LITHIUM TECHNOLOGY CORP
Form 10-Q/A
August 21, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q/A-1

(Mark One)
x QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the Quarterly Period ended September 30, 2008

OR

o 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 Incorporation or Organization)	(I.R.S. Employer Identification No.)

5115 CAMPUS DRIVE, PLYMOUTH MEETING, PENNSYLVANIA 19462

(Address of Principal Executive Offices) (Zip Code)

(610) 940-6090

(Issuer's Telephone Number, Including Area Code)

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 o 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 o	Accelerated filer o	Non-accelerated filer o (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 o 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 August 19, 2009, 746,397,618 shares of common stock.

LITHIUM TECHNOLOGY CORPORATION AND SUBSIDIARIES
FORM 10-Q
FOR THE QUARTER ENDED SEPTEMBER 30, 2008
INDEX

EXPLANATORY NOTE

This is Amendment No. 1 (the "Amendment") to the Quarterly Report on Form 10-Q for the quarter ended September 30, 2008 filed by Lithium Technology Corporation on May 22, 2009 (the "Original Form 10-Q"). This Amendment amends and replaces the Original Form 10-Q in its entirety.

PART I.

FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

LITHIUM TECHNOLOGY CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2008 (unaudited)	December 31, 2007 (audited)
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 296,000	$ 4,458,000
Accounts receivable	241,000	527,000
Inventories	2,326,000	3,320,000
Prepaid expenses and other current assets	409,000	703,000
Total current assets	$ 3,272,000	$ 9,008,000
Property and equipment, net	7,332,000	7,789,000
Related party receivables	277,000	579,000
Other assets	152,000	155,000
Total assets	$ 11,033,000	$ 17,531,000
LIABILITIES AND STOCKHOLDERS DEFICIT		
CURRENT LIABILITIES:		
Accounts payable	$ 2,671,000	$ 2,704,000
Accounts payable - related parties	-	1,623,000
Accrued salaries	241,000	83,000
Accrued interest	701,000	504,000
Current portion of long term debt	5,562,000	5,411,000
Related party debt	5,254,000	6,332,000
Other current liabilities and accrued expenses	1,307,000	2,245,000
Warrant liability	890,000	15,550,000
Total current liabilities	$ 16,626,000	$ 34,452,000
LONG TERM DEBT		
Long term debt, net of current	3,776,000	-
Total liabilities	$ 20,402,000	$ 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 September 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: 233,300 at September 30, 2008 and 218,183 at December 31, 2007	2,000	2,000

Common stock, par value $.01 per share, authorized - 750,000,000 at September 30, 2008 and December 31, 2007 respectively; issued and outstanding - 745,924,782 and 630,924,782		7,459,000			6,309,000	
Additional paid-in capital		122,152,000			111,998,000	
Cumulative translation adjustments		(3,851,000	)		(4,172,000	)
Accumulated deficit		(135,132,000	)		(131,059,000	)
Total stockholders deficit	$	(9,369,000	)	$	(16,921,000	)
Total liabilities and stockholders deficit	$	11,033,000		$	17,531,000	

See accompanying notes to condensed consolidated financial statements.

LITHIUM TECHNOLOGY CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

	NINE MONTHS ENDED SEPTEMBER 30,		THREE MONTHS ENDED SEPTEMBER 30,	
	2008 (unaudited)	2007 (unaudited)	2008 (unaudited)	2007 (unaudited)
REVENUES				
Products and services sales	$3,602,000	$2,024,000	$1,306,000	$843,000
COSTS AND EXPENSES				
Cost of goods sold	5,410,000	2,602,000	2,142,000	1,034,000
Engineering, research and development	1,494,000	2,320,000	5,000	690,000
General and administrative	4,424,000	3,930,000	1,320,000	1,130,000
Stock based compensation expense	-		-	
Sales and marketing	537,000	318,000	181,000	236,000
Depreciation	1,150,000	693,000	567,000	114,000
Total costs and expenses	$13,015,000	$9,863,000	$4,215,000	$3,204,000
Income (Loss) from operations	$(9,413,000)	$(7,839,000)	$(2,909,000)	$(2,361,000)
OTHER INCOME (EXPENSE)				
Interest expense, net of interest income	$(485,000)	$(1,588,000)	$(275,000)	$(252,000)
Interest expense related to amortization of discount on convertible debt	(3,827,000)	(1,633,000)	(55,000)	(58,000)
Warrant expense/change in fair value income	9,643,000	(16,242,000)	1,220,000	(875,000)
Other	9,000	(18,000)	(232,000)	33,000
Total other income (expense)	(5,340,000)	(19,481,000)	658,000	(1,152,000)
NET INCOME (LOSS)	$(4,073,000)	$(27,320,000)	$(2,251,000)	$(3,513,000)
Dividends on preferred shares		(58,000)		(18,000)
Discount related to beneficial conversion feature of Preferred Stock	(2,147,000)	(11,274,000)	-	(137,000)
NET INCOME (LOSS) TO COMMON SHAREHOLDERS	$(6,220,000)	$(38,652,000)	$(2,251,000)	$(3,668,000)
OTHER COMPREHENSIVE INCOME (LOSS)				
Currency translation adjustments	321,000	(623,000)	(189,000)	
COMPREHENSIVE INCOME (LOSS)	$(5,899,000)	$(39,275,000)	$(2,440,000)	$(3,668,000)
Weighted average number of common shares outstanding:	1,559,832,447	1,124,583,396	1,593,027,896	1,297,721,107
Basic and diluted net (loss)/income per share	$(0.00)	$(0.03)	$0.00	$(0.00)

See accompanying notes to condensed consolidated financial statements.

LITHIUM TECHNOLOGY CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	September 30, 2008	September 30, 2007
CASH FLOW FROM OPERATING ACTIVITIES		
Net loss	$(4,073,000)	$ (27,320,000)
Adjustments		
Depreciation expense	810,000	693,000
Impairment charge for fixed assets	225,000	-
Bad debt expense	160,000	-
Stock-based compensation expense	-	-
Loss on sale of property and equipment	81,000	-
Warrant income/change in fair value	(9,643,000)	16,242,000
Interest expense beneficial conversion feature	3,826,000	1,633,000
(Increase)/decrease in assets		
Inventories	994,000	(468,000)
Accounts receivable	428,000	(414,000)
Prepaid expenses and other assets	294,000	(206,000)
Increase/(Decrease) in liabilities		
Accounts payable & accrued expenses	(489,000)	(3,133,000)
Other current liabilities	-	(140,000)
Net cash used in operating activities	$(7,387,000)	$ (13,113,000)
CASH FLOW FROM INVESTING ACTIVITIES		
Capital Expenditures	$(715,000)	$ (1,273,000)
Net cash used in investing activities	$(715,000)	$ (1,273,000)
CASH FLOW FROM FINANCING ACTIVITIES		
Repayment of debt	$(105,000)	$ (10,106,000)
Proceeds from loans from related parties	100,000	-
Proceeds from issuance of convertible debt	3,776,000	3,179,000
Proceeds from exercise of warrants	512,000	-
Proceeds from equity issuance	-	19,569,000
Net cash provided by financing activities	$4,283,000	$ 12,642,000
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	$(3,819,000)	$ (1,744,000)
CURRENCY EFFECTS ON CASH AND CASH EQUIVALENTS	(343,000)	47,000
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	4,458,000	1,976,000
CASH AND CASH EQUIVALENTS, END OF PERIOD	$296,000	$ 279,000

See accompanying notes to consolidated financial statements.

LITHIUM TECHNOLOGY CORPORATION
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1—BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and rules and regulations of the Securities and Exchange Commission (the "SEC") applicable to interim periods. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. These financial statements should be read in conjunction with the Company's financial statements included in the Company's Annual Reports on 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.

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

The Company's operating plan seeks to minimize 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 entered into a number of financing transactions. (see Notes 7 and 9) and is continuing to seek other financing initiatives. Such capital is expected to come from the sale of securities and debt financing. The Company believes that if it raises approximately $7 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 and to meet expansion plans.

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

NOTE 3—SIGNIFICANT ACCOUNTING POLICIES

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

NOTE 4—INVENTORIES

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

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

	September 30, 2008 (unaudited)	December 31, 2007 (audited)
Finished Goods	$ 1,221,000	$ 1,814,000
Work In Process	344,000	757,000
Raw Materials	761,000	749,000
	$ 2,326,000	$ 3,320,000

NOTE 5—PROPERTY AND EQUIPMENT

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

	September 30, 2008 (unaudited)	December 31, 2007 (audited)
Land and buildings	$ 4,012,000	$ 3,756,000
Technical and laboratory equipment	8,552,000	8,864,000
Asset under construction and equipment deposit	309,000	285,000
Office equipment and other	1,094,000	987,000
Less: Accumulated depreciation and amortization	(6,635,000)	(6,103,000)
	$ 7,332,000	$ 7,789,000

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

NOTE 6—INCOME TAXES

Dutch tax legislation does not permit a Dutch parent company and its foreign subsidiaries to file a consolidated Dutch tax return. Dutch resident companies are taxed on their worldwide income for corporate income tax purposes at a statutory rate of 35%. No further taxes are payable on this profit unless that profit is distributed. If certain conditions are met, income derived from foreign subsidiaries is tax exempt in the Netherlands under the rules of the Dutch "participation exemption". However, certain costs such as acquisition costs and interest on loans related to foreign qualifying 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 September 30, 2008 is as follows:

	Foreign	Domestic	Total
Tax loss carry forwards	$23,930,000	$21,233,000	$45,163,000
Less valuation allowance	(23,930,000)	(21,233,000)	(45,163,000)
	$-	$-	$-

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

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

NOTE 7—DEBT

	September 30, 2008	December 31, 2007
Current debt is summarized as follows:		
Loans From Financial Institutions	$ 99,000	$ 104,000
Silent Partner loans-TBG	2,216,000	2,259,000
July 2007 10% Convertible Debenture, net of discount	3,247,000	3,048,000
Sub total current debt	$ 5,562,000	$ 5,411,000
Related Party debt		
Subordinated Loans from Arch Hill	$ 3,627,000	$ 7,955,000
Promissory Note to Arch Hill	1,627,000	-
Sub total Related Party debts	$ 5,254,000	$ 7,955,000
June 2008, 9% Convertible Note, net of discount	$ 3,776,000	$ —
Warrant liability	890,000	15,550,000
Total debt	$ 15,482,0000	$ 28,916,000

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. $3,247,000 (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 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 September 30, 2008 and December 31, 2007, $3,247,000 and $3,048,000 was outstanding under the convertible debenture net of debt discount of $0 and $199,000, respectively. As of September 30, 2008 and December 31, 2007, accrued interest of $400,000, 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.

As of September 1, 2008 the debenture has been extended for an additional six months, under the same conditions. The interest on the unpaid accrued interest as of September 1, 2008 increased from 10% to 12%. On March 1, 2009 the note has been extended a second time until January 1, 2010.

JUNE 2008 9% CONVERTIBLE NOTES

The Company closed on a convertible debt financing (the “June 2008 Financing”) with several institutional investors from June 12, 2008 to September 30, 2008 (the “Lenders”) for a total of Euros 2.60 million (approximately U.S. $4,036,000). The accrued interest on this amount was 57k€ (approximately U.S. $84,000) as of September 30, 2008. 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.

In March 2009 the Board of Directors of the Company approved a reduction of the conversion price to $0.07. This reduction will apply to all holders of convertible notes .

Based upon the decreased conversion price and under assumption that all note holders would voluntary choose for a conversion into shares, the Note, principal and accrued interest, would per September 30, 2008 convert into 58,901,599 common shares.

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 $99,000 and $104,000 as of September 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- TBG

Technology-Beteiligungs-Gesellschaft GmbH der Deutschen Ausgleichsbank (“TBG”) has provided a partnership loan, which bears interest at 6% per annum. The total amount payable to TBG under the Partnership Agreements at September 30, 2008 and December 31, 2007 was $2,216,000 and $2,259,000, respectively. TBG is entitled to receive an annual 12% share in profits related to its contributions under the TBG Partnership Agreement. 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 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 TBG Partnership Agreement terminated in December 2008.

TBG has contacted the Company and has claimed under the terms of the agreement the remuneration in the amount of $1,297,000 (920,000 Euros). Management asserts that TBG has not met the terms of the agreement and is not entitled to the above amount.

GAIA is negotiating with TBG to convert the TBG Partner Agreement into a long term loan bearing an interest rate of 6% per annum, including a repayment schedule.

SUBORDINATED LOANS FROM RELATED PARTY

GAIA has received subordinated loans from Arch Hill, a related party, which totaled $3,627,000 and $6,272,000 as of September 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 $3,627,000 remains payable to Arch Hill after issuance of the Series C Preferred Stock, and is included in the Promissory Notes balance. 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 $3,627,000. 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.

On March 2, 2009 the Company filed a restated Certificate of Incorporation in which it increased the amount of authorized common shares to 3 Billion. As part of this increase the Company will be able to transfer the above mentioned debt to Arch Hill into 190,172,300 common shares.

PROMISSORY NOTES – RELATED PARTY

Arch Hill Real Estate N.V. had over the period 2004 and 2005 billed an amount of $70,000 per month as management fees to Gaia Holding BV. The amount was unpaid as per September 30, 2008 and is included in the promissory notes of $1,627,000 from Arch Hill, in which balance unpaid management fees and unpaid interest for the years 2004-2008 are included. The accrued interest related to the notes in 2008 was approximately $93,000.

NOTE 8—COMMITMENTS AND CONTINGENCIES

BUILDING LEASE

The Company was leasing a 12,400 square foot facility at 5115 Campus Drive in Plymouth Meeting, Pennsylvania pursuant to a Lease Agreement with PMP Whitemarsh Associates dated July 22, 1994, as amended. The facility was being leased under a one-year lease extension that commenced on April 1, 2008 and ended on March 31, 2009. The base annual rent under this lease agreement was $160,000. LTC did not extend the lease after March 31, 2009. In August 2008 the Company signed an Asset Purchase Agreement with Porous Power Technologies and a Sublease Agreement with Porous Power Technologies. At the facility, the Company sold some of the assets to Porous Power Technologies, the others which could be of use to the Company at its manufacturing facility in Nordhausen, Germany were shipped from Plymouth Meeting to Nordhausen, Germany. Porous Power Technologies has been sub-tenant to the Company at the Company's Plymouth Meeting facility from August 2008 until March 31, 2009. Porous Power Technologies signed a lease agreement for the Plymouth Meeting facility on April 1, 2009. The Company signed a six month sublease agreement on April 1, 2009 with Porous Power Technologies of a total rent of $42,000 ($7,000 per month), with the possibility to extend the sublease for 3 month periods. This facility has sufficient space to meet the Company's near-term needs in the United States. The Company's corporate headquarters are located at the Plymouth Meeting, Pennsylvania facility.

On July 16, 2007 the Company entered into an Agreement of Sublease with Arch Hill N.V. ("Arch Hill") for the sublease by the Company of office space in the Netherlands. The Sublease commenced July 16, 2007 and terminated January 1, 2008. The office space will be used by the coordinators of the project and the management of the Company. The monthly payment is $15,500.

LITIGATION

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, 2008 a lawsuit was filed in Montgomery County against the Company in this matter. Management asserts that no services were rendered to satisfy any compensation. The Court has dismissed the case with prejudice on March 30, 2009. The Company was responsible for its own legal fees in this matter.

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.

NOTE 9—STOCKHOLDERS EQUITY

SERIES A PREFERRED STOCK

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

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

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

During 2007 the Company closed on the sale of Series C Preferred Stock in several private placement transactions. The Company sold 119,481 shares of Series C Preferred Stock for an aggregate purchase price of $17,922,117. Each share of Series C Preferred Stock is convertible into 2,500 shares of Company common stock. At a purchase price of $150 per share of Series C Preferred Stock, the effective purchase price for each underlying share of Company common stock is $0.06 per share. Additionally, the Company sold 35,868 shares of Series C Preferred Stock for an aggregate purchase price of $9,466,875. Each share of Series C Preferred Stock is convertible into 2,500 shares of Company common stock. At a purchase price of $250 per share of Series C Preferred Stock, the effective purchase price for each underlying share of Company common stock is $0.10 per share. The Company did not pay any underwriting discounts or commissions in connection with the sale of the Series C Preferred Stock in this transaction. For issuances of convertible Preferred Stock with beneficial conversion feature the discount is recognized upon issuance. In 2007 $16,242,000 was recorded, and the amount is reflected as an increase to the Net Loss to common shareholders in the Company's statement of operation.

On November 28, 2006, the Company filed with the Secretary of State of the State of Delaware a Certificate of Designation of Series C Preferred Stock (the "Certificate of Designation") designating 300,000 of the Company's authorized preferred stock as Series C Preferred Stock. The Certificate of Designation was approved by the Company's Board of Directors.

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. 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.

On September 3, 2008 30,000 shares of Series C Preferred Stock held by investors were converted into 75,000,000 shares of the Company’s common stock.

NOTE 10—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:

	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007
Revenues				
Domestic Operations	$ 1,115,000	$ 1,401,000	$ 316,000	$ 376,000
European Operations	2,487,000	623,000	990,000	204,000
	$ 3,602,000	$ 2,024,000	$ 1,306,000	$ 580,000

	September 30, 2008	December 31, 2007
Long-lived assets, net		
Domestic Operations	$ 3,000	$ 101,000
European Operations	7,329,000	7,688,000
	$ 7,332,000	$ 7,789,000

NOTE 11—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 nine and three months ended September 30, 2008 and 2007 was as follows:

	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007
Series B Preferred Stock	264,103,114	264,103,114	264,103,114	264,103,114
Series C Preferred Stock	627,496,459	402,214,507	635,988,730	257,149,900
Common Stock	668,232,874	458,264,775	692,936,052	776,468,093
Total	1,559,832,447	1,124,582,396	1,593,027,896	1,297,721,107

Due to net losses in all periods ended September 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 September 30, 2008 there are 71,970,035 warrants outstanding with a weighted average exercise of $0.587.

As of September 30, 2008, 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. On March 25, 2009, the Company filed an Amendment to its Restated Certificate of Incorporation with the Secretary of State of the State of Delaware, to increase the number of authorized shares of the Company’s common stock to 3,000,000,000 shares.

NOTE 12—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.

Consulting Agreements

On October 1, 2007, the Company entered into an employment agreement with Ken Rudisuela to serve as the Chief Operating Officer of the Company. The employment agreement provides for a three year term commencing on October 1, 2007. Under the employment agreement, Mr. Rudisuela will receive a base annual salary of $200,000 and such additional compensation that is approved by the Board of Directors of the Company. If Mr. Rudisuela is terminated by the Company other than for cause, Mr. Rudisuela will be entitled to receive his base salary for a period equal to the lesser of 6 months from the date of termination or the remaining term of the employment agreement.

On January 1, 2008, Dr. Klaus Brandt entered into a new employment contract with GAIA for a three year term. Under this employment agreement, Dr. Brandt will receive a base annual salary of €200,000 and such additional compensation that is approved by the Board of Directors of the Company.

On June 26, 2008 Dr. Klaus Brandt was appointed as the Chief Technology Officer of Lithium Technology Corporation. Prior to this Dr. Klaus Brandt was the Chief Executive Officer of Lithium Technology Corporation by the Company’s Board of Directors. Prior to this Dr. Klaus Brandt has been serving as a Director of the Company since September 27, 2006 and as an Executive Vice President since June 2005. Additionally, Dr. Brandt has been serving as the Managing Director of the Company’s subsidiary, GAIA, since April 2005. Pursuant to the employment agreement with Dr. Brandt, which expired on December 31, 2008, he served as the Managing Director of GAIA.

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).

On October 14, 2008, the Company entered into a Transition and Termination Agreement (the “Agreement”) with the Company’s Former Chief Financial Officer. The Agreement calls for a lump sum termination payment of $225,000 plus accrued but unpaid vacation. In addition, the Company agreed to issue 1,500,000 shares of the Company ‘s common stock to the former CFO as additional consideration. The Company recorded compensation expense of $83,000 related to the stock grant based on the fair value of the Company’s stock on the date of the agreement, calculated using the Black-Scholes method.

For the period October 1, 2006 until April 1,2008 an advisory services agreement by Fidessa Asset Management S.A. was signed by LTC. For these services Fidessa Asset Management S.A. received fees of $450,000 in 2007 and $300,000 in 2008. Additionally Fidessa Asset Management S.A. is entitled to receive an equity compensation of 16,666,667 of common shares. As of September 30, 2008 these shares have not been delivered by the Company

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 had 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 on 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 to the Company.

NOTE 13—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.

June 2008 9% Convertible Notes

The Company closed on additional debt financings under the June 2008 Financing described herein (see Note 8) with seven institutional investors from October 6, 2008 to December 23, 2008 for a total of Euros 2,213,102 (approximately U.S. $2,934,307).

In March 2009 the Board of Directors of the Company approved a reduction of the conversion price of the Convertible Notes from to $0.10 per share to $0.07. This reduction will apply to all holders of Convertible Notes.

In April, 2009 the Company received confirmation from one of the investors that the terms and conditions of the June 2008 9% convertible loan will apply to a the loan of EUR 100,000 which was originally granted as a bridge loan in 2008. The amount of EUR 100,000 is included in the balance of the June 2008 9% convertible note.

Advisor to Board Appointed

As of December 1, 2008, Mr. Ben van Schaik has been appointed as an Advisor to the Board of Directors of Incorporation the Company. Mr. van Schaik has been asked to serve as an Advisor on account of his long standing experience in the automotive sector, as well as his extensive network within the industry. Mr. van Schaik will be paid €15,000 per year for his services.

Increase in Authorized Shares of Common Stock

On March 25, 2009, the Company filed an Amendment to its Restated Certificate of Incorporation with the Secretary of State of the State of Delaware, to increase the number of authorized shares of the Company's common stock to 3,000,000,000 shares (the "Authorization Date"). The amendment of the Company's Restated Certificate of Incorporation to reflect the increase was approved by the Company's Board of Directors and the holders of a majority of the Company's common stock in October 2008. An information statement describing the amendment was mailed to stockholders on February 10, 2009 and became effective on March 2, 2009. The increase in the number of authorized shares of common stock is needed in order for the Company to have an adequate reserve of common stock available for issuance upon conversion of existing convertible securities and exercise of outstanding options and warrants and to satisfy certain commitments to issue common stock.

The terms of the Company's Series C Preferred Stock provide for the automatic conversion of each outstanding share of Series C Preferred Stock into 2,500 shares of Company common stock ninety (90) days following authorization and reservation of a sufficient number of shares of Common Stock by all requisite action by the Corporation, including action by the Board and by the shareholders of the Corporation, to provide for the conversion of all outstanding shares of Series C Preferred into fully paid and nonassessable shares of Common Stock. Accordingly, all shares of Series C Preferred Stock outstanding on June 23, 2009, ninety (90) days of the Authorization Date, will be converted into shares of common stock.

2007 Convertible Debenture Extension

On March 1, 2009 the July 2007 10% Convertible Debenture has been extended a second time until January 1, 2010.

Other

In March 2009 LTC received a request from Frankendael Participatiemaatschappij NV ("Frankendael") to confirm to Frankendael the outstanding amount as part of the "Stille Beteiligung" loan agreement of March 1999 (the "Frankendael Debt"), which would mature after 10 years. Management is of the opinion that there is no outstanding amount due from either LTC or GAIA to Frankendael due to the transfer of the Frankendael Debt from Frankendael to Arch Hill Ventures and the October 2005 debt exchange between Arch Hill Ventures and the Company, as reported in the Company's Form 8-K dated October 21, 2005.

In June 2009 GAIA received the initial assessment of an investigation of the German tax authorities regarding the transfer of Intellectual Property Rights and patents to Dilo AG in Switzerland, a wholly owned subsidiary, over the period 2001-2004. In the past years, former management has been of the opinion that these investigations would not result in a material claim against GAIA or its former management from the German tax authorities. The claim is that on the value of the transfer both Value Added Tax and Corporate tax had to be filed and paid. The amounts which in the view of the German Tax authorities should have been paid over the above mentioned period is substantial and could have substantial impact on the continuity of GAIA. Management is preparing a response to the German Tax authorities claim but disagrees with their claim and believes that the ultimate resolution of this matter will not have a material adverse effect on the Company's financial statements.

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

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

The following discussion contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 relating to future events or our future performance. 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 to date; 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. The Company will be increasing production capacity by engaging into large volume cell delivery and battery assembly programs.

RESULTS OF OPERATIONS
NINE AND THREE MONTHS ENDED SEPTEMBER 30, 2008 COMPARED TO
NINE AND THREE MONTHS ENDED SEPTEMBER 30, 2007

REVENUES FROM PRODUCTS SALES Increased by $1,578,000 or 78% in the nine months ended September 30, 2008 from $2,024,000 in the same period in 2007 to $3,602,000. For the three months period ended September 30, 2008, revenues increased 55% from $843,000 in 2007 to $1,306,000 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 $5,410,000 and $2,602,000 for the nine months ended September 30, 2008 and 2007, respectively. For the three months period ended September 30, 2008, cost of goods sold increased 108% from $1,034,000 in 2007 to $2,142,000 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 nine months ended September 30, 2008 decreased by 36% to $1,494,000 from $2,320,000 in the same period in 2007. For the three months period ended September 30, 2008, engineering, research and development expenses decreased from $690,000 in 2007 to $5,000 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. During the three months period ended September 30, 2008 the company discontinued its flat cell engineering, research and development activities in Plymouth Meeting resulting in a substantial drop of the expenses for engineering, research and development in total.

GENERAL AND ADMINISTRATIVE EXPENSES during the nine months ended September 30, 2008 increased by 13% to $4,424,000 from $3, 930,000 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 September 30, 2008, general and administrative expenses increased 17% from $1,130,000 in 2007 to $1,320,000 in 2008.

SALES AND MARKETING EXPENSES were $537,000 for the nine months ended September 30, 2008, an increase of 69% from the same period in 2007. For the three months period ended September 30, 2008, sales and marketing expenses decreased from $236,000 in 2007 to $181,000 in 2008. The decrease in this expense is attributed to reclassifications of costs to Cost of Goods Sold.

DEPRECIATION AND AMORTIZATION during the nine months ended September 30, 2008 increased by 66% to $1,150,000 from $693,000 in the same period in 2007. For the three months period ended September 30, 2008, depreciation and amortization expenses increased 397% from $114,000 in 2007 to $567,000 in 2008.

INTEREST EXPENSE, NET OF INTEREST INCOME Interest expense, net of interest income for the nine months ended September 30, 2008 decreased by 69% to $485,000 from $1,588,000 in the same period in 2007. For the three months period ended September 30, 2008, interest expense increased from $252,000 in 2007 to $275,000 in 2008.

INTEREST EXPENSE RELATED TO BENEFICIAL CONVERSION Charge for beneficial conversion feature was $3,827,000 and $1,633,000, respectively, in the nine months ended September 30, 2008 and 2007. For the three months period ended September 30, 2008, interest expense related to beneficial conversion decreased to $55,000 in

2008 from $58,000 in the same period in 2007. For more information concerning this, please refer to the Notes to Financial Statement contained herein.

WARRANTS INCOME Charges for warrants were $(9,643,000) and $16,242,000 respectively, in the nine months period ended September 30, 2008 and 2007. For the three months period ended September 30, 2008, warrants expenses decreased from $875,000 in 2007 to $(1,220,000) 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 nine months period ended September 30, 2008 resulted from revaluation of Yorkville Advisors (f/k/a/Cornell Capital) warrants immediately prior to the exercise.

NET (LOSS) TO COMMON SHAREHOLDERS $(6,220,000) or $(0.00) per share for the nine months ended September 30, 2008 as compared to a net loss of $(38,652,000) or $(0.03) per share for the nine months ended September 30, 2007. For the three months period ended September 30, 2008, the company had a net loss of $2,251,000 as compared to a net loss of $3,668,000 in 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 September 30, 2008, our accumulated deficit was $135,132,000.

LIQUIDITY AND FINANCIAL CONDITION

GENERAL

On September 30, 2008, cash and cash equivalents were $296,000. Total liabilities on September 30, 2008 were $20,402,000. On September 30, 2008, assets included $2,326,000 in inventories, net property and equipment of $7,332,000, and prepaid expenses and other assets of $409,000. As of September 30, 2008, our working capital deficit was $13, 354,000 as compared to $25,444,000 on December 31, 2007. We expect to incur decreasing operating losses as we continue our commercialization efforts.

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

		September 30, 2008		December 31, 2007
Current debt is summarized as follows:				
Loans From Financial Institutions	$	99,000	$	104,000
Silent Partner loans-TBG		2,216,000		2,259,000
July 2007 10% Convertible Debenture, net of discount		3,247,000		3,048,000
Sub total current debt	$	5,562,000	$	5,411,000
Related Party debt				
Subordinated Loans from Arch Hill	$	3,627,000	$	7,955,000
Promissory Note to Arch Hill		1,627,000		-
Sub total Related Party debts	$	5,254,000	$	7,955,000
June 2008, 9% Convertible Note, net of discount	$	3,776,000		
Warrant liability		890,000		15,550,000
Total current debt	$	15,482,000	$	28,916,000

For more detailed information on our 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. From January to September 2008, we raised approximately $4 million in debt financing transactions and approximately $500,000 through the exercise by a holder of 40 million outstanding warrants. 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 existing debt and equity financing transactions. See also the Notes to Consolidated Financial Statements included with this Report.

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. $3,247,000 (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 was 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. As of September 30, 2008 and December 31, 2007, $3,247,000 and $3,048,000 was outstanding under the convertible debenture net of debt discount of $0 and $199,000, respectively. As of September 30, 2008 and December 31, 2007, accrued interest of $400,000, 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.

As of September 1, 2008 the Convertible Note was extended for an additional six months, under the same conditions. The interest on the unpaid accrued interest as of September 1, 2008 increased from 10% to 12%. On March 1, 2009 the Convertible Note was extended a second time until January 1, 2010.

JUNE 2008 9% CONVERTIBLE NOTES

The Company closed on a convertible debt financing (the "June 2008 Financing") with four institutional investors from June 12, 2008 to September 30, 2008 for a total of Euros 2.60 million (approximately U.S. $4,036,000). The accrued interest on this amount was 57k€ (approximately U.S. $84,000) as of September 30, 2008. The Company closed on additional June 2008 Financings with seven institutional investors from October 6, 2008 to December 31, 2008 2008 for a total of Euros 2,213,102 (approximately U.S. $2,934,307). The Company issued its convertible notes (the "Convertible Notes") to the institutional investors (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.

In March 2009 the Board of Directors of the Company approved a reduction of the conversion price of the Convertible Notes from $0.10 per share to $0.07. This reduction will apply to all holders of Convertible Notes.

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 $99,000 and $104,000 as of September 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 - TBG

Technology-Beteiligungs-Gesellschaft GmbH der Deutschen Ausgleichsbank ("TBG") has provided a partnership loan, which bears interest at 6% per annum. The total amount payable to TBG under the Partnership Agreements at September 30, 2008 and December 31, 2007 was $2,216,000 and $2,259,000, respectively. TBG is entitled to receive an annual 12% share in profits related to its contributions under the TBG Partnership Agreement. 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 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 TBG Partnership Agreement terminates in December 2008, unless terminated prior to such time for good cause as defined in the applicable partnership agreement.

TBG has contacted the Company and has claimed under the terms of the agreement the remuneration in the amount of $1,297,000 (920,000 Euros). Management asserts that TBG has not met the terms of the agreement and is not entitled to the above amount.

GAIA is negotiating with TBG to convert the TBG Partnership Agreement into a long term loan bearing an interest rate of 6% per annum, including a repayment schedule.

In March 2009 LTC received a request from Frankendael Participatiemaatschappij NV (“Frankendael”) to confirm to Frankendael the outstanding amount as part of the “Stille Beteiligung” loan agreement of March 1999 (the “Frankendael Debt”), which would mature after 10 years. Management is of the opinion that there is no outstanding amount due from either LTC or GAIA to Frankendael due to the transfer of the Frankendael Debt from Frankendael to Arch Hill Ventures and the October 2005 debt exchange between Arch Hill Ventures and the Company, as reported in the Company’s Form 8-K dated October 21, 2005.

SUBORDINATED LOANS FROM RELATED PARTY

GAIA has received subordinated loans from Arch Hill, a related party, which totaled $3,627,000 and $6,272,000 as of September 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 $3,627,000 remains payable to Arch Hill after issuance of the Series C Preferred Stock, and is included in the Promissory Notes balance. 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 $3,627,000. 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.

On March 25, 2009 the Company filed an Amendment to its Restated Certificate of Incorporation in which it increased the amount of authorized shares of common stock to 3 billion shares. As part of this increase the Company will be able to convert the balance of the above described debt of $3,627,179 to Arch Hill into 190,172,300 shares of common stock.

PROMISSORY NOTES – RELATED PARTY

Arch Hill Real Estate N.V. had over the period 2004 and 2005 billed an amount of $70,000 per month as management fees to Gaia Holding BV. The amount was unpaid as per September 30, 2008 and is included in the promissory notes of $1,627,000 from Arch Hill, in which balance unpaid management fees and unpaid interest for the years 2004-2008 are included. The accrued interest related to the notes in 2008 was approximately $93,000.

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 on June 22, 2009, which is 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. For issuances of Series C Preferred Stock with beneficial conversion feature the discount is recognized upon issuance.

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 having enough shares of common stock authorized to issue. As the control of the conversion lies with the Company in authorizing an increase in the number of shares of Company common stock, the holder cannot force conversion without such increase in authorized shares, 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 Series C Preferred Stock, 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.

MANAGEMENT'S PLANS TO OVERCOME OPERATING AND LIQUIDITY DIFFICULTIES

Over the past nine years, we have focused our unique extrusion-based large format cylindrical cell 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. For this reason the Company restructured its business starting Q3 2008, by abandoning its flat cell production activity and streamlining its cylindrical cell production in Nordhausen Germany. Going forward the US operation will assemble batteries to customer needs for the US market. Batteries for the EU market will initially be assembled in Nordhausen Germany.

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 has been 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). From January to September 2008, we raised approximately $4 million in debt financing transactions and approximately $500,000 through the exercise by a holder of 40 million outstanding warrants. 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 $7 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. With these funds the Company will be able to expand the production capacity to approximately 20MWh per annum and to expand battery assembly activities in both the US and in Europe. After these investments the existing production facility in Nordhausen will not be able to expand even further. If after that the Company would like to extend the production capacity substantially it will need substantially more new capital to build this new facility. The ultimate location will be depended on the regional market needs and if any.

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 September 30, 2008, we had an accumulated deficit of approximately $135,132,000. 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 September 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.

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 SEPTEMBER 30, 2008 WERE NOT SUFFICIENT TO SATISFY OUR CURRENT LIABILITIES. We had a working capital deficit of approximately $13,354,000 at September 30, 2008, which means that our current liabilities exceeded our current assets on September 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 September 30, 2008, we had total consolidated current indebtedness of approximately $20,402,000. 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 $135,132,000 from inception to September 30, 2008, including approximately $6,220,000 of loss to common shareholders in the quarter ended September 30, 2008. We expect to incur substantial additional operating losses in the future. During the nine months ended September 30, 2008 and 2007, we generated revenues from product sales in the amounts of $3,602,000 and $2,024,000, 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 $7 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.

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- WE FACE RISKS RELATED TO LATE SEC FILINGS. The delay in the completion of the audit of the Company's year end financial statements and reviews of the quarters' financial statements for the fiscal years ending December 31, 2005 to date 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.

- WE FACE RISKS RELATED TO LATE TAX FILINGS. The Company has filed its mandatory tax filings for the 2005 to 2007 fiscal years with the US Internal Revenue Service and the Commonwealth of Pennsylvania Tax Department beyond their extended due dates. 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 late is a violation of any of its contractual covenants.

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 September 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 September 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 September 30, 2008 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II.
OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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 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. The Court has dismissed the case with prejudice on March 30, 2009. The Company was responsible for its own legal fees in this matter.

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

The Company closed on debt financings under the June 2008 Financing described herein with four institutional investors from June 12, 2008 to September 30, 2008 for a total of Euros 2.60 million (approximately U.S. $4,036,000, including 57,000 Euros) (approximately U.S. $84,000) of accrued interest. The Company did not pay any underwriting discounts or commissions in connection with the issuance of the Convertible Notes in this transaction. Issuance of the Convertible Notes were exempt from registration under Section 4(2) of the Securities Act. The Convertible Notes were issued to accredited investors 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.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

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

10.85	Asset Purchase Agreement dated August 23, 2008 between the Company and Porous Power Technologies, LLC (1)
10.86	Sublease Agreement dated August 15, 2008 between the Company and Porous Power Technologies, LLC (1)
10.87	Amendment dated September 11, 2008 to July 2007 Note (2)
10.88	Revised June 2008 Convertible Note (2)
10.89	Amendment dated March 1, 2009 to July 2007 Note (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 +

+ Exhibit filed herewith in this Report.

(1) Incorporated by reference to LTC's Form 10-Q for the quarter ended September 20, 2008

(2) Incorporated by reference to LTC's Form 10-K for the year ended December 31, 2008

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

We filed a Report on Form 8K dated July 10, 2008, reporting on the issuance of a press release announcing we had signed a memorandum of understanding ("MOU") with EnerSys, one of the world's largest and most reputable battery companies. The MOU calls for the establishment of a close relationship on the advancement of large lithium ion batteries between the parties.

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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: August 20, 2009	BY:	/s/ Theo M. M. Kremers Theo M. M. Kremers Chief Executive Officer (Principal Executive Officer and Acting Principal Financial Officer)