UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**
For the Quarterly Period ended June 30, 2008

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 Issuer in Its Charter)

DELAWARE	**13-3411148**
(State or Other Jurisdiction of	**(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)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act of 1934 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 x

Indicate by check mark whether the registrant is a large accelerates filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in rule 12b-2 of the Exchange Act.

Large accelerated filer ¨	Accelerated filer ¨	Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company x

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

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 December 29, 2008, 745,924,782 shares of common stock.

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LITHIUM TECHNOLOGY CORPORATION AND SUBSIDIARIES

FORM 10-Q

FOR THE QUARTER ENDED JUNE 30, 2008

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

LITHIUM TECHNOLOGY CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2008 (unaudited)	December 31, 2007 (audited)
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 655,000	$ 4,458,000
Accounts receivable	651,000	527,000
Inventories	3,316,000	3,320,000
Prepaid expenses and other current assets	518,000	703,000
Total current assets	5,140,000	9,008,000
Property and equipment, net	8,361,000	7,789,000
Related party receivables	479,000	579,000
Other assets	147,000	155,000
Total assets	$ 14,127,000	$ 17,531,000
LIABILITIES AND STOCKHOLDERS DEFICIT		
CURRENT LIABILITIES:		
Accounts payable	$ 2,590,000	$ 2,704,000
Related party accounts payable	1,588,000	1,623,000
Accrued salaries	48,000	83,000
Accrued interest	543,000	504,000
Current portion of long term debt	7,871,000	5,411,000
Related party debt	4,553,000	6,332,000
Other current liabilities and accrued expenses	2,005,000	2,245,000
Warrant liability	4,640,000	15,550,000
Total current liabilities	23,838,000	34,452,000
Total liabilities	$ 23,838,000	$ 34,452,000
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS DEFICIT		
Total Preferred Stock Authorized 100,000,000		
Convertible Preferred stock B, par value $.01 per share, authorized, issued and outstanding: 100,000 at June 30, 2008 and December 31, 2007	1,000	1,000
Convertible Preferred stock C, par value $.01 per share, authorized 300,000, issued and outstanding: 263,200 at June 30, 2008 and 218,183 at December 31, 2007	3,000	2,000
Common stock, par value $.01 per share, authorized 750,000,000 at June 30, 2008 and December 31, 2007 respectively; issued and outstanding - 670,924,782 and 630,924,782 at June 30, 2008 and December 31, 2007, respectively.	6,709,000	6,309,000
Additional paid-in capital	120,372,000	111,998,000
Cumulative translation adjustments	(3,915,000)	(4,172,000)
Accumulated deficit	(132,881,000)	(131,059,000)
Total stockholders deficit	(9,711,000)	(16,921,000)

Total liabilities and stockholders deficit	$ 14,127,000	$ 17,531,000

See accompanying notes to condensed consolidated financial statements.

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LITHIUM TECHNOLOGY CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

	SIX MONTHS ENDED JUNE 30, 2008 (unaudited)	SIX MONTHS ENDED JUNE 30, 2007 (unaudited)	THREE MONTHS ENDED JUNE 30, 2008 (unaudited)	THREE MONTHS ENDED JUNE 30, 2007 (unaudited)
REVENUES				
Products and services sales	$ 2,296,000	$ 1,181,000	$ 1,728,000	$ 601,000
COSTS AND EXPENSES				
Cost of goods sold	3,268,000	1,568,000	1,919,000	585,000
Engineering, research and development	1,489,000	1,630,000	749,000	893,000
General and administrative	3,104,000	2,800,000	1,472,000	1,547,000
Sales and marketing	356,000	204,000	259,000	133,000
Depreciation	583,000	457,000	308,000	233,000
Total costs and expenses	8,800,000	6,659,000	4,707,000	3,391,000
OTHER INCOME (EXPENSE)				
Interest expense, net of interest income	(210,000)	(1,336,000)	(82,000)	(700,000)
Interest expense related to amortization of discount on convertible debt	(3,772,000)	(1,575,000)	(74,000)	
Change in fair value of warrants	8,423,000	(15,367,000)	(2,344,000)	(13,906,000)
Other	241,000	(51,000)	136,000	(4,000)
Total other income (expense)	4,682,000	(18,329,000)	(2,364,000)	(14,610,000)
NET LOSS	$ (1,822,000)	$ (23,807,000)	$ (5,343,000)	$ (17,400,000)
Dividends on preferred shares		(40,000)		(20,000)
Discount expense related to beneficial conversion feature of Series C Convertible Preferred recorded upon issuance	(2,147,000)	(11,137,000)		(11,137,000)
NET LOSS TO COMMON SHAREHOLDERS	$ (3,969,000)	$ (34,984,000)	$ (5,343,000)	$ (28,557,000)
OTHER COMPREHENSIVE INCOME (LOSS)				
Currency translation adjustments	257,000	(623,000)	257,000	(623,000)
COMPREHENSIVE LOSS	$ (3,712,000)	$ (35,607,000)	$ (5,086,000)	$ (29,180,000)
Weighted average number of common shares outstanding:	1,542,959,622	1,022,080,501	1,575,522,095	1,087,315,595
Basic and diluted net loss per share:	$ (0.00)	$ (0.03)	$ (0.00)	$ (0.03)

See accompanying notes to condensed consolidated financial statements.

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LITHIUM TECHNOLOGY CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	SIX MONTHS ENDED JUNE 30, 2008	2007
CASH FLOW FROM OPERATING ACTIVITIES		
Net loss	$ (1,822,000)	$ (23,807,000)
Adjustments		
Depreciation expense	583,000	457,000
Warrant income/change in fair value	(8,423,000)	15,366,000
Interest expense beneficial conversion feature	3,772,000	1,575,000
(Increase)/decrease in assets		
Inventories	188,000	(405,000)
Accounts receivable	(95,000)	(322,000)
Prepaids expenses and other assets	251,000	(18,000)
Increase/(Decrease) in liabilities		
Accounts payable & accrued expenses	(287,000)	(2,256,000)
Other current liabilities	(241,000)	(150,000)
Net cash used in operating activities	$ (6,074,000)	$ (9,560,000)
CASH FLOW FROM INVESTING ACTIVITIES		
Capital Expenditures	(541,000)	(560,000)
Net cash used in investing activities	$ (541,000)	$ (560,000)
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from exercise of warrants	512,000	
Repayment of debt		(2,029,000)
Proceeds from borrowing	2,242,000	1,323,000
Proceeds from equity issuance		17,922,000
Net cash provided by financing activities	$ 2,754,000	$ 17,216,000
NET INCREASE IN CASH	$ (3,861,000)	$ 7,096,000
CURRENCY EFFECTS ON CASH	$ 58,000	$ 13,000
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	4,458,000	1,976,000
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 655,000	$ 9,085,000

See accompanying notes to consolidated financial statements.

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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 Form 10-KSB filed with the Securities and Exchange Commission for the year ended December 31, 2007. 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 8 and 10) 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.

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NOTE 3 SIGNIFICANT ACCOUNTING POLICIES

As of June 30, 2008, there have been no material changes to any of our significant accounting policies.

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

Over the past seven 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 8 and 10). 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 INVENTORIES

Inventories primarily include raw materials and auxiliary materials required for the production process.

Inventories at June 30, 2008 and December 31, 2007 are made up of the following:

	June 30, 2008 (unaudited)	December 31, 2007 (audited)
Finished Goods	$ 1,771,000	$ 1,814,000
Work In Process	561,000	757,000
Raw Materials	984,000	749,000
	$ 3,316,000	$ 3,320,000

NOTE 6 PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2008 and December 31, 2007 is summarized as follows:

	June 30, 2008 (unaudited)	December 31, 2007 (audited)
Land and buildings	$ 4,390,000	$ 3,756,000
Technical and laboratory equipment	9,721,000	8,864,000
Asset under construction and equipment deposit	193,000	285,000

Office equipment and other	1,111,000	987,000
Less: Accumulated depreciation and amortization	(7,054,000)	(6,103,000)
	$ 8,361,000	$ 7,789,000

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

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NOTE 7 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 participation s 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

June 30, 2008 is as follows:

	Foreign	Domestic	Total
Tax loss carry forwards	$ 23,387,000	$ 20,942,000	$ 44,329,000
Less valuation allowance	(23,387,000)	(20,942,000)	(44,329,000)
	$	$	$

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 8 DEBT

	June 30, 2008	December 31, 2007
Current debt is summarized as follows:		
July 2007 10% Convertible Debenture, net of discount	$ 3,193,000	$ 3,048,000
June 2008 9% Convertible Debenture, net of discount	2,133,000	
Loans From Financial Institutions	122,000	104,000
Silent Partner loans-TBG	2,423,000	2,259,000
Sub total current debt	7,871,000	5,411,000
Related party debt:		
Subordinated Loans from related party	826,000	6,272,000
Promissory Notes	3,727,000	60,000
Sub total Related party debt	4,553,000	6,332,000
Warrant liability	4,640,000	15,550,000
Total current debt	$ 17,064,000	$ 27,293,000

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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 were convertible at the option of Cornell Capital any time up to maturity at a conversion price equal to $0.06 per share. The debentures had 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 three times as described in our financial reports for the year 2007.

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.

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. In the Third Amendment the Company also agreed to pay Cornell Capital a forbearance fee of $375,000.

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. As of December 31, 2007 the Company reported a warrant liability for the Cornell warrants of $5,123,000.

On March 6, 2008 Yorkville Advisors (f/k/a Cornell Capital) exercised all their warrants (40,000,000) into common shares of the Company at an exercise price of $0.0128 for a total cash consideration of $512,000. The Company revalued the Cornell warrant liability immediately prior to the exercise and recognized a gain on the change in the fair value of the warrants in the Statement of Operations of $2,635,000. Warrant liability immediately prior to exercise was $2,488,000. This warrant liability was then reclassified to common stock at par value of $400,000 for 40,000,000 newly issued common shares and the balance of $2,600,000 to additional paid in capital.

JULY 2007 10% CONVERTIBLE DEBENTURE

On July 11, 2007, the European Subsidiaries Debt and accrued interest was satisfied with the payment of 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. As of June 30, 2008 and December 31, 2007, $3,193,000 and $3,048,000 was outstanding under the convertible debenture net of debt discount of $54,000 and $199,000, respectively. As of June 30, 2008 and December 31, 2007, accrued interest of $317,000, and $154,000, respectively, was outstanding under the Convertible Note. Upon issuance, the Company recorded a discount from beneficial conversion feature of $325,000 that is amortized over the life of the note using the effective interest method.

9% CONVERTIBLE NOTES

The Company closed on a convertible debt financing with four institutional investors from June 12, 2008 to June 26, 2008 (the Lenders) for a total of Euros 1.35 million (approximately U.S. $2,133,000) (the June 2008 Financing). The Company issued its convertible notes (the Convertible Notes) to the Lenders in connection with the June 2008 Financing. The Convertible Notes are convertible at $0.10 per share into Company common stock or any equity securities issued by the Company after the date of issuance of the Convertible Notes. The Convertible Notes accrue interest at 9% per annum and are due and payable on September 30, 2011 (the Maturity Date). All obligations of the Company under the Convertible Notes will be secured by security interests in all of the tangible and intangible fixed assets, including real estate, of the Company.

Prior to the Maturity Date, the Convertible Notes are due and payable within three months of a Change in Control of the Company or a Financing . Change in Control of the Company is defined to have occurred if, at any time following the date of the Convertible Notes: (A) any person or group (as such terms are used in Sections 3(a)(9) and 13(d)(3) of the Securities Exchange Act of 1934, as amended (the Exchange Act)) (other than the shareholders of the Company identified in (1) Amendment No. 16/6 to Schedule 13D filed with respect to the Company on April 29, 2008 and (2) Schedule 13D filed with respect to the Company on June 2, 2008) becomes a beneficial owner (as such term is used in Rule 13d-3 promulgated under the Exchange Act), directly or indirectly, of securities of the Company representing 50% or more of the combined voting power of the Company s then outstanding securities; (B) a change in control of the Company (as the term control is defined in Rule 12b-2 or any successor rule promulgated under the Exchange Act) shall have occurred; (C) the shareholders or the Board of Directors of the Company approve a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company of all or substantially all of the Company s assets; or (D) the shareholders or the Board of Directors of the Company approve a merger or consolidation of the Company with any other company, other than a merger or consolidation which would result in the combined voting power of the Company s voting securities outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than 50% of the combined voting power of the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation. Financing is defined as the consummation by the Company or any of its subsidiaries of any debt or equity financing in excess of $20,000,000.

The Convertible Notes provide that in the event of the receipt by the Company or any of its subsidiaries of any proceeds from any Asset Sale or Insurance/Condemnation Award , the Company shall apply within thirty (30) Business Day after the receipt thereof the net after-tax proceeds therefrom to pay in cash the principal and all accrued but unpaid interest hereunder. Asset Sale means any sale, transfer, conveyance or other disposition by the Company or any of its subsidiaries of any of its property or assets, other than the sale of inventory in the ordinary course of business. Insurance/Condemnation Award means the receipt by the Company or any of its subsidiaries of any proceeds received under any casualty insurance polity maintained by or for the benefit of the Company or any of its subsidiaries or as a result of the taking of any assets of the Company or any of its subsidiaries pursuant to the power of eminent domain or condemnation.

LOANS FROM FINANCIAL INSTITUTIONS

GAIA has two loans from financial institutions, which totaled $122,000 and $104,000 as of June 30, 2008 and December 31, 2007, respectively, that are collateralized by the assets of the Company and bear European commercial standard rates.

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 June 30, 2008 and December 31, 2007 was $2,423,000 and $2,259,000, respectively.

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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 $826,000 and $6,272,000 as of June 30, 2008 and December 31, 2007. 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.

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 64% beneficial owner of the Company, settled $2,146,529 of Arch Hill s outstanding debt by issuing 45,016.84 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 was recorded on the Series C. Per paragraph 5 of EITF 98-5, the embedded beneficial conversion feature was 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 was 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

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statement of stockholders deficit and is reflected on the income statement as a decrease of income 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, and is included in the Promissory Notes balance account detailed below. 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 was recorded on the remaining debt.

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

PROMISSORY NOTES

At various times during 2004, Arch Hill Capital advanced a total of $3.5 million to LTC under the Bridge Financing Agreement.

As of June 30, 2008 and December 31, 2007, the outstanding debt was $3,727,000 and $60,000. This amount represents the balance of $3,627,179 which remains payable to Arch Hill after issuance of the Series C Preferred Stock, from the February 26, 2008 Debt Settlement as described above plus accrued interest.

NOTE 9 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 amended lease is $165,000.

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. 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. This matter has not been resolved as of the date of this report.

Andrew J. Manning, a former employee of the Company, filed a complaint in October 2008, in the Superior Court of New Jersey, Morris County, Law Division, against the Company and other parties, alleging breach of contract, breach of covenant of good faith and fair dealing, negligent misrepresentation, tortious interference with Mr. Manning s economic gain, retaliation, unjust enrichment, and intentional infliction of emotional distress. The Company and management believe that the allegations in the Complaint have no merit and the Company intends to vigorously defend the suit. This matter has not been resolved as of the date hereof.

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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 10 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 have subsequently been converted into the Company s common stock. Additionally, the Company designated 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 which are outstanding as of June 30, 2008 and December 31, 2007. Additionally, the Company designated 300,000 shares of Series C Convertible Preferred. As of June 30, 2008 and December 31, 2007, 263,200 and 218,183 shares of Series C were outstanding, respectively.

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 two quarters of 2008, the Company and Arch Hill, which is approximately 64% 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.

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

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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 a decrease/ increase of income/loss applicable to common shareholders.

NOTE 11 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:

	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
Revenues		
Domestic Operations	$ 799,000	$ 738,000
European Operations	1,497,000	443,000

	$ 2,296,000	$ 1,181,000
Long-lived assets, net		
Domestic Operations	90,000	160,000
European Operations	8,271,000	6,100,000
	$ 8,361,000	$ 6,260,000

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NOTE 12 NET INCOME/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 six and three months ended June 30, 2008 and 2007 was as follows:

	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
Series B Preferred Stock	264,103,114	264,103,114	264,103,114	264,103,114
Series C Preferred Stock	657,999,600	363,274,405	623,179,945	324,122,751
Common Stock	653,419,381	459,938,076	655,676,563	433,854,636
Total	1,575,522,095	1,087,315,595	1,542,959,622	1,022,080,501

Due to net losses in all periods ended June 30, 2008 and 2007, the effect of the potential common shares resulting from convertible promissory notes payable, stock options and warrants were excluded, as the effect would have been anti-dilutive. As of June 30, 2008 there are 144,978,351 warrants outstanding with a weighted average exercise of $0.294.

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 13 CORPORATE MATTERS

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.

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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

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.

NOTE 14 SUBSEQUENT EVENTS

Resignation of Chief Financial Officer

Effective October 15, 2008, Amir Elbaz resigned as the Chief Financial Officer of the Company. Mr. Elbaz continued working with the Company during a transition period up to November 30, 2008.

Other

During July of 2008 the Company discontinued the manufacturing of flat Li Ion cells at its Plymouth Meeting, PA facility and at the same time the pricing structure for cylindrical cells was changed. Any impact on value of inventory will be reflected during the third quarter ended September 30, 2008.

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.

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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 and the quarterly periods ended March 31, 2008, June 30, 2008, and September 30, 2008; 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

SIX AND THREE MONTHS ENDED JUNE 30, 2008 COMPARED TO

SIX AND THREE MONTHS ENDED JUNE 30, 2007

REVENUES FROM PRODUCTS SALES Increased by $1,115,000 or 94% in the six months ended June 30, 2008 from $1,181,000 in the same period in 2007 to $2,296,000. For the three months period ended June 30, 2008, revenues increased 188% from $601,000 in 2007 to $1,728,000 in 2008. The increase in sales is attributed to increased sales efforts and fruition of some projects the Company is involved with. As we are still an 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.

COST OF GOODS SOLD was $3,268,000 and $1,568,000 for the six months ended June 30, 2008 and 2007, respectively. For the three months period ended June 30, 2008, cost of goods sold increased 228% from $585,000 in 2007 to $1,919,000 in 2008. The increase in the cost of goods sold is a result of production changes. 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 six months ended June 30, 2008 decreased by 9% to $1,489,000 from $1,630,000 in the same period in 2007. For the three months period ended June 30, 2008, engineering, research and development expenses decreased 16% from $893,000 in 2007 to $749,000 in 2008. These expenses are primarily derived 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 engineering and development time dedicated to advancement of manufacturing processes as well as time associated with the installation of new production equipment.

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GENERAL AND ADMINISTRATIVE EXPENSES during the six months ended June 30, 2008 increased by $304,000 or approximately 11% to $3,104,000 from $2,800,000 in the same period in 2007. This increase reflects our efforts to move to larger scale manufacturing, hiring of professional consultants, and increased financing related efforts and costs. For the three months period ended June 30, 2008, general and administrative expenses decreased 5% from $1,547,000 in 2007 to $1,472,000 in 2008. The decrease in the second quarter of 2008 reflects our efforts to reduce overhead costs company wide.

SALES AND MARKETING EXPENSES were $356,000 for the six months ended June 30, 2008, an increase of 75% from the same period in 2007. For the three months period ended June 30, 2008, sales and marketing expenses increased 95% from $133,000 in 2007 to $259,000 in 2008. The increase in this expense is attributed to our increased efforts to sell our products around the world. 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 six months ended June 30, 2008 increased by $126,000 or 28% to $583,000 from $457,000 in the same period in 2007. For the three months period ended June 30, 2008, depreciation and amortization expenses increased 32% from $233,000 in 2007 to $308,000 in 2008. The increase is a result of additional fixed assets in our Company.

INTEREST EXPENSE, NET OF INTEREST INCOME Interest expense, net of interest income for the six months ended June 30, 2008 decreased by $1,126,000 or 84% to $210,000 from $1,336,000 in the same period in 2007. For the three months period ended June 30, 2008, interest expense decreased 88% from $700,000 in 2007 to $82,000 in 2008. The decrease in interest expense is a result of debt repayments and settlements that occurred in the first quarter of 2008.

INTEREST EXPENSE RELATED TO BENEFICIAL CONVERSION Charge for beneficial conversion feature was $3,772,000 and $1,575,000, respectively, in the six months ended June 30, 2008 and 2007. For the three months period ended June 30, 2008, interest expense related to beneficial conversion increased to $74,000 in 2008 from $0 in the same period in 2007. For more information concerning this, please refer to the Notes to Financial Statement contained herein.

WARRANTS EXPENSE Charges for warrants were $8,423,000 and $(15,367,000) respectively, in the six months period ended June 30, 2008 and 2007. For the three months period ended June 30, 2008, warrants expenses decreased 83% from $13,906,000 in 2007 to $2,334,000 in 2008. Warrants valuation is marked to market every reporting period using Black-Scholes valuation model. Fluctuations resulting from the valuation of the warrants liability are reflected in the Statement of Operations. Approximately $2.6 million of the gain recorded in the Statement of Operations for the six months period ended June 30, 2008 resulted from revaluation of Yorkville Advisors (f/k/a/Cornell Capital) warrants immediately prior to the exercise.

NET (LOSS) TO COMMON SHAREHOLDERS $(3,712,000) or $(0.00) per share for the six months ended June 30, 2008 as compared to a net loss of $(35,607,000) or $(0.03) per share for the six months ended June 30, 2007.

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 June 30, 2008, our accumulated deficit was $132,881,000.

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LIQUIDITY AND FINANCIAL CONDITION

GENERAL

On June 30, 2008, cash and cash equivalents were $655,000. Total liabilities on June 30, 2008 were $23,838,000 consisting of all current liabilities. On June 30, 2008, assets included $3,316,000 in inventories, net property and equipment of $8,361,000, and prepaid expenses and other assets of $518,000. As of June 30, 2008, our working capital deficit was $18,698,000 as compared to $25,444,000 on December 31, 2007. We expect to incur substantial operating losses as we continue our commercialization efforts.

Our debt and other liabilities as of June 30, 2008 and December 31, 2007 were as follows:

	June 30, 2008	December 31, 2007
Current debt is summarized as follows:		
July 2007 10% Convertible Debenture, net of discount	$ 3,193,000	$ 3,048,000
June 2008 9% Convertible Debenture, net of discount	2,133,000	
Loans From Financial Institutions	122,000	104,000
Silent Partner loans-TBG	2,423,000	2,259,000
Sub total current debt	7,871,000	5,411,000
Related party debt:		
Subordinated Loans from related party	826,000	6,272,000
Promissory Notes	3,727,000	60,000
Sub total Related party debt	4,553,000	6,332,000
Warrant liability	4,640,000	15,550,000
Total current debt	$ 17,064,000	$ 27,293,000

For more detailed information on long-term liabilities, see Note 8 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 June 30, 2008. See also the Notes to Consolidated Financial Statements included with this Report.

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 were convertible at the option of Cornell Capital any time up to maturity at a conversion price equal to $0.06 per share. The debentures had 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 three times as described in our financial reports for the year 2007.

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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.

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. In the Third Amendment the Company also agreed to pay Cornell Capital a forbearance fee of $375,000.

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. As of December 31, 2007 the Company reported a warrant liability for the Cornell warrants of $5,123,000.

On March 6, 2008 Yorkville Advisors (f/k/a Cornell Capital) exercised all their warrants (40,000,000) into common shares of the Company at an exercise price of $0.0128 for a total cash consideration of $512,000. The Company revalued the Cornell warrant liability immediately prior to the exercise and recognized a gain on the change in the fair value of the warrants in the Statement of Operations of $2,635,000. Warrant liability immediately prior to exercise was $2,488,000. This warrant liability was then reclassified to common stock at par value of $400,000 for 40,000,000 newly issued common shares and the balance of $2,600,000 to additional paid in capital.

JULY 2007 10% CONVERTIBLE DEBENTURE

On July 11, 2007, the European Subsidiaries Debt and accrued interest was satisfied with the payment of 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. As of June 30, 2008 and December 31, 2007, $3,193,000 and $3,048,000 was outstanding under the convertible debenture net of debt discount of $54,000 and $199,000, respectively. As of June 30, 2008 and December 31, 2007, accrued interest of $317,000, and $154,000, respectively, was outstanding under the Convertible Note. Upon issuance, the Company recorded a discount from beneficial conversion feature of $325,000 that is amortized over the life of the note using the effective interest method.

9% CONVERTIBLE NOTES

The Company closed on a convertible debt financing with four institutional investors from June 12, 2008 to June 26, 2008 (the Lenders) for a total of Euros 1.35 million (approximately U.S. $2,133,000) (the June 2008 Financing). The Company issued its convertible notes (the Convertible Notes) to the Lenders in connection with the June 2008 Financing.

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The Convertible Notes are convertible at $0.10 per share into Company common stock or any equity securities issued by the Company after the date of issuance of the Convertible Notes. The Convertible Notes accrue interest at 9% per annum and are due and payable on September 30, 2011 (the Maturity Date). All obligations of the Company under the Convertible Notes will be secured by security interests in all of the tangible and intangible fixed assets, including real estate, of the Company.

Prior to the Maturity Date, the Convertible Notes are due and payable within three months of a Change in Control of the Company or a Financing . Change in Control of the Company is defined to have occurred if, at any time following the date of the Convertible Notes: (A) any person or group (as such terms are used in Sections 3(a)(9) and 13(d)(3) of the Securities Exchange Act of 1934, as amended (the Exchange Act)) (other than the shareholders of the Company identified in (1) Amendment No. 16/6 to Schedule 13D filed with respect to the Company on April 29, 2008 and (2) Schedule 13D filed with respect to the Company on June 2, 2008) becomes a beneficial owner (as such term is used in Rule 13d-3 promulgated under the Exchange Act), directly or indirectly, of securities of the Company representing 50% or more of the combined voting power of the Company s then outstanding securities; (B) a change in control of the Company (as the term control is defined in Rule 12b-2 or any successor rule promulgated under the Exchange Act) shall have occurred; (C) the shareholders or the Board of Directors of the Company approve a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company of all or substantially all of the Company s assets; or (D) the shareholders or the Board of Directors of the Company approve a merger or consolidation of the Company with any other company, other than a merger or consolidation which would result in the combined voting power of the Company s voting securities outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than 50% of the combined voting power of the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation. Financing is defined as the consummation by the Company or any of its subsidiaries of any debt or equity financing in excess of $20,000,000.

The Convertible Notes provide that in the event of the receipt by the Company or any of its subsidiaries of any proceeds from any Asset Sale or Insurance/Condemnation Award , the Company shall apply within thirty (30) Business Day after the receipt thereof the net after-tax proceeds therefrom to pay in cash the principal and all accrued but unpaid interest hereunder. Asset Sale means any sale, transfer, conveyance or other disposition by the Company or any of its subsidiaries of any of its property or assets, other than the sale of inventory in the ordinary course of business. Insurance/Condemnation Award means the receipt by the Company or any of its subsidiaries of any proceeds received under any casualty insurance polity maintained by or for the benefit of the Company or any of its subsidiaries or as a result of the taking of any assets of the Company or any of its subsidiaries pursuant to the power of eminent domain or condemnation.

LOANS FROM FINANCIAL INSTITUTIONS

GAIA has two loans from financial institutions, which totaled $122,000 and $104,000 as of June 30, 2008 and December 31, 2007, respectively, that are collateralized by the assets of the Company and bear European commercial standard rates.

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 June 30, 2008 and December 31, 2007 was $2,423,000 and $2,259,000, 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

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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 $826,000 and $6,272,000 as of June 30, 2008 and December 31, 2007. 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.

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 64% beneficial owner of the Company, settled $2,146,529 of Arch Hill s outstanding debt by issuing 45,016.84 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 was recorded on the Series C. Per paragraph 5 of EITF 98-5, the embedded beneficial conversion feature was 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 was 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 is reflected on the income statement as a decrease of income 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, and is included in the Promissory Notes balance account detailed below. 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 was recorded on the remaining debt.

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

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PROMISSORY NOTES

At various times during 2004, Arch Hill Capital advanced a total of $3.5 million to LTC under the Bridge Financing Agreement.

As of June 30, 2008 and December 31, 2007, the outstanding debt was $3,727,000 and $60,000. This amount represents the balance of $3,627,179 which remains payable to Arch Hill after issuance of the Series C Preferred Stock, from the February 26, 2008 Debt Settlement as described above plus accrued interest.

SERIES C CONVERTIBLE PREFERRED STOCK

During the first quarter of 2008, the Company and Arch Hill, which is approximately 64% 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.

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.

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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.

Management plans to use a more aggressive pricing structure through price reductions to be able to address the market more aggressively in order to obtain larger volume contracts. This price reduction will have an impact on the valuation of the finished goods inventory which will be accounted for in the third quarter ended September 30, 2008. All proposals sent out prior to the third quarter were based on the Company s pricing structure prior to any price reductions.

We have recently entered into a number of financing transactions (see Notes 8 and 10). 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 June 30, 2008, we had an accumulated deficit of approximately $132,881,000. 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, 2007 are those that depend most heavily on these judgments and estimates. As of June 30, 2008, there have been no material changes to any of the critical accounting estimates contained in our 2007 Annual Report on Form 10-KSB.

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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 YEAR ENDED DECEMBER 31, 2007, INVESTORS SHOULD BE AWARE OF THE FOLLOWING RISKS:

WE HAVE A WORKING CAPITAL LOSS, WHICH MEANS THAT OUR CURRENT ASSETS ON JUNE 30, 2008 WERE NOT SUFFICIENT TO SATISFY OUR CURRENT LIABILITIES. We had a working capital deficit of approximately $18,698,000 at June 30, 2008, which means that our current liabilities exceeded our current assets on June 30, 2008. 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 June 30, 2008, we had total consolidated current indebtedness of approximately $23,838,000. 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 $132,881,000 from inception to June 30, 2008, including approximately $3,969,000 of loss to common shareholders in the quarter ended June 30, 2008. We expect to incur substantial additional operating losses in the future. During the six months ended June 30, 2008 and 2007, we generated revenues from product sales in the amounts of $2,296,000 and $1,181,000, 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 quarter ended September 30, 2008 has not yet been filed. We have been working diligently with our auditors to complete the reviews of our quarter-end financial statements on a timely manner. We have also engaged outside expertise to assist us in this process. Nevertheless, the delay in the completion of the audit of the yearend 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 be traded and 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.

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WE FACE RISKS RELATED TO LATE TAX FILINGS. The Company has not filed its mandatory tax filling 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 fourth quarter of 2008.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 4T. CONTROLS AND PROCEDURES

Evaluation of Disclosure 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 June 30, 2008. 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.

As a result, management concluded that the Company s internal control over financial reporting was not effective as of June 30, 2008.

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.

Changes in Internal Controls

There were no changes in the Company s internal control over financial reporting that occurred during the quarter ended June 30, 2008 that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

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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. 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. This matter has not been resolved as of the date of this report.

Andrew J. Manning, a former employee of the Company, filed a complaint in October 2008, in the Superior Court of New Jersey, Morris County, Law Division, against the Company and other parties, alleging breach of contract, breach of covenant of good faith and fair dealing, negligent misrepresentation, tortious interference with Mr. Manning s economic gain, retaliation, unjust enrichment, and intentional infliction of emotional distress. The Company and management believe that the allegations in the Complaint have no merit and the Company intends to vigorously defend the suit. This matter has not been resolved as of the date hereof.

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 1A. RISK FACTORS

As a smaller reporting company as defined by Item 10 of Regulation S-K, the Company is not required to provide information required by this Item.

ITEM 2. UNREGISTERED SALES OF SECURITIES AND USE OF PROCEEDS

All of the unregistered sales of the Company s securities during the second quarter of 2008 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.

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ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

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

10.79	Governance Agreement dated April 28, 2008, among the Company, the Investors listed on Schedule A thereto, Stichting Gemeenschappelijk Bezit LTC and Arch Hill Capital N.V. [(1)]
10.80	Business Consultant Agreement dated April 28, 2008 between the Company and Christiaan A. van den Berg. [(1)]
10.81	Business Consultant Agreement dated April 28, 2008 between the Company and Fred J. Mulder. [(1)]
10.82	Business Consultant Agreement dated April 28, 2008 between the Company and OUIDA Management Consultancy B.V. [(1)]
10.83	Business Consultant Agreement dated April 28, 2008 between the Company and Romule B.V. [(1)]
10.84	Form of 9% Convertible Notes. [(2)]
31.1	Certification of Chief Executive Officer and Acting Principal Financial Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002 +
32.1	Certification of Chief Executive Officer and Acting Principal 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 Current Report on Form 8-K dated April 28, 2008.

(2) Incorporated by reference to LTC s Current Report on Form 8-K/A dated June 30, 2008.

\+ Exhibit filed herewith in this Report.

(b) Reports on Form 8K. During the quarter ended June 30, 2008, we filed the following Reports on Form 8-K:

We filed a Report on Form 8K dated April 28, 2008, reporting on a Governance Agreement, two Consulting Agreements and actions taken pursuant to the Governance Agreement relating to the Board and other matters.

We filed a Report on Form 8K dated June 26,2008, reporting on the appointment of Theo M.M. Kremers as the Chief Executive Officer of the Company, and Dr. Klaus Brandt as the Chief Technology Officer and President of the Company.

We filed a Report on Form 8K dated June 30, 2008 reporting on the closing of a convertible debt financing.

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SIGNATURES

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

	LITHIUM TECHNOLOGY CORPORATION
Date: December 30, 2008	BY: /s/ Theo M. M. Kremers Theo M. M. Kremers Chief Executive Officer (Principal Executive Officer and Acting Principal Financial Officer)