstanding under the debenture in an amount equal to the principal amount outstanding and accrued interest being redeemed. No redemption premium was due by the Company for redemption of the debenture prior to March 15, 2006. The debenture was not convertible from January 31, 2006 through March 15, 2006 provided the Company was current on its payment obligations under the debenture. In consideration of the First Amendment of the debenture and related agreements, the Company paid Cornell Capital a fee of \$100,000. As of March 15, 2006, \$3,000,000 in principal plus accrued interest was outstanding on the debenture. At the time of the Amendment the Company expensed approximately \$1.7 million as beneficial conversion expense related to the original Debenture.

On March 21, 2006, the Company entered into a second amendment with Cornell Capital (the *Second Amendment*) whereby the Company amended the following provisions of the debenture. All payments of principal and accrued interest on the debenture otherwise due on or before March 15, 2006 are due on June 15, 2006. In the event the Company closes on any debt or equity financing the Company must use fifty percent (50%) of the proceeds of the new financing (net of placement fees and commissions) to repay principal and interest outstanding under the debenture. In the event the Company does not repay all outstanding principal and accrued interest on the debenture on June 15, 2006, the Company must repay \$1,800,000 of principal and accrued interest on June 15, 2006 and repay the balance of the outstanding principal and interest on the debenture over four equal monthly payments commencing July 1, 2006 until October 1, 2006. The Second Amendment further provides that debentures are convertible from March 21, 2006 with four business days advance written notice (the *Advance Conversion Notice*) after June 15, 2006 the debentures are convertible without delivery of an Advance Conversion Notice. The conversion price of the debenture is reduced from \$0.06 to \$0.03 per share as of March 21, 2006, provided, however, if there is an Event of Default under the debenture the conversion price will be reduced to \$0.0128. At any time from March 21, 2006, including after receipt of an Advance Conversion Notice and before the expiration of the four business day advance notice period, the Company may, at its option, redeem a portion or all amounts outstanding under the debenture in an amount equal to the principal amount outstanding and accrued interest being redeemed and a payment of a premium by the Company equal to fifteen percent (15%) of the redemption amount subject to two (2) business days advanced written notice for any redemption on or before June 15, 2006 and subject to three (3) business days advanced written notice for any redemption after June 15, 2006. In the Second Amendment, the Company amended the Warrants issued to Cornell Capital in connection with the debenture as follows. The Warrants will be exercisable to purchase an additional 20,000,000 shares of common stock for a total of 40,000,000 shares. The exercise price of the 40,000,000 warrant shares is \$0.03 per share, provided, however that in the event the Company does not repay all outstanding principal and accrued interest on the debenture on June 15, 2006, then on June 15, 2006 the exercise price of the Warrants will be reduced to \$0.0128 on a pro-rata basis in relation to the amount of principal of the debenture not repaid by the Company as of June 15, 2006.

In the Second Amendment the Company amended the provision that was contained in the Registration Rights Agreement, as amended, entered into in connection with the debenture. The Company must file an amendment to the registration statement covering the shares of common stock issuable upon conversion of the debenture and Warrants with the Securities and Exchange Commission by April 20, 2006.

On November 9, 2006, the Board of Directors of the Company approved a third letter of amendment with Cornell Capital effective as of October 31, 2006 (the Third Amendment) whereby the Company amended the following provisions of the Secured Debenture and the Warrants. All payments of principal and accrued interest on the Secured Debenture otherwise due on or before March 15, 2006 are due on or before March 1, 2007. The conversion price at which Cornell Capital may convert the outstanding principal and interest due to Cornell Capital under the Secured Debenture into shares of the Company s common stock is reduced to \$0.0128. The Warrants are amended to provide that the exercise price is reduced to \$0.0128 per share. The balance due and owing under the Secured Debenture as of October 31, 2006 was \$3,257,096. The Company recorded approximately \$2.3 million as discount on the Debenture as a result of the Third Amendment. The Company expensed approximately \$744,000 as beneficial conversion expense during the Fourth Quarter of 2006. In the Third Amendment the Company also agreed to pay Cornell Capital a forbearance fee of \$375,000. The Third Amendment also provides that: (i) the Company shall become current by February 1, 2007 on its required SEC periodic reporting filings; (ii) the Company shall obtain listing on the Over the Counter Bulletin Board (the OTC BB) by March 1, 2007; (iii) the Company shall seek and receive an extension or deferral, in writing by December 15, 2006, of its obligation to repay the approximately \$9.5 million in debt due in December 2006, until March 1, 2007; and (iv) Cornell Capital may not exercise its right to conversion under the Secured Debenture unless (a) the price of the Company s common stock is equal to or greater than \$0.03 per share; or (b) the Company breaches any condition or requirement under the Third Amendment.

On May 30, 2007 the Company entered into a further letter agreement with Cornell (the Letter Agreement). The Letter Agreement provided for the conversion by Cornell of \$288,722 of the principal of the Debenture into 22,556,385 restricted shares of the Company and the repayment by the Company of the balance due of principal and interest owing to Cornell under the Debenture (after taking into account the Conversion). Upon the Conversion by Cornell and the Repayment by the Company, no amounts were outstanding under the Debenture and Cornell agreed to release its security interest and return 250,000,000 shares of the Company s common stock that were pledged as security for the Debenture. In the Letter Agreement Section 3(a)(ii)(A) of the Debenture, which limited Cornell s ownership of the Company s common stock to 4.9% of the Company s outstanding shares, was deleted in its entirety.

As of March 31, 2006, December 31, 2006 and March 31, 2007 the amount outstanding under this debenture was \$3,000,000. As of March 31, 2007, December 31, 2006 and March 31 2006, the Company has warrant liability for the debenture holder s warrants of \$1,567,000, \$1,175,000 and \$370,000, respectively.

The October 2005 Debenture was settled in five tranches in May and June of 2007. Settlement of the debenture consisted of issuance of a total of 77,228,495 shares of common stock and payment of \$2,011,475 plus approximately \$770,000 cash payment of accrued interest.

The Company recorded the conversions by debiting the note payable and crediting the common stock at par value with the balance of the credit recorded in additional paid in capital. The Company applied the accounting guidance of SFAS 140 Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities A Replacement of FASB Statement 125 to account for the settlement of the transaction.

JUNE 2005 12% DEBENTURES

On June 9, 2005, the Company entered into a Debenture Purchase Agreement with an investor, pursuant to which the Company issued \$1,200,000 of convertible debentures and \$150,000 of convertible debentures as compensation for the transaction (together, the 12% Debentures). The 12% Debentures had a two year term and accrued interest at 12% per year payable in arrears in shares of Company stock at the conversion price at conversion or maturity.

Commencing on December 9, 2005 until June 9, 2007, the 12% Debentures were convertible at the option of the holder into shares of Company common stock at a conversion price equal to \$0.05 per share. The 12% Debentures were not repayable in cash and would be automatically converted into shares of Company common stock at maturity at the conversion price. In no event was the holder entitled to convert the debentures for a number of share of Company common stock in excess of that number of shares of common stock which, upon giving effect to such conversion, would cause the aggregate number of shares of common stock beneficially owned by the holder and its affiliates to exceed 4.99% of the outstanding shares of Company common stock following such conversion (unless the holder provides the Company with sixty five (65) days prior written notice that this provision shall not apply).

The 12% Debenture holder received 4,532,836 warrants to purchase Company common stock at exercise prices ranging from \$0.66 to \$0.024 per share. The warrants were originally issued to the finder in the January 2004 debenture financing and subsequently transferred to the 12% Debenture holder. The warrants are exercisable until January 20, 2009.

The Company determined that the 12% Debentures meet the characteristics for classification as a liability. The 12% Debentures were recorded using the guidance of EITF No. 00-27, *Application of Issue No. 98-5 to Certain Convertible Instruments*. The Company measured the intrinsic value of the embedded conversion option using guidance of EITF No. 98-5, *Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios*. The value of the beneficial conversion was recorded as discount with the offset to additional-paid-in capital. As of December 31, 2005 the debentures outstanding amount was \$1,350,000. The notes were converted in the third quarter of 2006. The principal amount plus accrued interest owed under the 12% Debentures as of March 31, 2006, December 31, 2006 and March 31, 2007 was \$1,350,000 plus \$131,000 of accrued interest, \$0 plus \$196,000 and \$0 plus \$196,000 of interest accrued, respectively.

LOANS FROM FINANCIAL INSTITUTIONS

GAIA has two loans from financial institutions, which totaled \$174,000, \$130,000 and \$1,565,000 as of March 31, 2007, December 31, 2006 and March 31, 2006 respectively that are collateralized by the assets of the Company and bear European commercial standard rates.

2006 GAIA AND DILO DEBT FINANCING

On July 14, 2006, GAIA and Dilo Trading AG (*Dilo Trading*), subsidiaries of the Company, closed bridge financings with a European lender for a total of Euros 7.5 million (approximately \$9.5 million upon issuance). The loan principal and accrued interest is due and payable on December 31, 2006. The loans are secured by a pledge of all of the assets of GAIA and Dilo Trading. The nonconvertible note bears an annual interest of 20%.

A portion of the proceeds was used to repay the mortgage on the GAIA facility in Nordhausen, Germany and to repay existing loans on GAIA equipment. The remaining proceeds were used for the purchase of machinery and equipment to increase the production of lithium-ion cells and batteries in Germany, for working capital and partial repayment of debt.

As of March 31, 2006, December 31, 2006 and March 31, 2007 the amount outstanding under this debenture was \$0, 9,910,000 and \$10,002,000, respectively.

MAY 2006 12% CONVERTIBLE DEBENTURE

On May 4, 2006, the Company sold \$500,000 of equity units (the *2006 Units*) in a private placement. The 2006 Units consist of (i) a 12% convertible debenture in the principal amount of \$500,000 (the *12% Debentures*), (ii) 500,000 warrants to purchase Company common stock at an exercise price of \$0.20 per share (the *0.20 Warrants*), (iii) 500,000 warrants to purchase Company common stock at an exercise price of \$0.25 per share (the *0.25 Warrants*), (iv) 1,000,000 warrants to purchase \$0.10 per share (the *0.10 warrants*), and (v) 250,000 warrants to purchase Company common stock at an exercise price equal to the Conversion Price (as defined below) of the 12% Debentures (the *Conversion Price Warrants*). The 12% Debentures are entitled to receive a 12% annual interest payment payable semi-annually at the option of the Company in cash or shares of Company common stock valued at the then applicable conversion price of the 12% Debentures on June 30 and December 31 of each year beginning on December 31, 2006 or at the time of conversion of the principal to which such interest relates.

The holder of the 12% Debentures has the right after November 4, 2006 to convert the 12% Debentures at a conversion price then in effect as per the agreement.

The Company determined that the May 2006 12% Debentures meet the characteristics for classification as a liability. The debenture was recorded using the guidance of EITF No. 00-27, *Application of Issue No. 98-5 to Certain Convertible Instruments*. The Company measured the intrinsic value of the embedded conversion option using guidance of EITF No. 98-5, *Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios*. The value of the beneficial conversion, approximately \$300,000, was recorded as a discount upon issuance with the offset to additional-paid-in capital.

The \$0.20 Warrants, \$0.25 Warrants and \$0.10 Warrants are exercisable for a period of five years commencing on November 4, 2007. The Conversion Price Warrants are exercisable by the Debentureholder for a period of five years commencing on or after the date subsequent to November 4, 2007 on which all of the Debentures have been converted. On the date of issuance, the Company recorded a warrant liability of \$59,991. As of March 31, 2007, the Company has warrant liability for the above warrants of \$78,000.

The 2006 Unitholder has the following registration rights with respect to the shares of common stock into which the Debentures are convertible and warrants are exercisable. The Company has agreed to file with the SEC a registration statement covering the underlying shares of common stock on or before the 90th day after the last closing of the sale of 2006 Units and to use its best efforts to have the registration statement declared effective within 60 days of filing. No registration statement has been filed to date.

As of March 31, 2006, December 31, 2006 and March 31, 2007 the amount outstanding under this debenture was \$0, \$500,000 and \$500,000, respectively.

SILENT PARTNERSHIP LOANS-NON-RELATED PARTIES

Two other parties have provided silent partnership loans to GAIA. Frankendael Participatiemaatscappij N.V. (Frankendael) has provided a partnership loan, which bears interest at 6% per annum. Technology-Beteiligungs-Gesellschaft GmbH der Deutschen Ausgleichsbank (TBG) has provided a partnership loan, which bears interest at 6% per annum. GAIA is not required to pay the interest under the Frankendael Partnership Agreement until GAIA has generated an accumulated profit amounting to \$4,627,000. The Frankendael Partnership loan was exchanged into Company securities during the fourth quarter 2005 (See Debt Exchange below). The total amount payable to TBG under the Partnership Agreements at March 31, 2007, December 31, 2006 and March 31, 2006 was \$2,045,000, \$2,027,000 and \$1,852,000 respectively.

Frankendael and TBG are entitled to receive an annual 12% share in profits related to its contributions under the Frankendael Partnership Agreement and the TBG Partnership Agreement. The 12% share in profits under the Frankendael Partnership Agreement is not payable until GAIA has generated an accumulated profit amounting to \$4,627,000. The TBG Partnership Agreement provides that should GAIA receive additional injections of capital in the course of further financing rounds, TBG shall adjust its profit sharing to the capital ration applicable at such time. Management believes that based upon subsequent equity received by GAIA that the present profit sharing that TBG is entitled to under the Agreement is approximately 4.4 %. Management further believes that it is unlikely that Frankendael or TBG will receive any profit sharing under the Partnership Agreement at any time in the near future.

From March 8, 2005 under the TBG Partnership Agreement, TBG is entitled to demand a non-recurrent remuneration of 30% of the amount invested plus 6% of the amount invested at the end of the period of participation for each year after the expiration of the fifth full year of participation under certain circumstances relating to the economic condition of GAIA. The Frankendael Partnership Agreement and the TBG Partnership Agreement each terminates in December 2008, unless terminated prior to such time for good cause as defined in the applicable partnership agreement.

The principal, accrued and unpaid interest, and unpaid profits, if any are due on the termination of the Frankendael Partnership Agreement and the TBG Partnership Agreement.

SUBORDINATED LOANS FROM RELATED PARTY

GAIA has received subordinated loans from Arch Hill, a related party, which totaled \$5,243,000, \$4,665,000 and \$4,044,000 as of March 31, 2007, December 31, 2006 and March 31, 2006. The loans bear cumulative interest at 6% per annum. Under the subordinated loan agreement (the Subordinated Loan Agreement) terms, the loans can be called when GAIA does not have negative stockholders equity. The loans are subordinated to all other creditors of GAIA.

BRIDGE NOTES

At various times during 2004, Arch Hill Capital advanced a total of \$3.5 million to LTC under the Bridge Financing Agreement. The Company had \$385,000 of Bridge Notes outstanding at December 31, 2005 which were classified under related party debt on the Company s Consolidated Balance Sheet. On March 27, 2006 the Company repaid \$325,000 out of the outstanding debt to Arch Hill under the Bridge Notes.

As of March 31, 2007, December 31, 2006 and March 31, 2006, the outstanding debt was \$105,000, \$60,000 and \$60,000. As of March 31, 2007, December 31, 2006 and March 31, 2006, the accumulated accrued interest was \$124,000, \$124,000 and \$324,000, respectively.

NOTE 8 COMMITMENTS AND CONTINGENCIES

BUILDING LEASE

The Company leases a 12,400 square foot research facility and corporate headquarters in a freestanding building at 5115 Campus Drive in Plymouth Meeting, Pennsylvania pursuant to a Lease Agreement dated July 22, 1994, as amended, between PMP Whitemarsh Associates and the Company. On March 31, 2007, the Company entered into an amendment to the Lease Agreement with PMP Whitemarsh Associates for the Plymouth Meeting, Pennsylvania facility. The amendment provides for a one-year lease extension that commenced on April 1, 2007 and ends on March 31, 2008, which subsequently was extended for one more year. The base annual rent under the lease under the amendment is \$165,000. On July 16, 2007 the Company entered into an Agreement of Sublease with Arch Hill N.V. (Arch Hill) for the sublease by the Company of office space in the Netherlands. The Sublease commenced July 16, 2007 and terminates August 1, 2008. The office space will be used by the coordinators of the project and the management of the Company. The monthly payment is \$15,500.

LITIGATION

In November 2006 Haliotis Investments filed a complaint in the United States District Court for the District of Delaware against the Company and other parties, alleging against the Company a violation of Section 10(b) and Rule 10b-5 of the Securities Exchange Act relating to the purported purchase of the Company shares by the plaintiff from Arch Hill Capital, related party of the Company. The parties have reached an agreement and settled this litigation. A stipulation of dismissal of the suit with prejudice was filed with the US District Court in Delaware on January 31, 2008. Under terms of the agreement, the Company's Directors and Officers insurance carrier contributed to the settlement \$300,000 and the Company made no out-of-pocket payment to the plaintiff. The Company was responsible for its own legal fees in this matter.

The Company entered into a Financial Advisory and Investment Banking Agreement with North Coast Securities Corporation (North Coast) dated February 1, 2006. Subsequent to the date of the Agreement North Coast asserted claims for unpaid compensation under the Agreement. Counsel for North Coast have asserted a breach of contract claim against the Company seeking warrants to purchase 500,000 shares of Company common stock with an exercise price of \$0.04 per share and \$10,000 per month for the term of the Agreement for a total of \$120,000. This matter has not been resolved as of the date of this report and on December 31, 2007 a lawsuit was filed in Montgomery County against the Company in this matter. Management asserts that no services were rendered to satisfy any compensation.

From time to time the Company is a defendant or plaintiff in various legal actions which arise in the normal course of business. As such the Company is required to assess the likelihood of any adverse outcomes to these matters as well as potential ranges of probable losses. A determination of the amount of the provision required for these commitments and contingencies, if any, which would be charged to earnings, is made after careful analysis of each matter. The provision may change in the future due to new developments or changes in circumstances. Changes in the provision could increase or decrease the Company's earnings in the period the changes are made. In the opinion of management, after consultation with legal counsel, the ultimate resolution of these matters will not have a material adverse effect on the Company's financial condition, results of operations or cash flows

NOTE 9 STOCKHOLDER S EQUITY

AUTHORIZED SHARES

The Company is authorized to issue 750 million shares of the common stock and 100 million shares of preferred stock. Of the 100 million authorized shares of preferred stock, the Company designated 1,000 shares as Series A Convertible Preferred Stock, which the Company delivered to an investor in the private placement of A Units which concluded in January 2005 and 100,000 shares of Series B Convertible Preferred Stock which the Company delivered to Arch Hill Capital in connection with a debt exchange in October 2005. Additionally, the Company designated 300,000 shares of Series C Convertible Preferred. As of March 31, 2006 and 2007 zero (0) and 107,979 shares of Series C were outstanding, respectively.

SERIES A PREFERRED STOCK

The Company has authorized and outstanding 1,000 shares of Series A Preferred Stock, which were issued on August 1, 2005. The shares of Series A Preferred Stock are entitled to receive an 8% annual cumulative dividend payable in shares of Company common stock at the conversion price of the stock.

The Series A Preferred Stock is convertible at the election of the holder thereof, at any time until November 19, 2007 at a conversion price equal to 80% of the average closing price of Company common stock on the OTC Bulletin Board for the 20 trading days immediately preceding the day upon which the Company receives a conversion notice from the Series A Preferred Stockholder. The Series A Preferred Stock will be automatically converted into Company common stock on November 19, 2007 if not converted by the holder prior to that date.

SERIES B PREFERRED STOCK

The Company has authorized and outstanding 100,000 shares of Series B Convertible Preferred Stock, which were issued on November 14, 2005. The shares of Series B Convertible Preferred Stock are not entitled to receive dividends in shares of the Company's common stock. The 100,000 shares of convertible preferred stock are convertible into an aggregate of 264,103,114 shares of common stock and have voting rights equal to 264,103,114 shares of common stock.

The Series B Convertible Preferred Stock has no mandatory or optional redemption rights, thus, cannot be redeemed for cash. The Series B Convertible Preferred Stock is only convertible into the Company's common stock upon the Company's approval and upon the Company having enough shares of common stock authorized to issue. As the control of the conversion lies with the Company, the holder cannot force conversion, and the stock has no redemption rights, the Series B Preferred Stock is classified in permanent equity on the Company's consolidated balance sheet.

SERIES C CONVERTIBLE PREFERRED STOCK

The Company designated 300,000 of the Company's authorized preferred stock as Series C Preferred Stock in November 2006.

During the first quarter of 2007 the Company closed on the sale of Series C Preferred Stock in several private placement transactions. The Company sold 10,344 shares of Series C Preferred Stock for an aggregate purchase price of \$1,551,617. Each share of Series C Preferred Stock is convertible into 2,500 shares of Company common stock. At a purchase price of \$150 per share of Series C Preferred Stock, the effective purchase price for each underlying share of Company common stock is \$0.06 per share. The Company did not pay any underwriting discounts or commissions in connection with the sale of the Series C Preferred Stock in this transaction. No shares of Series C Preferred Stock were outstanding as of March 31, 2006.

Each share of the Series C Preferred Stock is convertible at the option of the Company thereof into 2,500 shares of Company common stock at any time following the authorization and reservation of a sufficient number of shares of Company common stock by all requisite action, including action by the Company's Board of Directors and by Company stockholders, to provide for the conversion of all outstanding shares of Series C Preferred Stock into shares of Company common stock.

Each share of the Series C Preferred Stock will automatically be converted into 2,500 shares of Company common stock 90 days following the authorization and reservation of a sufficient number of shares of Company common stock to provide for the conversion of all outstanding shares of Series C Preferred Stock into shares of Company common stock.

The shares of Series C Preferred Stock are entitled to vote together with the common stock on all matters submitted to a vote of the holders of the common stock. On all matters as to which shares of common stock or shares of Series C Preferred Stock are entitled to vote or consent, each share of Series C Preferred Stock is entitled to the number of votes (rounded up to the nearest whole number) that the common stock into which it is convertible would have if such Series C Preferred Stock had been so converted into common stock as of the record date established for determining holders entitled to vote, or if no such record date is established, as of the time of any vote on such matters. Each share of Series C Preferred Stock is entitled to the number of votes that 2,500 shares of common stock would have.

In addition to the voting rights provided above, as long as any shares of Series C Preferred Stock are outstanding, the affirmative vote or consent of the holders of two-thirds of the then-outstanding shares of Series C Preferred Stock, voting as a separate class, will be required in order for the Company to:

- (i) amend, alter or repeal, whether by merger, consolidation or otherwise, the terms of the Series C Preferred Stock or any other provision of Company Charter or Bylaws, in any way that adversely affects any of the powers, designations, preferences and relative, participating, optional and other special rights of the Series C Preferred Stock;

(ii) issue any shares of capital stock ranking prior or superior to, or on parity with, the Series C Preferred Stock; or

(iii) subdivide or otherwise change shares of Series C Preferred Stock into a different number of shares whether in a merger, consolidation, combination, recapitalization, reorganization or otherwise.

The Series C Preferred Stock ranks on a parity with the common stock as to any dividends, distributions or upon liquidation, dissolution or winding up, in an amount per share equal to the amount per share that the shares of common stock into which such Series C Preferred Stock are convertible would have been entitled to receive if such Series C Preferred Stock had been so converted into common stock prior to such distribution.

The Series C Preferred Stock has no mandatory or optional redemption rights, thus, cannot be redeemed for cash. The Series C Preferred Stock is only convertible into the Company's common stock upon the Company's approval and upon the Company having enough shares of common stock authorized to issue. As the control of the conversion lies with the Company, the holder cannot force conversion, and the stock has no redemption rights, the Series C Preferred Stock is classified in permanent equity on the Company's consolidated balance sheet. Upon issuance of the Series C Convertible Preferred stock the par value (\$0.01) is credited toward the preferred share class C, and the balance is credited toward additional paid-in capital. For issuances of convertible Preferred Stock with beneficial conversion feature the discount is recognized upon issuance as a debit and a credit to additional paid in capital. The beneficial conversion discount on the Series C Preferred Stock is shown as separate line item in the statement of stockholders' deficit and is reflected on the income statement as an increase of loss applicable to common shareholders.

NOTE 10 SEGMENTS Segment Information

SFAS No. 131, Disclosure About Segments of an Enterprise and Related Information (SFAS 131), defines operating segments as components of an enterprise for which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Based on the way it organizes its business for making operating decisions and assessing performance, the Company has determined that it has two geographical separable reportable operating segments.

Management reviews its Domestic Operations and its European Operations to evaluate performance and resources. Management has aggregated its operations into one industry segment since its Domestic and European Operations are similar and meet the aggregation criteria of SFAS 131, Disclosures about segments of an enterprise and related information .

Geographic information is as follows:

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
Revenues		
Domestic Operations	\$ 376,000	\$ 309,000
European Operations	204,000	214,000
	\$ 580,000	\$ 523,000
Long-lived assets, net		
Domestic Operations	\$ 124,000	\$ 221,000
European Operations	5,882,000	5,146,000
	\$ 6,006,000	\$ 5,367,000

NOTE 11 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. The Company made such determination because: 1) Arch Hill Capital, which controls the Company and some of the preferred shares, has the ability to authorize the necessary shares for conversion; 2) the preferred shares have no significant preferential rights above the common shares; and 3) the preferred shares will automatically convert at a later date upon proper share authorization. As a result, weighted average shares outstanding included in the calculation of basic and diluted net loss per common share for the three months ended March 31, 2007 and 2006 was as follows:

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	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
Series B Preferred Stock	264,103,114	264,103,114
Series C Preferred Stock	258,388,769	
Common Stock	422,994,852	304,482,093
Total	945,486,735	568,585,207

Due to net losses in the three months ended March 31, 2007 and 2006, the effect of the potential common shares resulting from convertible promissory notes payable, stock options and warrants in those years were excluded, as the effect would have been anti-dilutive.

As of March 31, 2007 there are 175,575,524 warrants outstanding with a weighted average exercise of \$0.251.

The Company does not have enough shares of common stock authorized to issue shares of common stock to all holders of its convertible securities upon conversion of such securities. The Company intends to seek stockholder approval of an increase in the authorized number of shares of its common stock to make available that number of shares of common stock as will be required for the conversion of all of the Company's outstanding convertible securities and securities which may be issued as part of a new financing. Although the Company's controlling stockholder has indicated its willingness to vote in favor of an increase in the authorized number of shares of Company common stock, no assurance can be given that the Company will be able to obtain a stockholder vote in favor of such an increase in a timely manner.

NOTE 12 SUBSEQUENT EVENTS

October 2005 8% Debenture

On October 7, 2005, the Company entered into a Securities Purchase Agreement with Cornell Capital Partners, LP (the "Cornell") pursuant to which the Company issued a secured convertible debenture in the principal amount of \$3,000,000 (the "Debenture"), with an original maturity date of October 7, 2006 and issued to Cornell five-year warrants to purchase common stock. The Company and Cornell entered into certain amendment agreements dated January 31, 2006, March 21, 2006, October 31, 2006, March 31, 2007 and April 23, 2007 (the "Amendments"). Pursuant to the April 23, 2007 amendment, the Debenture was repayable on or before July 1, 2007.

On May 30, 2007 the Company entered into a further letter agreement with Cornell (the "Letter Agreement"). The Letter Agreement provided for the conversion by Cornell of \$288,722 of the principal of the Debenture into 22,556,385 restricted shares of the Company and the repayment by the Company of the balance due of principal and interest owing to Cornell under the Debenture (after taking into account the Conversion). Upon the Conversion by Cornell and the Repayment by the Company, no amounts were outstanding under the Debenture and Cornell agreed to release its security interest and return 250,000,000 shares of the Company's common stock that were pledged as security for the Debenture. In the Letter Agreement Section 3(a)(ii)(A) of the Debenture, which limited Cornell's ownership of the Company's common stock to 4.9% of the Company's outstanding shares, was deleted in its entirety.

The October 2005 Debenture was settled in five tranches in May and June of 2007. Settlement of the debenture consisted of issuance of a total of 77,228,495 shares of common stock and payment of \$2,011,475 plus approximately \$770,000 cash payment of accrued interest.

The Company recorded the conversions by debiting the note payable and crediting the common stock at par value with the balance of the credit recorded in additional paid in capital. The Company applied the accounting guidance of SFAS 140 Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities - A Replacement of FASB Statement 125 to account for the settlement of the transaction.

2006 GAIA and Dilo Debt Financing

On July 11, 2007, the European Subsidiaries Debt and accrued interest was satisfied with the payment of Euros 6 million and the issuance of a Company convertible note in the principal amount of U.S. \$3,247,106 (the "Convertible Note"). The Convertible Note is convertible into shares of Company common stock at \$0.10 per share. The Convertible Note accrues interest at 10% per annum and is due and payable on September 1, 2008. The Company has the right to repay the Convertible Note at any time prior to maturity without penalty. The Convertible Note will be secured by 90 million shares of Company common stock. The Company did not pay any underwriting discounts or commissions in connection with the issuance of the Convertible Note in this transaction. Issuance of

the Convertible Note was exempt from registration under Section 4(2) of the Securities Act. The Convertible Note was issued to an accredited investor in a private transaction without the use of any form of general solicitation or advertising. The underlying securities are restricted securities subject to applicable limitations on resale.

Conversion of Series A Preferred Stock

On August 1, 2005 the Company issued to an independent foreign investor 1,000 shares of the Company's Series A Preferred Stock (Note 9). The shares of Series A Preferred Stock were entitled to receive an 8% annual cumulative dividend payable in shares of company common stock at the conversion price of the stock. The conversion price for the Series A Preferred Stock is 80% of the average closing trading prices for the common stock during the 20 trading day period prior to the date of the conversion notice. For each share of the Company's common stock issued upon conversion of the Series A Preferred Stock, a four year warrants to purchase $\frac{1}{2}$ of a share of Company common stock at an exercise price per share equal to 125% of the conversion price of the Series A Preferred Stock upon conversion of the shares of Series A Preferred Stock by the stockholder; and for each share of Company common stock Issued upon conversion of the Series A Preferred Stock, a four year warrants to purchase $\frac{1}{2}$ of a share of Company common stock at an exercise price per share equal to 150% of the conversion price of the Series A Preferred Stock upon conversion of the shares of Series A Preferred Stock by the stockholder.

On July 10, 2007 the stockholder of Series A Preferred Stock sent a notice of conversion for 100 shares of Series A Preferred in exchange for 1,197,243 common shares of the Company. The balance of the Series A Preferred Stock (900) was convertible at the election of the holder at any time until November 19, 2007 at a conversion price then in effect as in accordance with the Series A Preferred Stock agreement. The Series A Preferred Stock was automatically converted into Company common stock on November 19, 2007 into 9,868,421 common shares of the Company plus 2,004,494 shares, which were issued as cumulative dividend in accordance with the Series A Preferred Stock agreement. Additionally, the Company issued to the stockholder of Series A Preferred 11,065,665 warrants with an exercise prices ranging from \$0.1044 to \$0.1368.

2007 Series C Preferred Stock

During 2007 the Company closed on the sale of Series C Preferred Stock in several private placement transactions. The Company sold 119,481 shares of Series C Preferred Stock for an aggregate purchase price of \$17,922,117. Each share of Series C Preferred Stock is convertible into 2,500 shares of Company common stock. At a purchase price of \$150 per share of Series C Preferred Stock, the effective purchase price for each underlying share of Company common stock is \$0.06 per share. Additionally, the Company sold 35,868 shares of Series C Preferred Stock for an aggregate purchase price of \$9,466,875. Each share of Series C Preferred Stock is convertible into 2,500 shares of Company common stock. At a purchase price of \$250 per share of Series C Preferred Stock, the effective purchase price for each underlying share of Company common stock is \$0.10 per share. The Company did not pay any underwriting discounts or commissions in connection with the sale of the Series C Preferred Stock in this transaction. The accounting treatment for the 2007 issuances of Series C Preferred Stock was the same as for the previous issuances of the Series C Preferred Stock.

Issuance of the securities was exempt from registration under Section 4(2) of the Securities Act. The shares were sold to an accredited investor in a private placement without the use of any form of general solicitation or advertising. The underlying securities are restricted securities subject to applicable limitations on resale.

As previously reported in the Company's Form 8-K dated November 28, 2006, each share of the Company's Series C Preferred Stock is convertible at the option of the holder thereof into 2,500 shares of Company common stock at any time following the authorization and reservation of a sufficient number of shares of Company common stock by all requisite action, including action by the Company's Board of Directors and by Company stockholders, to provide for the conversion of all outstanding shares of Series C Preferred Stock into shares of Company common stock. Each share of the Series C Preferred Stock will automatically be converted into 2,500 shares of Company common stock 90 days following the authorization and reservation of a sufficient number of shares of Company common stock to provide for the conversion of all outstanding shares of Series C Preferred Stock into shares of Company common stock.

The shares of Series C Preferred Stock are entitled to vote together with the common stock on all matters submitted to a vote of the holders of the common stock. On all matters as to which shares of common stock or shares of Series C Preferred Stock are entitled to vote or consent, each share of Series C Preferred Stock is entitled to the number of votes (rounded up to the nearest whole number) that the common stock into which it is convertible would have if such Series C Preferred Stock had been so converted into common stock as of the record date established for determining holders entitled to vote, or if no such record date is established, as of the time of any vote on such matters. Each share of Series C Preferred Stock is entitled to the number of votes that 2,500 shares of common stock would have.

May 2006 12% Convertible Debenture

On November 30, 2007 the Company issued 20,567,132 shares of common stock for the conversion of the Debenture at an exercise price of \$0.0243 per share as in accordance with the original agreement. Upon the conversion notice in November 4, 2006 of the conversion price warrants was set at \$0.0243 per share.

Appointment of Chief Executive Officer May 2007

Effective May 18, 2007, Dr. Klaus Brandt was appointed as the Chief Executive Officer of Lithium Technology Corporation by the Company's Board of Directors. Prior to this Dr. Klaus Brandt has been serving as a Director of the Company since September 27, 2006 and as an Executive Vice President since June 2005. Additionally, Dr. Brandt has been serving as the Managing Director of the Company's subsidiary, GAIA, since April 2005. Pursuant to the employment agreement with Dr. Brandt, which expired on December 31, 2007, he served as the Managing Director of GAIA pursuant to an agreement which provides for an annual salary of 170,000. The new employment agreement, which took effect on January 1, 2008, provides for a three year term. Under this employment agreement, Dr. Brandt will receive a base annual salary of 200,000 and such additional compensation that is approved by the Board of Directors of the Company.

2008 Debt Settlement

On February 28, 2008, the Company and GAIA executed a Debt Settlement Agreement with Arch Hill Ventures N.V., Arch Hill Real Estate N.V. and Arch Hill Capital N.V. (collectively, the Debtholders). Pursuant to the Agreement \$5,773,707 of debt owed by LTC and GAIA to the Debtholders was settled. LTC agreed to issue to Arch Hill Capital N.V. 302,714,400 shares of LTC common stock in full and complete settlement of the Debt (the Debt Settlement). In the Agreement, Arch Hill Capital agreed that for a two year period it will not, directly or indirectly, without the prior written consent of LTC issue, offer, agree or offer to sell, sell, grant an option for the purchase or sale of, transfer, pledge, assign, hypothecate, distribute or otherwise encumber or dispose of the Shares.

As described above, the Company agreed to issue 302,714,400 common stock shares, but because the Company did not have enough shares of common stock authorized, the Company issued 45,016.84 Series C Preferred Stock in lieu of issuing 112,542,100 for partial debt settlement.

The Company and Arch Hill, which is approximately 60% beneficial owner of the Company, settled \$2,146,529 of Arch Hill's outstanding debt by issuing 45,016.18 shares of Series C Preferred Stock. Because this is a related party transaction, any losses on settlement would be recorded as an adjustment to equity with no financial statement impact. The Company recorded the Series C Preferred Stock issued at par value with the difference affecting additional paid in capital for a total impact on equity of \$2,146,529.

As Arch Hill received a beneficial conversion price on the Series C Preferred Stock, a beneficial conversion feature will be recorded on the Series C. Per paragraph 5 of EITF 98-5, the embedded beneficial conversion feature will be recognized by allocating a portion of the proceeds equal to intrinsic value of the feature to additional paid in capital.

Per paragraph 6 of EITF 98-5 the amount allocated to the beneficial conversion feature is limited to the amount of the proceeds allocated to the convertible instrument. As such, in this case, the amount of the beneficial conversion feature will be limited to \$2,146,529.

Series C Preferred Stock is convertible upon the Company's authorization and upon the Company having a sufficient number of shares of common stock available for issuance. Although the Company has to approve any notice of conversion, the holder can submit a conversion option at time of issuance of the stock. As such, management believes it is appropriate to record the beneficial conversion discount at time of issuance of the Series C Preferred Stock.

As the Company has accumulated deficit and no retained earnings, the beneficial conversion will be recorded as follows: debit and credit to additional paid in capital for \$2,146,529. The transaction will be shown as separate line item in the statement of stockholders' deficit and will be reflected on the income statement as an increase of loss applicable to common shareholders. The above accounting is consistent with the Minutes of joint session with SEC of AICPA SEC regulation Committee which took place on March 20, 2001.

The balance of \$3,627,179 remains payable to Arch Hill after issuance of the Series C Preferred Stock. As the conversion price is beneficial to Arch Hill at the time of the settlement agreement because the conversion price was below market on that date, a beneficial conversion discount has to be recorded on the remaining debt.

Based on management's calculations, the beneficial conversion discount is higher than the value of the remaining note payable. As the beneficial conversion discount cannot exceed the face value of the note, it will be capped at \$3,627,179. Since the debt has no redemption date subsequent to the settlement agreement, the beneficial conversion discount will be expensed immediately at the time of the debt settlement transaction.

Governance Agreement

On April 28, 2008 the Company entered into a Governance Agreement (the "Governance Agreement") with certain shareholders of the Company (the "Investors"), Stichting Gemeenschappelijk Bezit LTC, (the "Foundation"), and Arch Hill Capital NV ("Arch Hill Capital" and together with the Foundation, the "Arch Hill Parties"). The Investors include eight persons or entities that are the beneficial owners of shares of the Company's Series C Preferred Stock and/or Common Stock. The Investors beneficially own approximately 29% of the Company's Common Stock in the aggregate. Arch Hill Capital beneficially owns approximately 64% of the Company's Common Stock including the shares beneficially owned by its affiliate the Foundation.

The Company, the Foundation, Arch Hill Capital and the Investors have determined that it is the best interest of the Company and its shareholders to enter into certain governance and other arrangements with respect to the Company on the terms set forth in the Governance Agreement. The Governance Agreement provides that as of the Effective Time Ralph D. Ketchum, Marnix Snijder and Clemens E.M. van Nispen tot Sevenaer, directors of the Company, resign as directors of the Company (the "Resigning Directors") and that the number of directors of the Company be set at six. The Governance Agreement further provides that Fred J. Mulder and Theo M.M. Kremers be appointed directors of the Company as of the Effective Time to fill the vacancies on the Board of Directors resulting from the resignation of the Resigning Directors.

Consulting Agreements

In connection with the Governance Agreement, on April 28, 2008 the Company entered into a consulting agreements with each of Christiaan A. van den Berg (the "Van Den Berg Consulting Agreement"), Fred J. Mulder (the "Mulder Consulting Agreement"), OUIDA Management Consultancy B.V. (the "OUIDA Consulting Agreement"), and Romule B.V. (the "Romule Consulting Agreement") (collectively, the "Consulting Agreements").

Each of the Consulting Agreements has a term of one year and may be terminated on 60 days written notice. Each Consulting Agreement provides that the Consultant will consult with the directors, officers and employees of the Company concerning matters relating to the management and organization of the Company, its financial policies, the terms and conditions of employment of the Company's employees, and generally any matter arising out of the business affairs of the Company.

The Mulder Consulting Agreement with Fred J. Mulder, a newly appointed director of the Company, provides for Mr. Mulder to spend approximately 32 hours per month in fulfilling his obligations under the Consulting Agreement and the payment by the Company of a monthly fee of U.S. \$4,167.

The Van Den Berg Consulting Agreement with Christiaan A. van den Berg, the Chief Executive of Arch Hill Capital and the Foundation and the co-chairman of the Board of the Company, provides for Mr. van den Berg to spend approximately 32 hours per month in fulfilling his obligations under the Consulting Agreement and the payment by the Company of a monthly fee of US \$4,167.

The Romule Consulting Agreement provides for Frits Obers, an employee of Romule B.V., to spend approximately 160 hours per month in fulfilling his obligations under the Consulting Agreement and the payment by the Company of a monthly fee of Euros 20,820 (approximately US \$30,000 as of the date of the agreement).

The OUIDA Consulting Agreement provides for Theo Kremers, an employee of OUIDA Management Consultancy B.V. and a newly appointed director of the Company, to spend approximately 160 hours per month in fulfilling his obligations under the Consulting Agreement and the payment by the Company of a monthly fee of Euros 20,820 (approximately US \$30,000 as of the date of the agreement).

Appointment of Chief Executive Officer June 2008

Effective June 27, 2008, Theo M. M. Kremers was appointed as the Chief Executive Officer of Lithium Technology Corporation by the Company's Board of Directors. Prior to this Mr. Kremers has been serving as a Director of the Company since May 27, 2008.

Mr. Kremers company, OUIDA Management Consultancy B.V. was retained by the Company in April 28 2008 to provide consulting services. Mr. Kremers is paid a monthly fee of Euros 20,820 (approximately US \$30,000 as of the date of the agreement) for his services for the Company.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read together with the financial statements and the accompanying notes thereto included elsewhere in this Report.

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 future financings and other risks and uncertainties, certain of which are beyond our control. Additional factors that could affect the Company's forward-looking statements include, among other things: the restatement of the Company's financial statements for the fiscal year ended December 31, 2004, and the delay in filing financial statements and periodic reports with the Securities and Exchange Commission for the fiscal years ended December 31, 2005, December 31, 2006 and December 31, 2007; negative reactions from the Company's stockholders, creditors, customer or employees to the results of the review and restatement or delay in providing financial information and periodic reports; the impact and result of any litigation (including private litigation), or of any investigation by the Securities and Exchange Commission or any investigation by any other governmental agency related to the Company; the Company's ability to manage its operations during and after the financial statement restatement process; and the Company's ability to successfully implement internal controls and procedures that remediate any material weakness in controls and ensure timely, effective and accurate financial reporting. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may differ materially from those described herein as anticipated, believed, estimated or expected.

Forward-looking statements are based on management's current views and assumptions and involve known and unknown risks that could cause actual results, performance or events to differ materially from those expressed or implied in those statements.

GENERAL

We are engaged in continuing contract development and limited volume production, in both the United States and Germany, of large format lithium-ion rechargeable batteries used as power sources in advanced applications in the national security, transportation and stationary power markets. We have moved from a development and pilot-line production company to a small production business with our lithium-ion rechargeable batteries.

RESULTS OF OPERATIONS

THREE MONTHS ENDED MARCH 31, 2007 COMPARED TO

THREE MONTHS ENDED MARCH 31, 2006

REVENUES FROM PRODUCTS SALES increased by \$57,000 or 11% in the three months ended March 31, 2007 from \$523,000 in the same period in 2006. The increase in sales revenues is a result of our movement from the product and process development and refinement stage to the early production stage of our products. As we are still in initial manufacturing stage enterprise, our mission continues to be to become a leading manufacturer of rechargeable lithium power solutions for advanced national security, transportation and stationary power applications. We can also license our technology and have the capability to enter into other collaborative efforts with third parties.

COST OF GOODS SOLD was \$983,000 and \$321,000 for the three months ended March 31, 2007 and 2006, respectively. We continue to look for cheaper sources of raw materials and more efficient production processes. We anticipate costs to decline substantially as we achieve larger economies of scale.

ENGINEERING, RESEARCH AND DEVELOPMENT EXPENSES during the three months ended March 31, 2007 decreased by 1% to \$737,000 from \$743,000 in the same period in 2006. These expenses are primarily from our advancement of technology in large high rate battery applications. These expenses relate to material consumed in the continued refinement of production process, as well as increased engineering and development time dedicated to advancement of manufacturing processes as well as time associated with the installation of new production equipment.

GENERAL AND ADMINISTRATIVE EXPENSES during the three months ended March 31, 2007 increased by \$433,000 or approximately 53% to \$1,253,000 from \$820,000 in the same period in 2006. This increase reflects our efforts to move to larger scale manufacturing and increase financing related efforts and costs.

SALES AND MARKETING EXPENSES were \$71,000 for the three months ended March 31, 2007. Sales and marketing expenses represent costs incurred from sales associates and participation in trade shows relating to the sale of cells and/or batteries.

DEPRECIATION AND AMORTIZATION during the three months ended March 31, 2007 decreased by \$646,000 or 74% to \$224,000 from \$870,000 in the same period in 2006. The decrease is mostly attributed to amortization of deferred financing costs. In the first quarter of 2006, amortization of deferred financing cost was approximately \$670,000.

INTEREST EXPENSE, NET OF INTEREST INCOME Interest expense, net of interest income for the quarter ended March 31, 2007 increased by \$299,000 or 89% to \$636,000 from \$337,000 in the same period in 2006. Interest expense mainly represents interest accrued on the loans from the European subsidiary debt financing.

INTEREST EXPENSE RELATED TO BENEFICIAL CONVERSION Charge for beneficial conversion feature was \$1,575,000 and \$1,706,000, respectively, in the quarters ended March 31, 2007 and 2006. For more information concerning this please refer to the Notes to Financial Statement contained herein.

WARRANTS EXPENSE Charges for warrants were \$(1,461,000) and \$3,353,000 respectively, in the quarter ended March 31, 2007 and 2006. Warrants valuation is marked to market every reporting period using Black-Scholes valuation model. Fluctuation of the valuation of the warrants liability are reflected in the Income Statement.

NET LOSS TO COMMON SHAREHOLDERS \$6,407,000 or \$0.01 per share for the three months ended March 31, 2007 as compared to a net loss of \$1,025,000 or \$0.00 per share for the three months ended March 31, 2006.

ACCUMULATED DEFICIT Since inception, we have incurred substantial operating losses and expect to incur substantial additional operating losses over the next few years. As of March 31, 2007, our accumulated deficit was \$113,075,000.

LIQUIDITY AND FINANCIAL CONDITION

GENERAL

On March 31, 2006, cash and cash equivalents were \$164,000. Total liabilities on March 31, 2006 were \$21,592,000 consisting of all current liabilities. On March 31, 2006, assets included \$881,000 in inventories, property and equipment, net, of \$5,367,000, and prepaid expenses and other assets of \$288,000. As of March 31, 2006, our working capital deficit was \$19,759,000. At March 31, 2007, cash and cash equivalents were \$308,000. Total liabilities on March 31, 2007 were \$35,816,000 consisting of all current liabilities. On March 31, 2007, assets included \$1,812,000 in inventories, property and equipment, net, of \$6,006,000, and prepaid expenses and other assets of \$175,000. As of March 31, 2007, our working capital deficit was \$32,955,000 as compared to \$27,528,000 on December 31, 2006. We expect to incur substantial operating losses as we continue our commercialization efforts.

Our debt and other liabilities as of March 31, 2007, December 31, 2006 and March 31, 2006 were as follows:

	March 31, 2007	December 31, 2006	March 31, 2006
Current debt is summarized as follows:			
March 2005 12% Convertible Deb., net of discount	\$	\$	\$ 2,000,000
October 2005 8% Debenture, net of discount	3,000,000	1,425,000	3,000,000
June 2005 12% Debenture			1,350,000
Portfolio Lenders II, LLC Convertible Note			200,000
8 % Convertible Note			47,000
2006 GAIA and Dilo Debt Financing	10,002,000	9,910,000	
May 2006 12% Convertible Debenture, net of discount	500,000	500,000	
Loans From Financial Institutions	174,000	130,000	1,565,000
Silent Partner loans-TBG	2,045,000	2,027,000	1,852,000
<i>Sub total current debt</i>	<i>\$ 15,721,000</i>	<i>\$ 13,992,000</i>	<i>\$ 10,014,000</i>
Related party debt:			
Subordinated Loans from related party	\$ 5,243,000	\$ 4,665,000	\$ 4,044,000
Promissory Notes	105,000	105,000	60,000
<i>Sub total Related party debt</i>	<i>\$ 5,348,000</i>	<i>\$ 4,770,000</i>	<i>\$ 4,104,000</i>
Warrant liability	\$ 7,036,000	\$ 5,575,000	\$ 2,861,000
<i>Total current Debt</i>	<i>\$ 28,105,000</i>	<i>\$ 24,337,000</i>	<i>\$ 16,979,000</i>

For more detailed information on long-term liabilities, see Note 7 to our financial statements contained herein.

FINANCING TRANSACTIONS

We have financed our operations since inception primarily through equity and debt financings, loans from shareholders and other related parties, loans from silent partners and bank borrowings secured by assets. We have recently entered into a number of financing transactions and are continuing to seek other financing initiatives. We will need to raise additional capital to meet our working capital needs and to complete our product commercialization process. Such capital is expected to come from the sale of securities. No assurances can be given that such financing will be available in sufficient amounts or at all. If such financing is not available there can be no assurance that Arch Hill Capital or any other major shareholder will provide any further funding.

The following is a general description of our financing transactions through March 31, 2007. See also the Notes to Consolidated Financial Statements included with this Report.

BRIDGE NOTES

The bridge notes were issued under a Bridge Financing Agreement, as amended, between LTC, Arch Hill Capital and related parties (the Bridge Financing Agreement). As of March 31, 2007 and 2006, \$105,000 and \$60,000 of advances were outstanding under the Bridge Financing

Agreement, respectively. The Bridge Financing Agreement does not contain a maximum amount of funding that

may be advanced under such Agreement. The amount of any additional notes provided will be related to the working capital requirements of the Company.

OCTOBER 2005 8% CONVERTIBLE DEBENTURE (CORNELL CAPITAL)

On October 7, 2005, the Company entered into a securities purchase agreement with Cornell Capital pursuant to which the Company issued a convertible debenture in the principal amount of \$3,000,000, with an original maturity date of October 1, 2006 and a conversion price of \$0.06. The debenture was repayable in ten equal monthly installments with accrued interest at 8% per year commencing January 1, 2006 and ending October 1, 2006. Commissions to Cornell Capital in connection with this transaction included 7.5% cash compensation in the form of a discount to the purchase price of the debentures, or \$225,000, and five-year warrants to purchase 20,000,000 shares of common stock at the following exercise prices: 10,000,000 at \$0.06 per share, 5,000,000 at \$0.07 per share and 5,000,000 at \$0.10 per share (the Warrants). We also paid structuring fees to Yorkville Advisors Management of \$10,000.

We entered into a pledge and escrow agreement pursuant to which we agreed to issue to Cornell Capital 250,000,000 shares of common stock in the event of default under the debenture as security for our obligations thereunder. We also granted Cornell Capital a security interest in the assets of LTC. In the event of default, Cornell Capital, in addition to any other remedies, may convert any or all of the outstanding principal of the debentures into common stock at a fixed conversion price equal to \$0.0128 per share.

The Cornell Capital debenture was recorded using the guidance of EITF No. 00-27, Application of Issue No. 98-5 to Certain Convertible Instruments , which involved allocation of the proceeds received between the convertible debenture and the warrants issued to the debenture holder. The Company measured the intrinsic value of the embedded conversion option using guidance of EITF No. 98-5, Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios . The value of the beneficial conversion is recorded as a discount on the debt with the offset to additional-paid-in capital and has been amortized to interest expense using the effective interest method.

On January 31, 2006, we entered into an amendment of the debenture (the First Amendment) which provided that all payments of principal and accrued interest on the Debenture otherwise due on or before March 15, 2006 were due on March 15, 2006. The First Amendment also provided that in the event we close on any debt or equity financing, we must use fifty percent of the proceeds of the new financing (net of placement fees and commissions) to repay principal and interest outstanding under the Debenture. The First Amendment further provided that in the event we did not repay all outstanding principal and accrued interest on the Debenture on March 15, 2006, (i) we must repay \$900,000 of principal and accrued interest on March 15, 2006 and repay the balance of the outstanding principal and interest on the Debenture over seven equal payments commencing April 1, 2006 until October 1, 2006, and (ii) the exercise price of the 20,000,000 Warrants would be reduced to \$0.0128 on a pro-rata basis in relation to the amount of principal of the Debenture not repaid by us as of March 15, 2006. The First Amendment also provided that at any time prior to March 15, 2006 we could at our option with three business days advance written notice redeem a portion or all amounts outstanding under the Debenture in an amount equal to the principal amount outstanding and accrued interest being redeemed. No redemption premium was due by us for redemption of the Debenture prior to March 15, 2006. The Debenture was not convertible from January 31, 2006 through March 15, 2006 provided we were current on our payment obligations under the Debenture.

In the First Amendment we amended the provision that was contained in the registration rights agreement entered into in connection with the debenture modifying the date by when we must file a registration statement covering the shares of our common stock issuable upon conversion of the debenture and upon exercise of the warrants with the Securities and Exchange Commission by January 6, 2006, and to provide that such registration statement must be filed on or before February 10, 2006. We filed such registration statement on February 3, 2006.

In consideration of the First Amendment of the debenture and related agreements, we paid Cornell Capital a fee of \$100,000.

On March 21, 2006, we entered into a second amendment with Cornell Capital (the Second Amendment) whereby we amended the following provisions of the Debenture. All payments of principal and accrued interest on the Debenture otherwise due on or before March 15, 2006 are due on June 15, 2006. In the event we close on any debt or equity financing we must use fifty percent (50%) of the proceeds of the new financing (net of placement fees and commissions) to repay principal and interest outstanding under the Debenture. In the event we do not repay all outstanding principal and accrued interest on the Debenture on June 15, 2006, we must repay \$1,800,000 of principal and accrued interest on June 15, 2006 and repay the balance of the outstanding principal and interest on the Debenture over four equal monthly payments commencing July 1, 2006 until October 1, 2006.

The Second Amendment further provides that Debentures are convertible from March 21, 2006 with four business days advance written notice (the Advance Conversion Notice) after June 15, 2006, the Debentures are convertible without delivery of an Advance Conversion Notice. The conversion price of the Debenture is reduced from \$0.06 to \$0.03 and per share provided, however, if there is an Event of Default under the Debenture the conversion price will be reduced to \$0.0128. At any time from March 21, 2006, including after receipt of an Advance Conversion Notice and before the expiration of the four business day advance notice period, we may, at our option, redeem a portion or all amounts outstanding under the Debenture in an amount equal to the principal amount outstanding and accrued interest being redeemed and a payment of a premium by us equal to fifteen percent (15%) of the redemption amount subject to two (2) business days advanced written notice for any redemption on or before June 15, 2006 and subject to three (3) business days advanced written notice for any redemption after June 15, 2006.

In the Second Amendment, we amended the Warrants as follows. The Warrants will be exercisable to purchase an additional 20,000,000 shares of common stock for a total of 40,000,000 shares. The exercise price of the 40,000,000 Warrant Shares is \$0.03 per share, provided, however that in the event we do not repay all outstanding principal and accrued interest on the Debenture on June 15, 2006, then on June 15, 2006 the exercise price of the Warrants will be reduced to \$0.0128 on a pro-rata basis in relation to the amount of principal of the Debenture not repaid by us as of June 15, 2006. (By way of example, if \$1,500,000 in principal of the Debenture has not been repaid by us by June 15, 2006, the exercise price of 50% of the Warrants shall be reduced to \$0.0128 per share and the exercise price of the remaining 50% of the Warrants shall remain at \$0.03 per share.)

In the Second Amendment we amended the provision that was contained in the Registration Rights Agreement, as amended, entered into in connection with the Debenture. We must file an amendment to the registration statement covering the shares of our common stock issuable upon conversion of the Debenture and Warrants with the Securities and Exchange Commission by April 20, 2006.

On November 9, 2006, the Board of Directors of the Company approved a third letter of amendment with Cornell Capital effective as of October 31, 2006 (the Third Amendment) whereby the Company amended the following provisions of the Debenture and the Warrants. All payments of principal and accrued interest on the Debenture otherwise due on or before March 15, 2006 are due on or before March 1, 2007. The conversion price at which Cornell Capital may convert the outstanding principal and interest due to Cornell Capital under the Debenture into shares of the Company s common stock is reduced to \$0.0128. The Warrants are amended to provide that the exercise price is reduced to \$0.0128 per share. The balance due and owing under the Debenture as of October 31, 2006 was \$3,257,096. In the Third Amendment the Company also agreed to pay Cornell Capital a forbearance fee of \$375,000.

The Third Amendment also provides that: (i) the Company shall become current by February 1, 2007 on its required SEC periodic reporting filings; (ii) the Company shall obtain listing on the Over the Counter Bulletin Board (the OTC BB) by March 1, 2007; (iii) the Company shall seek and receive an extension or deferral, in writing by December 15, 2006, of its obligation to repay the approximately \$9.5 million in debt due in December 2006, until March 1, 2007; and (iv) Cornell Capital may not exercise its right to conversion under the Secured Debenture unless (a) the price of the Company s common stock is equal to or greater than \$0.03 per share; or (b) the Company breaches any condition or requirement under the Third Amendment.

As of March 31, 2007, December 31, 2006 and March 31, 2006 \$3,000,000 was outstanding under the debenture.

The October 2005 Debenture was settled in five tranches in May and June of 2007. Settlement of the debenture consisted of issuance of a total of 77,228,495 shares of common stock and payment of \$2,011,475 plus approximately \$770,000 cash payment of accrued interest.

The Company recorded the conversions by debiting the note payable and crediting the common stock at par value with the balance of the credit recorded in additional paid in capital. The Company applied the accounting guidance of SFAS 140 Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities A Replacement of FASB Statement 125 to account for the settlement of the transaction.

2006 GAIA AND DILO DEBT FINANCING

On July 14, 2006, GAIA and Dilo Trading AG (Dilo Trading), subsidiaries of the Company, closed bridge financings with a European lender for a total of Euros 7.5 million (approximately \$9.5 million upon issuance). The loan principal and accrued

interest is due and payable on December 31, 2006. The loans are secured by a pledge of all of the assets of GAIA and Dilo Trading. The nonconvertible note bears an annual interest of 20%.

A portion of the proceeds was used to repay the mortgage on the GAIA facility in Nordhausen, Germany and to repay existing loans on GAIA equipment. The remaining proceeds were used for the purchase of machinery and equipment to increase the production of lithium-ion cells and batteries in Germany, for working capital and partial repayment of debt.

MAY 2006 12% CONVERTIBLE DEBENTURES

On May 4, 2006, the Company sold \$500,000 of equity units (the 2006 Units) in a private placement. The 2006 Units consist of (i) a 12% convertible debenture in the principal amount of \$500,000 (the 12% Debentures), (ii) 500,000 warrants to purchase Company common stock at an exercise price of \$0.20 per share (the 0.20 Warrants), (iii) 500,000 warrants to purchase Company common stock at an exercise price of \$0.25 per share (the 0.25 Warrants), (iv) 1,000,000 warrants to purchase \$0.10 per share (the 0.10 warrants), and (v) 250,000 warrants to purchase Company common stock at an exercise price equal to the Conversion Price (as defined below) of the 12% Debentures (the Conversion Price Warrants). The 12% Debentures are entitled to receive a 12% annual interest payment payable semi-annually at the option of the Company in cash or shares of Company common stock valued at the then applicable conversion price of the 12% Debentures on June 30 and December 31 of each year beginning on December 31, 2006 or at the time of conversion of the principal to which such interest relates.

The holder of the 12% Debentures has the right after November 4, 2006 to convert the 12% Debentures at a price in effect per the agreement (the Conversion Price).

The unpaid principal amount of the Debentures plus accrued and unpaid interest will be due on May 4, 2010 if the Debentures have not been converted by the holder or redeemed by the Company prior to that date (the Maturity Date). The Debentures are redeemable by the Company at any time prior to the Maturity Date of May 4, 2010 by payment of the unpaid principal amount of the Debentures plus accrued and unpaid interest plus a redemption premium equal to 50% of the principal amount of the Debentures being redeemed. No redemption premium is due on the repayment of the Debentures on the Maturity Date of May 4, 2010.

The Company determined that the May 2006 12% Debentures meet the characteristics for classification as a liability. The debenture was recorded using the guidance of EITF No. 00-27, Application of Issue No. 98-5 to Certain Convertible Instruments . The Company measured the intrinsic value of the embedded conversion option using guidance of EITF No. 98-5, Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios . The value of the beneficial conversion, approximately \$300,000, was recorded as a discount upon issuance with the offset to additional-paid-in capital.

The \$0.20 Warrants, \$0.25 Warrants and \$0.10 Warrants are exercisable for a period of five years commencing on November 4, 2007. The Conversion Price Warrants are exercisable by the Debentureholder for a period of five years commencing on or after the date subsequent to November 4, 2007 on which all of the Debentures have been converted. If the Debentureholder does not convert all of the Debentures by the Maturity Date of May 4, 2010, the Conversion Price Warrants will be cancelled on that date. The \$0.20 Warrants, the \$0.25 Warrants, the \$0.10 Warrants and the Conversion Price Warrants each contain cash-less exercise provisions.

The 2006 debentureholder has the following registration rights with respect to the shares of common stock into which the Debentures are convertible and warrants are exercisable. The Company has agreed to file with the SEC a registration statement covering the underlying shares of common stock on or before the 90th day after the last closing of the sale of 2006 Units and to use its best efforts to have the registration statement declared effective within 60 days of filing. No registration statement has been filed to date.

The Debentureholder sent a notice of conversion of the Debentures to the Company effective November 4, 2006. As of December 31, 2006, the Company did not have enough available shares of common stock to issue upon conversion of the Debentures, as a result, the whole debenture is carried as debt on the Company's books until the shares to honor the conversion are delivered.

As of March 31, 2006, December 31, 2006 and March 31, 2007 the amount outstanding under this debenture was \$0, \$500,000 and \$500,000, respectively.

SERIES C CONVERTIBLE PREFERRED STOCK

During the first quarter of 2007 the Company closed on the sale of Series C Preferred Stock in several private placement transactions. The Company sold 10,344 shares of Series C Preferred Stock for an aggregate purchase price of \$1,551,617. Each share of Series C Preferred Stock is convertible into 2,500 shares of Company common stock. At a purchase price of \$150 per share of Series C Preferred Stock, the effective purchase price for each underlying share of Company common stock is \$0.06 per share. The Company did not pay any underwriting discounts or commissions in connection with the sale of the Series C Preferred Stock in this transaction.

Each share of the Series C Preferred Stock is convertible at the option of the Holder thereof into 2,500 shares of Company common stock at any time following the authorization and reservation of a sufficient number of shares of Company common stock by all requisite action, including action by the Company's Board of Directors and by Company stockholders, to provide for the conversion of all outstanding shares of Series C Preferred Stock into shares of Company common stock.

Each share of the Series C Preferred Stock will automatically be converted into 2,500 shares of Company common stock 90 days following the authorization and reservation of a sufficient number of shares of Company common stock to provide for the conversion of all outstanding shares of Series C Preferred Stock into shares of Company common stock.

The shares of Series C Preferred Stock are entitled to vote together with the common stock on all matters submitted to a vote of the holders of the common stock. On all matters as to which shares of common stock or shares of Series C Preferred Stock are entitled to vote or consent, each share of Series C Preferred Stock is entitled to the number of votes (rounded up to the nearest whole number) that the common stock into which it is convertible would have if such Series C Preferred Stock had been so converted into common stock as of the record date established for determining holders entitled to vote, or if no such record date is established, as of the time of any vote on such matters.

In addition to the voting rights provided above, as long as any shares of Series C Preferred Stock are outstanding, the affirmative vote or consent of the holders of two-thirds of the then-outstanding shares of Series C Preferred Stock, voting as a separate class, will be required in order for the Company to:

- (i) amend, alter or repeal, whether by merger, consolidation or otherwise, the terms of the Series C Preferred Stock or any other provision of Company Charter or Bylaws, in any way that adversely affects any of the powers, designations, preferences and relative, participating, optional and other special rights of the Series C Preferred Stock;
- (ii) issue any shares of capital stock ranking prior or superior to, or on parity with, the Series C Preferred Stock; or
- (iii) subdivide or otherwise change shares of Series C Preferred Stock into a different number of shares whether in a merger, consolidation, combination, recapitalization, reorganization or otherwise.

The Series C Preferred Stock ranks on a parity with the common stock as to any dividends, distributions or upon liquidation, dissolution or winding up, in an amount per share equal to the amount per share that the shares of common stock into which such Series C Preferred Stock are convertible would have been entitled to receive if such Series C Preferred Stock had been so converted into common stock prior to such distribution.

The Series C Preferred Stock is deemed to be treated as equity since no redemption option is present. Upon issuance of the Series C Convertible Preferred stock the par value (\$0.01) is credited toward the preferred share class C, and the balance is credited toward additional paid-in capital. For issuances of convertible Preferred Stock with beneficial conversion feature the discount is recognized upon issuance.

MANAGEMENT'S PLANS TO OVERCOME OPERATING AND LIQUIDITY DIFFICULTIES

Over the past six years, we have refocused our unique extrusion-based manufacturing process, cell technology, large battery assembly expertise, and market activities to concentrate on large-format, high rate battery applications. Our commercialization efforts are focused on applying our lithium-ion rechargeable batteries in the national security, transportation and stationary power markets.

Our operating plan seeks to minimize our capital requirements, but expansion of our production capacity to meet increasing sales and refinement of our manufacturing process and equipment will require additional capital. We expect that operating and production

expenses will increase significantly as we continue to ramp up our production and continue our battery technology and develop, produce, sell and license products for commercial applications.

We have recently entered into a number of financing transactions (see Notes 7, 9 and 12). We are continuing to seek other financing initiatives. We need to raise additional capital to meet our working capital needs, for the repayment of debt and for capital expenditures. Such capital is expected to come from the sale of securities and debt financing. We believe that if we raise approximately \$14 to \$20 million in debt and equity financings, we would have sufficient funds to meet our needs for working capital and expansion capital expenditures over the next twelve months.

No assurance can be given that we will be successful in completing any financings at the minimum level necessary to fund our capital equipment, debt repayment or working capital requirements, or at all. If we are unsuccessful in completing these financings, we will not be able to meet our working capital, debt repayment or capital equipment needs or execute our business plan. In such case 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.

GOING CONCERN MATTERS

Our accompanying consolidated financial statements 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 inception, we have incurred substantial operating losses and expect to incur additional operating losses over the next several years. As of March 31, 2007, we had an accumulated deficit of approximately \$113,075,000. We have financed our operations since inception primarily through equity financings, loans from shareholders and other related parties, loans from silent partners and bank borrowings secured by assets. We have recently entered into a number of financing transactions and are continuing to seek other financing initiatives. We will need to raise additional capital to meet our working capital needs and to complete our product commercialization process. Such capital is expected to come from the sale of securities and debt financing. No assurances can be given that such financing will be available in sufficient amounts or at all. Continuation of our operations in the future is dependent upon obtaining such further financing. These conditions raise substantial doubt about our 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.

CRITICAL ACCOUNTING ESTIMATES

Our discussion of results of operations and financial condition relies on our condensed consolidated financial statements that are prepared based on certain critical accounting estimates that require management to make judgments and estimates that are subject to varying degrees of uncertainty. We believe that investors need to be aware of these estimates and how they impact our financial statements as a whole, as well as our related discussion and analysis presented herein. While we believe that these accounting estimates are based on sound measurement criteria, actual future events can and often do result in outcomes that can be materially different from these estimates or forecasts.

The critical accounting estimates and related risks described in our Annual Report on Form 10-KSB for the fiscal year ended December 31, 2006 are those that depend most heavily on these judgments and estimates. As of March 31, 2007, there have been no material changes to any of the critical accounting estimates contained in our 2006 Annual Report on Form 10-KSB.

RISK FACTORS AFFECTING OUR COMPANY

Investors should carefully consider the following risk factors, in addition to the other information concerning the factors affecting forward-looking statements. Each of the risk factors could adversely affect business, operating results and financial condition as well as adversely affect the value of an investment in us.

WE ARE SUBJECT TO VARIOUS RISKS THAT MAY MATERIALLY HARM OUR BUSINESS, FINANCIAL CONDITION AND RESULTS OF OPERATIONS. IF ANY OF THESE RISKS OR UNCERTAINTIES ACTUALLY OCCURS, OUR BUSINESS, FINANCIAL CONDITION OR OPERATING RESULTS COULD BE MATERIALLY HARMED. IN THAT CASE, THE TRADING PRICE OF OUR COMMON STOCK COULD DECLINE AND YOU COULD LOSE ALL OR PART OF YOUR INVESTMENT.

IN ADDITION TO THE RISK FACTORS SET FORTH IN OUR FORM 10KSB FOR THE YEARS ENDED DECEMBER 31, 2006 AND DECEMBER 31, 2007, INVESTORS SHOULD BE AWARE OF THE FOLLOWING RISKS:

WE HAVE A WORKING CAPITAL LOSS, WHICH MEANS THAT OUR CURRENT ASSETS ON MARCH 31, 2007 WERE NOT SUFFICIENT TO SATISFY OUR CURRENT LIABILITIES. We had a working capital deficit of approximately \$32,955,000 at March 31, 2007, which means that our current liabilities exceeded our current assets on March 31, 2007. Current assets are assets that are expected to be converted to cash within one year and, therefore, may be used to pay current liabilities as they become due.

WE HAVE SUBSTANTIAL INDEBTEDNESS AND ARE HIGHLY LEVERAGED. At March 31, 2007, we had total consolidated current indebtedness of approximately \$35,816,000. The level of our indebtedness and related debt service requirements could negatively impact our ability to obtain any necessary financing in the future for working capital, capital expenditures or other purposes. A substantial portion of our future cash flow from operations, if any, may be dedicated to the payment of principal and interest on our indebtedness. Our high leverage may also limit our flexibility to react to changes in business and may place us at a competitive disadvantage to less highly leveraged competitors. In addition, creditors who remain unpaid may initiate collection proceedings, which could hamper our operations due to our short-term cash needs or the effect on our assets subject to debt.

WE HAVE A HISTORY OF OPERATING LOSSES AND HAVE BEEN UNPROFITABLE SINCE INCEPTION. We incurred net losses of approximately \$113,075,000 from inception to March 31, 2007, including approximately \$6,427,000 of net loss to common shareholders in the quarter ended March 31, 2007. We expect to incur substantial additional operating losses in the future. During the three months ended March 31, 2007 and 2006, we generated revenues from product sales in the amounts of \$580,000 and \$523,000, respectively. We cannot assure you that we will continue to generate revenues from operations or achieve profitability in the near future or at all.

WE NEED SIGNIFICANT FINANCING TO CONTINUE TO DEVELOP AND COMMERCIALIZE OUR TECHNOLOGY. We have recently entered into a number of financing transactions and are continuing to seek other financing initiatives. We will need to raise additional capital to meet our working capital needs and to complete our product commercialization process. Such capital is expected to come from the sale of securities and debt financing. We believe that if we raise approximately \$14 to \$20 million in debt and equity financings, we would have sufficient funds to meet our operating and expansion capital expenditures needs for at least twelve months. If we do not raise such additional capital, 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. Additional financing may not be available on terms favorable to us or at all. Even if we do obtain financing, it may result in dilution to our stockholders.

WE FACE RISKS RELATED TO LATE SEC FILINGS. The review of our financial statements for the quarters ended March 31, 2008 and June 30, 2008 have not yet been completed. We have been working diligently with our auditors to complete the reviews of our quarter-end financial statements. We have also engaged outside expertise to assist us in this process. Nevertheless, the delay in the completion of the audit of the year end financial statements and reviews of the quarters' financial statements may lead to litigation claims and/or regulatory proceedings against us and may negatively impact our financing efforts. This delay also impacted our ability to trade our shares on the OTC Bulletin Board and we were delisted in 2006, although our shares continued to trade and be reported in the Pink Sheets Electronic Quotation Service. The defense of any such claims or proceedings may cause the diversion of management's attention and resources, and we may be required to pay damages if any such claims or proceedings are not resolved in our favor. Any litigation or regulatory proceeding, even if resolved in our favor, could cause us to incur significant legal and other expenses. We also may have difficulty raising equity capital or obtaining other financing. We may not be able to effectuate our current business strategy. The occurrence of any of the foregoing could harm our business and reputation and cause the price of our securities to decline.

WE FACE RISKS RELATED TO LATE TAX FILINGS. The Company has not filed its mandatory tax filing for the 2005, 2006 and 2007 fiscal years with the US Internal Revenue Service and the Commonwealth of Pennsylvania Tax Department. Management believes that the potential liability to the Company is not significant since the Company reported significant losses for the respective years. Moreover, to the best of management's knowledge, the Company does not believe that not filing tax returns is a violation of any of its contractual covenants. The Company expects to file its tax returns for all years during the third quarter of 2008.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 4. CONTROLS AND PROCEDURES

The Company carried out an evaluation, under the supervision and with the participation of the Company's management, of the effectiveness of the Company's internal control over financial reporting as of December 31, 2006. Based on that evaluation, management has concluded that the Company's controls over the accounting of certain debt and equity transactions were ineffective. This material weakness was attributed to lack of technical expertise with respect to the application of Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended as well as Statement of Financial Accounting Standards No. 150, Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity, and related accounting guidance. Additionally, for the year ended December 31, 2006, the Company's independent registered public accounting firm, Amper, Politziner & Mattia, P.C. (AP&M) informed management and the Audit Committee of the Board of Directors that it had noted certain conditions which it had concluded, in the aggregate, represent a material weakness in the Company's internal controls over financial reporting.

As a result, management concluded that the Company's internal control over financial reporting was not effective as of March 31, 2006, December 31, 2006, and March 31, 2007.

The Company acknowledges that certain weaknesses need to be addressed. The primary reason for said deficiencies is a current and temporary lack of adequate resources and personnel. The Company intends to take action to hire additional staff and develop the adequate policies and procedures with said enhanced staff to ensure that adequate internal controls are in place to allow for effective and timely management and reporting.

There were no changes in the Company's internal control over financial reporting that occurred during the quarter ended March 31, 2007 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II.

OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In November 2006 Haliotis Investments filed a complaint in the United States District Court for the District of Delaware against the Company and other parties, alleging against the Company a violation of Section 10(b) and Rule 10b-5 of the Securities Exchange Act relating to the purported purchase of the Company shares by the plaintiff from Arch Hill Capital, related party of the Company. The parties have reached an agreement and settled this litigation. A stipulation of dismissal of the suit with prejudice was filed with the US District Court in Delaware on January 31, 2008. Under terms of the agreement, the Company's Directors and Officers insurance carrier contributed to the settlement \$300,000 and the Company made no out-of-pocket payment to the plaintiff. The Company was responsible for its own legal fees in this matter.

The Company entered into a Financial Advisory and Investment Banking Agreement with North Coast Securities Corporation (North Coast) dated February 1, 2006. Subsequent to the date of the Agreement North Coast asserted claims for unpaid compensation under the Agreement. Counsel for North Coast have asserted a breach of contract claim against the Company seeking warrants to purchase 500,000 shares of Company common stock with an exercise price of \$0.04 per share and \$10,000 per month for the term of the Agreement for a total of \$120,000. This matter has not been resolved as of the date of this report and on December 31, 2007 a lawsuit was filed in Montgomery County against the Company in this matter. Management asserts that no services were rendered to satisfy any compensation.

From time to time the Company is a defendant or plaintiff in various legal actions which arise in the normal course of business. As such the Company is required to assess the likelihood of any adverse outcomes to these matters as well as potential ranges of probable losses. A determination of the amount of the provision required for these commitments and contingencies, if any, which would be charged to earnings, is made after careful analysis of each matter. The provision may change in the future due to new developments or changes in circumstances. Changes in the provision could increase or decrease the Company's earnings in the period the changes are made. In the opinion of management, after consultation with legal counsel, the ultimate resolution of these matters will not have a material adverse effect on the Company's financial condition, results of operations or cash flows.

ITEM 2. UNREGISTERED SALES OF SECURITIES AND USE OF PROCEEDS

All of the unregistered sales of the Company's securities during the first quarter of 2006 and the first quarter of 2007 were previously included in Reports on Form 8-K and therefore not required to be reported herein.

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

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

- 10.61 Letter Agreement with Cornell Capital Partners, LP dated January 31, 2006 (1)
- 10.62 Letter Agreement with Cornell Capital Partners, LP dated March 21, 2006 (2)
- 10.63 Fifth Amendment to Lease, dated March 31, 2006, between PMP Whitmarsh and LTC (2)
- 10.64 Amendment of \$2.5 Million Unsecured Debenture dated January 31, 2006 (3)
- 10.68 Form of Stock Purchase Agreement dated as of January 12, 2007 between Lithium Technology Corporation and the purchasers of Series C Convertible Preferred Stock (4)
- 10.69 Form of Stock Purchase Agreement between Lithium Technology Corporation and the purchasers of Series C Convertible Preferred Stock for issuances from February 15, 2007 to November 29, 2007 (5)
- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002 +
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 +
- 32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 +
- 32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 +

- (1) Incorporated by reference to LTC's Registration Statement on Form SB-2 (No. 333-131530) filed on February 3, 2006.
- (2) Incorporated by reference to LTC's Annual Report on Form 10-KSB for the fiscal year ended December 31, 2005.
- (3) Incorporated by reference to LTC's Annual Report on Form 10-KSB for the fiscal year ended December 31, 2006.

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- (4) Incorporate by reference to LTC's Current Report on Form 8-K dated January 12, 2007.
- (5) Incorporate by reference to LTC's Current Report on Form 8-K dated February 15, 2007.
- + Exhibit filed herewith in this Report.

SIGNATURES

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: August 28, 2008

LITHIUM TECHNOLOGY CORPORATION

BY: /s/ Theo M. M. Kremers
Theo M. M. Kremers
Chief Executive Officer
(Principal Executive Officer)

BY: /s/ Amir Elbaz
Amir Elbaz
Chief Financial Officer
(Principal Financial and Accounting Officer)