LITHIUM TECHNOLOGY CORP
Form 10-K
June 15, 2009

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

FORM 10-K

ANNUAL REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2008

Commission File Number 1-10446

LITHIUM TECHNOLOGY CORPORATION
(Name of Registrant as Specified in Its Charter)

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

5115 CAMPUS DRIVE, PLYMOUTH MEETING, PENNSYLVANIA 19462
(Address of Principal Executive Offices) (Zip Code)

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

Securities registered under Section 12(b) of the Exchange Act: NONE.

Securities registered under Section 12(g) of the Exchange Act: COMMON STOCK, PAR VALUE, $0.01

Indicate by checkmark if registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. o Yes x No

Indicate by checkmark if registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. o Yes x No

Indicate by checkmark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 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. o Yes x No

Indicate by checkmark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in part III of this Form 10-K or any amendment to this Form 10-K. x Yes o No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a small reporting company. See definition of "large accelerated filer", "accelerated filer", and "smaller reporting company" in Rule 12B-2 of the Exchange Act.

Larger Accelerated Filer o	Accelerated Filer o
Non-Accelerated Filer o	Small Reporting Company x

Indicate by checkmark whether the registrant is a shell company (as defined in Rule 12B-2 of the Securities Act). o Yes x No

The aggregate market value of the voting common stock held by non-affiliates on June 30, 2008 (the last business day of our most recently completed second fiscal quarter) was $46,282,747 using the closing price of $ 0.10 on June 30, 2008.

As of May 29, 2009, the registrant had issued and outstanding 745,924,782 shares of common stock.

Documents Incorporated by Reference: None.

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CURRENCY AND EXCHANGE RATES

All monetary amounts contained in this Report are, unless otherwise indicated, expressed in U.S. Dollars. On December 31, 2008, the noon buying rate for Euros as reported by the Federal Reserve Bank of New York was €0.817 to $1.00 U.S.

PART I

ITEM 1. DESCRIPTION OF BUSINESS

BUSINESS OVERVIEW

Lithium Technology Corporation ("LTC" or the "Company") is a global manufacturer and provider of rechargeable energy storage solutions for diverse applications. The Company designs and builds a limited amount of large format, cylindrical lithium-ion (Li-ion) rechargeable cells and engineers and builds lithium-ion (Li-ion) rechargeable batteries complete with battery management systems for use in transportation, military/national security and stationary power markets. LTC also manufactures its own unique large format, cylindrical cells. The Company believes that it offers cells with the highest power density of any standard commercial Li-ion cell in the western hemisphere (most amperes or watts per kilogram). LTC cells are also the largest Li-ion cells produced in the western hemisphere (most energy capacity - watt-hours or amp hours). The Company's leading technology capabilities, manufacturing infrastructure and management strengths enable it to provide a unique breadth of solutions in battery design, manufacturing, marketing, and delivery. Industrial, retail and government customers include DesignLine International, Volkswagen, Frazer Nash, Duracar, RUF/Siemens, US Hybrid, Enersys, ArvinMeritor, ZF, NASA, Lockheed Martin, ThyssenKrupp, scientific research facilities and the national defense agencies of the United States, United Kingdom and Germany, among others.

The transportation, military, and stationary power markets continue to demonstrate that lithium-ion is the technology of choice for advanced battery applications placing us at the threshold of a period of significant growth.

The Company's rechargeable lithium battery technology basis dates back to 1983. Since 1983, LTC has evaluated a wide range of lithium battery technologies. These evaluations have involved coating a wide variety of electrode materials, including those for Li-ion liquid, lithium metal and lithium polymer chemistries, onto a variety of substrates, including solid foils, expanded metal grids and fiber webs. The Company has engaged in high-yield pilot line operations since 1996. Over the last seven years, various manufacturing steps were adapted to our pilot line to accommodate new techniques. These factors have allowed us the flexibility to match the battery design to the application. In 1997, we began focusing on unique large footprint cells and large battery assemblies comprised of large number of cells and control circuitry. LTC's manufacturing practices and know how combined with advanced in-house R&D efforts and collaborative relationship with material developers (i.e.: Süd-Chemie/Phostech, BASF, ConocoPhillips, etc.) and research institutions have positioned the Company ahead of its competitors. LTC is not dependent on one type of chemistry, but can adapt to new developments in any of its target markets. As an example, when management of the Company identified the movement of the transportation industry toward the cathode materials of iron-phosphate toward the end of 2006, the Company geared efforts to manufacture large format high power cells (6AH, 35AH), which are the biggest of its kind today in the market. In February of 2008 the Company launched its product line of High Energy iron-phosphate, which completes the Company's product offering with regards to iron-phosphate chemistry. In 2008 the Company sold its pilot flat cell production activity in Plymouth Meeting and reduced its cylindrical cell portfolio, which are manufactured at the Company's manufacturing plant in Nordhausen Germany. Batteries which are designed and assembled on customer requirements are assembled both in Plymouth Meeting or the customer's premises for the US market or in Nordhausen for the European market. We are working to introduce other chemistries that will add benefit to the end customers, but all within the Li-ion field. In recent years, we have extended our experience to the assembly of fully engineered batteries complete with battery management systems.

GAIA Akkumulatorenwerke GmbH ("GAIA"), our wholly owned subsidiary, began as a venture business to commercialize proprietary, novel manufacturing technology in 1996. GAIA had developed technology to continuously extrude Li-ion polymer electrodes and a separator containing the final electrolyte solution. This simplifies the manufacturing process by eliminating process steps such as drying coatings, extraction of plasticizer, and cell activation with electrolyte solution. The result is a liquid-free process that operates at lower cost and with minimal emission of organic solvents. GAIA's plant is a modern facility with state-of-the-art automated equipment for extrusion/coating, lamination, winding, packaging and formation/testing.

In 2000, after four years of development, the GAIA team of experienced industrial managers, battery development engineers and production engineers succeeded in advancing GAIA’s lithium polymer technology to the pilot production stage.

LTC merged with GAIA in 2002, where the surviving entity is LTC, and GAIA is the wholly owned subsidiary. By the end of 2003, LTC and GAIA cooperation resulted in the development of several new cylindrical cell designs for use in HEV batteries and in national security applications. Additionally, LTC continued to manufacture flat cells of the same chemistry for unique applications.

We have two principal centers of operation – in Plymouth Meeting, Pennsylvania and in Nordhausen, Germany. The Plymouth Meeting office is also our corporate headquarters. Sales into the U. S. and European markets are managed out of each of the offices. Our strategic business plan incorporates a unified approach by our two locations to overall business strategy, procurement, production, market and competitive analysis, customer contact plans, marketing, public relations/investor relations, sales, distribution, securing future joint venture relationships for manufacturing and distribution, future resource needs, and financial matters. We have spent nearly $135 million advancing our technologies, and we are now in a position to manufacture and sell highly reliable, cost-effective advanced lithium-ion rechargeable batteries to our target market segments, to further develop our technology, and to license out our technology. All technology, research and development and all cell product development is concentrated in Nordhausen, Germany, because the cell manufacturing is concentrated in Nordhausen, Germany as well.

We have financed our operations since inception primarily through equity and debt financings, loans from shareholders, including loans from Arch Hill Capital N.V. and related parties, loans from silent partners and bank borrowings secured by assets. 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 to meet increasing sales. For this reason the Company restructured its business starting in the third quarter of 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. The Company has recently entered into a number of financing transactions and raised approximately $7 million in net proceeds in debt and equity financing transactions from January to December 2008 (see Notes 8 and 10). The Company is continuing to seek other financing initiatives and needs to raise additional capital to meet its working capital needs, for the repayment of debt and for capital expenditures. Such capital is expected to come from the sale of securities. The Company believes that if it raises approximately $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. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

No assurance can be given that we will be successful in completing these or any other financings at the minimum level necessary to fund our working capital or to complete our product commercialization or at all. If we are unsuccessful in completing these financings, we will not be able to fund our working capital requirements, products, commercialization or execute our business plan. These conditions raise substantial doubt about our ability to continue as a going concern.

CORPORATE INFORMATION

We combined the operations of LTC with GAIA, a private lithium polymer battery company headquartered in Nordhausen, Germany, in a share exchange in 2002. In the share exchange Lithium Technology Corporation acquired a 100% interest in GAIA through the acquisition of 100% of the outstanding shares of GAIA Holding B.V., a

Netherlands holding company. Subsequent to the share exchange, Arch Hill Capital, NV controls us. Lithium Technology Corporation, GAIA Akkumulatorenwerke GmbH, GAIA Holding B.V. and all of the subsidiaries of Lithium Technology Corporation, GAIA Akkumulatorenwerke GmbH, GAIA Holding B.V are collectively referred to herein as the "Company", "we" or "us".

Arch Hill Capital N.V., a private company limited by shares incorporated under the laws of the Netherlands, controls Arch Hill Ventures. 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"). Stichting LTC is controlled by Arch Hill Capital.

LTC is a Delaware corporation that was incorporated on December 28, 1995. LTC's predecessor - Lithium Technology Corporation (a Nevada corporation previously named Hope Technologies, Inc.) - merged with and into LTC in a reincorporation merger that became effective on February 8, 1996. The executive office of LTC is located at 5115 Campus Drive, Plymouth Meeting, Pennsylvania 19462, telephone number: (610) 940-6090.

LTC holds 100% of the outstanding shares of GAIA Holding B.V., a Netherlands holding company. GAIA Holding is a private limited liability company incorporated under the laws of the Netherlands on February 2, 1990, with a statutory seat at The Hague (the Netherlands) and office address at Parkweg 2, 2585 JJ, The Hague, the Netherlands. GAIA Holding is the legal and beneficial owner of all of the issued and outstanding shares of Lithiontech B.V., a Netherlands company limited by shares that was formed on February 8, 1999. Lithiontech has the legal and beneficial ownership of all the issued and outstanding shares of DILO Trading AG, a Switzerland company limited by shares that was formed on September 11, 1975 and Lithiontech Licensing B.V., a Netherlands company limited by shares that was formed on February 8, 1999. DILO Trading holds patents for which the intellectual property was developed by DILO Trading in collaboration with GAIA. Until 2008 GAIA held a worldwide, exclusive license for all these patents. In 2009 GAIA will start paying for those licenses that GAIA is using from DILO Trading. License fee structure will depend on the exclusivity level and regional coverage that GAIA wants to obtain from DILO Trading. For those patents that GAIA will not retain global exclusivity, DILO Trading will look for other license partners.

GAIA Holding is the beneficial owner of all of the issued and outstanding shares of GAIA. Legal ownership of the outstanding shares of GAIA are held pursuant to certain Dutch and German trust agreements by two Netherlands entities (“Nominal Stockholder”) for the risk and account of GAIA Holding. Based on the Dutch and the German trust agreements, the Nominal Stockholders are obliged to transfer the legal ownership of the shares in GAIA without any further payments to GAIA Holding to a third party designated by GAIA Holding on the demand of GAIA Holding. Pursuant to the trust agreements, GAIA Holding has the right to vote the shares of GAIA held by the Nominal Stockholders.

LTC and GAIA Holding, Arch Hill Ventures and the Nominal Stockholders are parties to an agreement which provides that without LTC’s prior written consent, GAIA Holding may not directly or indirectly transfer or instruct any party to transfer the legal ownership of the shares of GAIA held by the Nominal Stockholders to any party other than to GAIA Holding and that upon LTC’s written direction, GAIA Holding will instruct the Nominal Stockholders to transfer the legal ownership of the shares of GAIA held by the Nominal Stockholders to GAIA Holding for no payment. The agreement further provides that at such time as the parties determine that there would no longer be any possible adverse tax effect as a result of the transfer of the GAIA shares to GAIA Holding, then the legal ownership of the GAIA shares held by the Nominal Stockholders shall be transferred to GAIA Holding without any payment.

GAIA is a private limited liability company organized under German law on April 4, 1996. GAIA is located at Montaniastrasse 17, D-99734 Nordhausen/Thuringia, Germany, telephone number: 011 49 3631 616 70.

For consolidation of the financial reports, LTC has only one direct subsidiary in Europe, which is GAIA Holding B.V.

LTC holds 100% of the outstanding shares of Lithion Corporation, a Pennsylvania corporation that was incorporated on June 3, 1988.

Since the Company was not current in its SEC filings the Company’s shares ceased trading on the OTCBB on May 31, 2006. The Company’s common stock is traded in the over-the-counter market, and “bid” and “asked” prices in the common stock are quoted on the OTC Pink Sheets under the symbol “LTHU”.

Information contained on the LTC web site or GAIA web site (www.lithiumtech.com and www.gaia-akku.com) does not constitute part of this Report.

DEVELOPMENT AND COMMERCIALIZATION PLAN

General

We are engaged in continuing development contract and small 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. Lithium-ion battery acceptance and usage continues to grow in emerging advanced applications in our target markets. With the continuing interest in higher energy density, lighter weight, smaller volume, longer operational life and greater cost effectiveness, lithium batteries are the technology of choice with emerging applications in these markets.

Our mission is to become a leading manufacturer of large format rechargeable lithium power solutions for advanced national security, transportation and stationary power applications. Our business model also includes the licensing of our technology and other collaborative efforts with third parties.

We believe that our large format cylindrical cell designs provide a special advantage for transportation, military/national security and stationary power applications. The target markets continue to demonstrate that lithium-ion is the technology of choice for advanced battery applications placing us at the threshold of a period of significant growth.

Over the past years, we have successfully focused on producing larger, more consistent runs of standardized cylindrical cells. In the last two years, we have been successful in increasing production, improving quality and yields and reducing production costs. As part of the further improvements of our operational performance we discontinued in 2008 the production of flat cells and limited the amount of cylindrical cells to be produced going forward. We have established several standardized modular battery assembly designs which facilitate the construction of custom batteries. We have expanded our custom battery design activities and we continue to receive favorable feedback from field use and testing by our customers. During 2007 the Company started producing standard batteries for wind generators and robots. In 2008 the Company did offer standard batteries for large transportation applications. In 2009 the Company will focus to grow the manufacturing volume of cells and of batteries, to improve gross margin and yields. The biggest challenge for the Company will remain its ability to find sufficient (working) capital to increase its manufacturing volume.

In the transportation market, sales of hybrid-electric vehicles (known as HEVs) continue to increase. While sales to U.S. automakers have been slow, we have sold several HEV prototype batteries and modules for evaluation in Europe. GAIA is working with several European automakers and integrators to evaluate lithium technology for hybrid electrical vehicles. In addition, we have been negotiating with small electric vehicle (EV)/HEV manufacturers in England, Israel, the Netherlands and Switzerland for supplying them with large volumes. For some of them we delivered prototype batteries. Building on the success of our battery technology and application at Penn State University, we have generated additional orders and supplied batteries to Penn State and the University of California - Davis for the Chevrolet Equinox competition in 2006.

During the first quarter of 2006, GAIA delivered a lithium-ion battery for a hybrid vehicle that is being developed by UK based automotive technology specialists Zytek Systems as part of the Energy Saving Trust’s Ultra-Low Carbon Car Challenge (known as ULCCC). In March 2005, Zytek was awarded grant funding from the Energy Saving Trust for the second phase of their ULCCC project to develop a new high efficiency, dual mode hybrid vehicle. The vehicle is based on the new Smart forfour and will utilize a hybrid power train based on 1500cc, 3-cylinder turbo charged diesel engine coupled to two high-efficiency, permanent-magnet electric motors. Zytek has taken delivery of three lithium-ion batteries each with output of 288 volts, a capacity of 7.5 amp hours (or about 2.2 kWh of energy) and with a capability to deliver 25 kWh of power. These batteries can be charged by either the internal combustible engine, by regenerative breaking, or by household mains (plug-in hybrid), and will have a modest all-electric range. LTC, together with Zytek and I+ME, have jointly developed an improved version of the Battery Management System to include additional safety features and to control the charging of the battery from the mains. The Battery Management System will also communicate with the vehicles energy management system for better efficiency and control. Additionally, GAIA delivered several batteries to undisclosed car manufacturers.

The Company has been awarded several contracts in the space of Hybrid Electric Vehicles, Plug-in Hybrid Electric Vehicles and Full Electric Vehicles. These projects vary from the delivery of prototype batteries, to small volume delivery of the same battery to a regular delivery of batteries as part of a fixed delivery schedule to end customers. The Company’s focus for 2009 is to increase the programs in which the Company delivers batteries on a regular basis. The list of customers include names like Design Line International, Frazer Nash Research, Volkswagen, Duracar/Quicc, US Hybrid, ArvinMeritor, ZF, RUF/Siemens and others.

As a result of our involvement with the military market over the last three years, we have received orders for various prototype batteries and small production runs of both customized cells and batteries from customers. As a result of our continuing involvement with the military market, we have interacted with customers that are actively pursuing new battery technologies. We have been able to apply our battery technology for use with new high tech systems including robots, advanced weapons, launch vehicles and unmanned underwater vehicles (known as UUVs). We have been working with some clients since 2004 for these military applications. In 2008 the Company signed a Memorandum of Understanding with Enersys, in which Enersys would become the exclusive global distributor of the Company’s product for the military/national security market. For stationary applications Enersys received a non-exclusive distributorship. Both partners are working the details of the final agreement.

We continue our collaborative relationships for the development of the next generation cathode materials with Süd-Chemie/Phostech. We are a subcontractor to a builder of unmanned underwater vehicles on a contract for Advanced Pressure Tolerant Batteries. We plan to continue to bid on new development contracts and commercial contracts going forward.

Outside the U.S., in 2005 we entered into a development contract for large submarine batteries from Thyssen-Krupp, the world's largest builder of diesel-electric submarines. In 2007 we announced jointly with ThyssenKrupp the successful development of a 500Ah cell and a 40kWh battery module in a technical journal. During 2007, within our operation in Germany, we delivered several large batteries to be used in military applications, and secured additional orders.

In the stationary power market we supplied prototype batteries for backup control systems for wind generators in Europe.

Products

We manufacture and sell the GAIA® product line of large, high power hermetically sealed rechargeable lithium-ion cells and batteries. Our product portfolio includes large format, high power cells ranging from 7.5 to 45 Ah, with very high discharge capabilities designed for HEV and military applications, and high energy cells from 10 to 500 Amp-hours for various applications. Our products include large batteries up to 600Vand capacity of more than 40 kWh.

We produce high power cells designed for HEVs and military applications that can discharge hundreds of amps in times as short as a few minutes, and high capacity cells for applications such as back-up power and remote standby installations. Cells are manufactured in cylindrical form and employ proprietary extrusion, design and assembly technology. We manufacture a variety of standard cells that are assembled into custom large batteries complete with electronics (battery management systems) and electronics to communicate with other components of the system for performance monitoring.

We specialize in working with the customer to engineer solutions using standardized cells in customized configurations. Over the past year, production has increased in Nordhausen, and we have succeeded in producing long, consistent runs of standardized cells. We have also established a number of standardized modular battery assembly designs which facilitate the customized construction of batteries.

Lithium-ion Battery Market

The lithium-ion battery market is rapidly expanding and maturing. Large format lithium-ion batteries are becoming widely known and accepted, resulting in accelerating market growth. We are benefiting from this expansion of new product applications by being able to be involved in the initial design of these applications. This market expansion is also driving material suppliers to develop higher energy, lower cost and safer raw materials. Increasing volumes of production are being shifted to China and this continues to put downward pressure on pricing. Some of our Asian competitors have introduced high power cells and large formats which emphasizes our need to ramp up quickly and provide custom solutions to capture market share. The Company believes that Lithium-ion is the chemistry of choice for the growing demand for portable devices. Other technologies, like nickel-cadmium is shrinking. Nickel-cadmium still holds a major share for power tools, two-way radios and medical devices. This chemistry is preferred over nickel-metal-hydride for its high durability and reliable service but some countries will ban its use for environmental reasons. Without a major breakthrough, the fuel cell will play an insignificant role in providing power for future applications. Cost, size and performance are the main obstacles. Although continuous in operation by replacing fuel capsules, the fuel cell, as we know it today, still needs a backup battery to satisfy the power requirements of modern portable equipment. It is believed that the electro-chemical battery will keep its present position for some time to come as it has it did has for the last century.

Our Target Markets

We are leveraging our expertise in high power and large battery assemblies to commercialize advanced lithium batteries as a new power source in the transportation, military/national security systems and stationary power markets with a particular focus on the U.S. and European geographic market segments where the customers prefer a domestic supplier. Our sales and marketing efforts are focused on markets where we can obtain a premium by being a western hemisphere, domestic supplier, providing a better product and better service and co-developing custom solutions for new emerging high tech products. Our business plan does not incorporate mass commercial markets in the immediate future from our existing facilities. Entry into these large volume markets is projected though the licensing of our technology and collaborative efforts with third parties.

- Transportation Market. Transportation applications require rapid charge/discharge rates and long life in safe, durable high power storage for HEV and fuel cell powered vehicles. Military and heavy duty vehicle original equipment manufacturers have been early adopters of new technology and have taken the lead in the use of large-format lithium-ion batteries. In the past year we have seen growth in small niches such as all-terrain vehicles, e-bikes and other areas. We also see certain European cities moving towards banning gasoline powered vehicles in the city centers as prototype dual mode hybrid vehicles appear.

- National Security Market. National Security/Military applications require flexibility in design as the applications encompass a wide range of power output, broad operating temperatures, lower weight and thousands of recharge cycles. Performance is more important than price in this market. We have found our lithium-ion batteries displacing silver-zinc batteries. Over the past years, as we have provided the market with high power batteries, we have also seen new applications emerge in areas such as pulsed defensive weapons. In 2008 the Company sign a Memorandum of Understanding with Enersys in which they will become the exclusive global distributor of our large format, cylindrical cells for the national security/military market.

- Stationary Power Market. Stationary Power applications require high-reliability power for telecommunications, computers and other mission critical applications. We believe this presents a very large potential market. Growing dependence on electrical power worldwide drives the demand for high quality and readily available back-up power. We have also found niches developing in the alternative energy markets.

Strategy for Growth

We envision a four phase evolution to achieving our mission of being a leader in rechargeable lithium-ion battery solutions for high power applications:

PHASE I (from 2005), Standard cells and Custom Engineered Batteries: Innovators and early adopters; customers with applications where performance is more important than cost. Such customers are willing to pay a premium for advanced high power and high energy Li-ion rechargeable batteries, and generally require relatively small quantities. Sales increase through funded development contracts and through sales to military/national security and to select automotive and stationary power/alternative energy.

PHASE II (from 2007), Standard cells and High-Tech Specialty Batteries: Early followers; users requiring modest to high volumes with low to moderate price sensitivity. Expansion of business via strategic partnerships to deepen presence in existing markets and to gain entry into new markets.

PHASE III (from 2008), Initial Commodity Products: OEM beta testing and engineering development in partnership with major industry players in need for qualifying new battery technology for large scale commercial applications; penetrate additional markets through joint-ventures per market segment.

PHASE IV (beyond 2010), Mass market production: The Company anticipates that the cost of large format Li-ion batteries after 2010 will decrease such that volume scale-up to address large volume, price-sensitive mass market applications will be viable. For these applications, The Company anticipates to increase its production capacity further through several joint-ventures in several countries with industry-specific local partners and to enter into technology licensing relationships with one or several major battery manufacturers. Revenues of phase IV expected to be very large based expected market share.

COMPETITION

Competition in the battery industry is, and is expected to remain, intense. The lithium-ion battery market is rapidly expanding and maturing. Large format Lithium-ion batteries are becoming more widely known and accepted resulting in accelerating market growth. We are benefiting from this expansion of new product applications by being able to be involved in the initial design of these applications rather than competing directly with low cost mass-market 18650 cells from Asia. This market expansion is also driving material suppliers to develop higher energy, lower cost and safer products. Increasing volumes of production are being shifted to China and this continues to put downward pressure on pricing. Some of our Asian competitors have introduced high power cells and large formats which emphasizes our need to ramp up quickly and provide custom solutions to capture market share. Our sales and marketing efforts are focused on markets where we can obtain a premium by providing superior, robust and reliable products and as being a domestic supplier. Additionally, we strive to provide better service and co-developing custom solutions for new emerging high tech products with our clients, this has helped us to establish good reputation in the market place. Our business plan does not incorporate mass commercial markets in the immediate future from our existing facilities. Entry into these large volume markets is projected though building additional manufacturing facilities and collaborative efforts with third parties.

In our target markets of transportation and stationary power systems, the principal competitive technologies are currently lead acid and nickel-metal hydride. We believe that lithium-ion batteries entered specific niches of this segment of the rechargeable battery market, which is important to the general wide acceptance of our products. We believe that lithium-ion batteries will dominate in the HEV market which requires constant fast cycle charge and discharge, high rate regenerative braking and operation over a wide range of temperatures. We also believe that there will be certain limited niches in the stationary power market where new products will be able to compete based upon superior performance and better energy density, hence, less weight.

The rechargeable battery industry consists of major domestic and international companies, many of which have financial, technical, marketing, sales, manufacturing, distribution and other resources substantially greater than ours. We compete against companies producing lithium batteries as well as other primary and rechargeable battery technologies. Our primary competitors in the national security market are: Saft, Eagle-Pitcher, The Yardney Technical Products, Inc. and Ultralife Batteries, Inc. Our primary competitors in the Transportation Market are: Johnson Controls, Inc./Saft, Panasonic EV Energy Co.(Majority owned by Toyota), The Sanyo Group of Companies, Delphi Automotive Systems, A123 Systems, and Ener1 Group. Our primary partner in the military/national security and stationary power market is Enersys.

INTELLECTUAL PROPERTY

As of December 31, 2008, LTC and its subsidiaries hold 29 issued patents in Europe and 15 in the United States and have 30 pending patent applications. DILO Trading holds patents for which the intellectual property was developed by DILO Trading in collaboration with GAIA. DILO Trading has granted GAIA the right to use these patents exclusively. This exclusivity will be reconsidered in 2009. Although we believe that the pending patent applications will be granted, no assurance to this effect can be given.

We also have proprietary knowledge that is in the patent disclosure stage or that we protect as trade secrets. Our early patents relate to materials and construction for lightweight solid-state rechargeable batteries. Our later patents and applications relate to improvements to the technology contained in the first patents or to other key aspects of rechargeable lithium battery technology. There is no current or, to our knowledge, threatened litigation regarding our patents.

We also rely on unpatented proprietary information to maintain and develop our commercial position. Although we seek to protect our proprietary information, there can be no assurance that others will not either develop independently the same or similar information or obtain access to our proprietary information. In addition, there can be no assurance that we would prevail if we were to challenge intellectual property rights claimed by third parties that we believed infringed upon our rights or that third parties will not successfully assert infringement claims against us in the future.

Our employees are required to enter into agreements providing for confidentiality and assignment of rights to inventions made by them while employed by us. There can be no assurance that these agreements will be enforceable by us.

RAW MATERIALS

We purchase various raw materials for use in our batteries. Certain materials used in our products are available only from a limited number of sources. The industry currently has sufficient capacity to meet our needs. There is no assurance, however, that our sources will remain available or the currently adequate supply of raw materials will continue.

RESEARCH AND DEVELOPMENT

We devote substantial resources to technology development activities related to the development of our cells. Our research has focused upon bringing existing available technology to viable commercial production for specific applications. The majority of our effort is directed towards product quality, process yield improvement, identifying alternative raw materials and supplies for use in our batteries, and cost reduction. We seek evolutionary improvements for cell and battery design, including controls. We evaluate new materials, which are not direct substitutes, for use in our batteries, but offer advantages such as cost, safety and performance. One such material which results in cells that are intrinsically safe from overcharge or short circuit is now in beta test. Such a development is critical to the development of the automotive and consumer markets.

EMPLOYEES

As of December 31, 2008, we employed a total of 9 full-time employees at LTC, and 65 full-time employees at GAIA. None of our employees at LTC or GAIA are represented by a labor union. We consider our employee relations to be good.

GOVERNMENT REGULATION, SAFETY, ENVIRONMENTAL COMPLIANCE

We are subject to the requirements of U.S. federal, state, local and non-U.S. environmental and occupational safety and health laws and regulations. These include laws regulating air emissions, water discharge and waste management. Although it is our intent to comply with all such requirements and regulations, there can be no assurance that we are at all times in compliance. Environmental requirements are complex, change frequently and have tended to become more stringent over time. Accordingly, there can be no assurance that these requirements will not change or become more stringent in the future.

As with any battery, our lithium-ion batteries can short when not handled properly. Due to the high energy and power density of lithium-ion batteries, a short can cause rapid heat buildup. Under extreme circumstances, this could conceivably cause a fire. This is most likely to occur during the formation and/or testing phase of our process. We incorporate safety procedures in our battery testing lab to minimize safety risks, although there can be no assurance that an accident in any part of our facilities where charged batteries are handled will not occur. Any such accident could require an internal investigation by our technical staff, causing delays in further development and manufacturing of our products, which could adversely affect our operations and financial condition. Likewise any battery that is abused by a customer, could, under extreme circumstances conceivably cause a fire. We employ all appropriate design and electronic protections. We also carry product liability insurance.

Our manufacturing process incorporates pulverized solids, which can be toxic to employees when allowed to become airborne in high concentrations. We have incorporated safety controls and procedures into our pilot line manufacturing processes designed to maximize the safety of our employees and neighbors. Any related incident, including fire or personnel exposure to toxic substances, could result in significant production delays or claims for damages resulting from injuries, which could adversely affect our operations and financial condition.

The U.S. Department of Transportation and the International Air Transport Association regulate the shipment of lithium-ion batteries. A permit is required to transport both our lithium cells and custom engineered batteries from our manufacturing facilities. No assurance can be given that we will not encounter any difficulties in complying with future or amended U.S. Department of Transportation or International Air Transport Association regulations or regulations developed by other agencies such as the International Civil Aviation Organization or International Maritime Dangerous Goods.

ITEM 1A. RISK FACTORS

Not applicable because we are a smaller reporting company.

ITEM 2. DESCRIPTION OF PROPERTY

LTC 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, we sold some of our 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 was a sub-tenant to the Company at the Company’s facility from August 2008 to 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 sub-lease agreement with Porous Power Technologies for total rent of $42,000 ($7,000 per month), with the possibility to extend the sub-lease for 3 month periods. This facility has sufficient space to meet our near-term needs in the United States. Our corporate headquarters are located at the Plymouth Meeting, Pennsylvania facility.

GAIA owns approximately 150,000 square foot renovated facility in the city of Nordhausen, Thuringia Germany. This facility has sufficient space to meet our near-term needs in Europe and can be upgraded to increase production capacity significantly. The facility also includes laboratory, quality control and offices for the European sales and management teams. At this facility we have sufficient equipment to be able to produce up to 40,000 cells per annum. By investing limited amounts the Company will be able to increase the production capacity. However for large volume production the facility in Nordhausen and the chosen production concept will not be reviewed. The facility has sufficient space to meet our near-term needs in Europe.

ITEM 3. 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 have asserted a breach of contract claim against the Company seeking warrants to purchase 500,000 shares of Company common stock with an exercise price of $0.04 per share and $10,000 per month for the term of the Agreement for a total of $120,000. On December 31, 2007 a lawsuit was filed in Montgomery County against the Company in this matter. Management asserts that no services were rendered to satisfy any compensation. This matter has not been resolved as of December 31, 2008. Montgomery County 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 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

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 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.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

MARKET INFORMATION

The Company's common stock is traded in the over-the-counter market, and "bid" and "asked" prices in the common stock are quoted on the OTC Pink Sheets under the symbol "LTHU". The following table sets forth certain information with respect to the high and low bid prices for our common stock as of the close of each of the four calendar quarters of 2008 and 2007. Such quotations reflect inter-dealer prices, without retail mark-ups, mark-downs or commissions, and may not represent actual transactions.

	Bid Prices for Common Stock	
	High	Low
2008		
Fourth Quarter	0.107	0.050
Third Quarter	0.100	0.060
Second Quarter	0.090	0.050
First Quarter	0.120	0.040
2007		
Fourth Quarter	0.150	0.087
Third Quarter	0.155	0.085
Second Quarter	0.165	0.025
First Quarter	0.050	0.025

On December 31, 2008, the last sale price quoted on the OTC Pink Sheets was $0.04. As of December 31, 2008, there were approximately 1,040 holders of record of our common stock.

DIVIDENDS

We have never paid cash dividends on our common stock and do not presently anticipate paying cash dividends in the foreseeable future. It is anticipated that earnings, if any, will be retained for use in our business for an indefinite period. Payments of dividends in the future, if any, will depend on, among other things, our ability to generate earnings, our need for capital, and our financial condition. Our ability to pay dividends is limited by applicable state law. Declaration of dividends in the future will remain within the discretion of our Board of Directors, which will review the dividend policy from time to time.

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SECURITIES AUTHORIZED FOR ISSUANCE UNDER

EQUITY COMPENSATION PLANS

The following table sets forth information as to securities issuable upon exercise of outstanding options and warrants and available for issuance under equity compensations plans as of December 31, 2008.

Plan category		Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a) (c)
Equity compensation plans approved by security holders		0	N/A	N/A
Equity compensation plans not approved by security holders	Options :			
	1994 Plan-	29,309	$5.2000	0(1)
	Directors Plan-	5,501	$5.6000	0(1)
	1998 Plan-	18,842	$5.5600	0(1)
	2002 Plan	35,500	$3.8600	308,750
	Warrants :	4,532,836	$0.0500	0
		100,000	$1.9100	0
		200,000	$0.0600	0
Total		4,921,988	$0.1736	308,750

(1) Option Plan terminated as of December 31, 2002.

The following stock option and incentive plans are the plans of LTC and not of GAIA. GAIA does not have any stock option or incentive plans.

1994 STOCK INCENTIVE PLAN

LTC's Board of Directors adopted the 1994 Stock Incentive Plan in February 1994. The 1994 Stock Plan was terminated as of December 31, 2002. All options outstanding under the 1994 Stock Plan were 100% vested in February 2000. Vested options are exercisable for up to sixty months after the date of termination of the grantees employment or association with LTC.

DIRECTORS STOCK OPTION PLAN

In August 1995, the Board of Directors of LTC adopted the Directors Stock Option Plan. The Directors Plan was terminated as of December 31, 2002. All options outstanding under the Directors Plan were 100% vested in February 2000. Upon the termination of a participants association with LTC, options granted will remain exercisable for a period of three months or until the stated expiration of the stock option, if earlier.

1998 STOCK INCENTIVE PLAN

LTC's Board of Directors adopted the 1998 Stock Incentive Plan in December 1998. The 1998 Plan was terminated as of December 31, 2002. All options outstanding under the 1998 Plan were 100% vested in February 2000. Vested options are exercisable for up to sixty months after the date of termination of the grantee's employment or association with LTC.

2002 STOCK INCENTIVE PLAN

LTC's Board of Directors adopted the 2002 Stock Incentive Plan in January 2002. The 2002 Plan terminates in 2012. A total of 350,000 shares of common stock are reserved and available for grant. The exercise price of an option granted under the 2002 Plan will not be less than the fair market value of LTC's common stock on the date of grant; however, for any non-qualified stock option the option price per share of common stock, may alternatively be fixed at any price deemed to be fair and reasonable as of the date of the grant. Options granted that are not vested will be cancelled immediately upon termination of the grantee's employment or association with LTC, except in certain situations such as retirement, death or disability. Vested options are exercisable for up to sixty months upon termination of the grantee's employment or association with LTC.

WARRANTS

Warrants issued under equity compensation plans, which were outstanding as of December 31, 2008, include the following:

The Company issued to the finder and affiliated persons in the January 2004 debenture financing warrants to purchase 4,532,836 shares of Company common stock at exercise prices ranging from $0.034 to $0.660 per share. The warrants expire on January 20, 2009.

The Company issued to a consultant warrants to purchase 100,000 shares of Company common stock with an exercise price of $1.91. The warrants expire on June 1, 2009.

The Company issued to a consultant 200,000 warrants to purchase shares of common stock with an exercise price of $0.064. The warrants expired on May 6, 2009.

The Company issued 264,739 finder warrants to purchase shares of common stock with an exercise price of $0.187. The warrants expire on May 31, 2009.

The Company issued 684,099 finder warrants to purchase shares of common stock with an exercise price of $0.257. The warrants expire on August 30, 2009.

The Company issued 20,000 placement warrants to purchase shares of common stock with an exercise price of $0.055. The warrants expire on May 17, 2009.

SALE OF SECURITIES DURING QUARTER ENDED DECEMBER 31, 2008

On October 14, 2008 the Company signed a separation agreement with its Chief Financial Officer, Amir Elbaz, and as part of this separation agreement the Company approved the issuance of 1,500,000 shares of its Common Stock to Mr. Elbaz. The shares have not yet been issued.

The Company closed on debt financings under the June 2008 Financing described herein with seven institutional investors from October 6, 2008 to December 23, 2008 for a total of Euros 2,213,100 (approximately U.S. $2,934,307). 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 Note was 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 6. SELECTED FINANCIAL DATA

Not applicable because we are a smaller reporting company.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read together with the Consolidated Financial Statements and the accompanying notes to the Consolidated Financial Statements 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 limited volume production and development contracts, in both the United States and Germany, of large format cylindrical lithium-ion rechargeable cells and batteries used as power sources in advanced applications in the transportation, military/national security 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 cells and batteries. The Company will be increasing production capacity by engaging into large volume cell delivery and battery assembly programs.

LIQUIDITY AND FINANCIAL CONDITION

GENERAL

At December 31, 2008, cash and cash equivalents were $792,000. Total liabilities as of December 31, 2008 were $21,897,000 consisting of current liabilities in the aggregate amount of $15,112,000. At December 31, 2008, assets included $2,623,000 in inventories, property and equipment, net of accumulated depreciation, of $6,933,000, prepaid expenses and other current assets of $173,000. As of December 31, 2008, our working capital deficit was $11,360,000 as compared to $25,444,000 at December 31, 2007. We expect to incur substantial operating losses as we continue our commercialization efforts (For disclosure purposes, all numbers related to the Company's financials were rounded to the nearest thousand).

		December 31, 2008		December 31, 2007
Current debt is summarized as follows:				
Loans From Financial Institutions	$	82,000	$	104,000
Silent Partner loans-TBG		2,162,000		2,259,000
July 2007 10% Convertible Debenture		3,247,000		3,048,000
Sub total current debt	$	5,491,000	$	5,411,000
Related party debt:				
Subordinated Loans from Archhill		3,627,000		6,272,000
Promissory Note to Archhill		1,777,000		60,000
Sub total Related party debt		5,404,000		6,332,000
Long term debt				
June 2008, 9% Convertible Note,		6,785,000		-
				-
Warrant liability		292,000		15,550,000
Total current debt	$	17,972,000	$	27,293,000

For more detailed information on our debt, see Note 4 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 December 2008, we raised approximately $6.8 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.

SILENT PARTNERSHIP LOANS-

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 December 31, 2008 and December 31, 2007 was $2,162,000 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 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.

JULY 2007 10% CONVERTIBLE NOTE

On July 11, 2007, debt of European subsidiaries of the Company 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 December 31, 2008, $3,247,000 plus accrued interest of $154,242 was outstanding under the Convertible Note. Upon issuance the Company recorded a beneficial conversion feature of $324,721 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 rate on the unpaid accrued interest as of September 1, 2008 was increased from 10% to 12% per annum. On March 1, 2009 the Convertible Note was extended a second time until January 1, 2010.

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 December 31, 2008 and December 31, 2007. The outstanding amount as of December 31, 2008 consists out of unpaid management fees invoiced from Arch Hill to GAIA Holding BV over the period 2004 till 2008 and accrued interest.

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.

A balance of $3,627,000 remains payable to Arch Hill after the issuance of the Series C Preferred Stock discussed above. 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. As part of this increase the Company will be able to convert the balance of the above described debt of $3,627,000 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 December 31, 2008 and is included in the promissory notes of $1,777,000 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 $124,000.

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 December 23, 2008 for a total of Euros 4.80 million (approximately U.S. $6,785,000). The accrued interest on this amount is €139,000 (approximately U.S. $204,000).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.

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 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.

Based upon the decreased conversion price and under assumption that all note holders would voluntary choose a conversion into shares, the principal and accrued interest under the Convertible Notes, would convert into 102,495,482 shares of common stock as of December 31, 2008.

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 there from 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.

OCTOBER 2005 8% DEBENTURE (CORNELL CAPITAL)

On October 7, 2005, the Company entered into a Securities Purchase Agreement with Cornell Capital pursuant to which the Company issued convertible debentures in the principal amount for $3,000,000, with an original maturity date of October 1, 2006. The debentures were convertible at the option of Cornell Capital any time up to maturity at a conversion price equal to $0.06 per share. The debentures had a one-year term and accrued interest at 8% per year. Interest and principal payments on the debenture were to commence on January 1, 2006 and end on October 1, 2006. The debenture was issued with five-year warrants to Cornell Capital to purchase 20,000,000 shares of common stock at the following exercise prices: 10,000,000 at $0.06 per share 5,000,000 at $0.07 per share and 5,000,000 at $0.10 per share. The terms of the Cornell Capital debenture were subsequently amended three times as described in our financial reports for the year 2007.

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

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

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

The October 2005 Debenture was settled in five tranches in May and June of 2007. Settlement of the debenture consisted of issuance of a total of 77,228,495 shares of common stock and payment of $2,011,475 plus approximately $770,000 cash payment of accrued interest. As of December 31, 2007 the Company reported a warrant liability for the Cornell warrants of $5,123,000.

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

SALE OF 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 at a purchase price of $150 per share 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. The effective purchase price for each underlying share of Company common stock in these transactions was $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 at a purchase price of $250 per share of Series C Preferred Stock, with an effective purchase price for each underlying share of Company common stock of $0.10 per share in these transactions. No additional shares of Series C Preferred stock were sold or issued during 2008 other than shares issued in the Debt Settlement described above. See "Subordinated Loans From Related Party".

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. On March 25, 2009 the Company filed an Amended Certificate of Incorporation, in which the authorized amount of common stock has been increased from 750,000,000 to 3,000,000,000 shares of 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. During 2007 $11,774,000 was recorded, and the amount is reflected as an increase to the Net Loss to common shareholders in the Company's statement of operation.

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 refocused our unique extrusion-based manufacturing process, cell technology, large battery assembly expertise, and market activities to concentrate on large-format, high rate battery applications. Our commercialization efforts are focused on applying our lithium-ion rechargeable batteries in the transportation, stationary power and national security 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 in the third quarter of 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 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 4 and 7 to our financial statements). From January to December 2008, we raised approximately $6.8 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, repayment of debt and for capital expenditures over the next twelve months and to meet expansion plans. 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 depend on the regional market needs.

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 few years. As of December 31, 2008, we had an accumulated deficit of approximately $137,000,000. 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 2009 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.

RESULTS OF OPERATIONS

YEAR ENDED DECEMBER 31, 2008 COMPARED TO YEAR ENDED DECEMBER 31, 2007

Revenues from Product Sales

Revenues from product sales increased to $4,167,000 or 59% in the year ended December 31, 2008 from $2,609,000 in the same period in 2007. The increase in sales revenues is a result of our focused sales and operational performance.

As we are still in early manufacturing stage, but by limiting the amount of different large format cylindrical cells we are producing and selling, and by streamlining our production facility logistically, the Company has been able to improve yield substantially. Our mission continues to be to become a leading manufacturer of large format cylindrical rechargeable lithium power solutions for advanced transportation, stationary power and national security applications. We can also license our technology and have the capability to enter into other collaborative efforts with third parties.

In the transportation market, the rapidly increasing cost of petroleum-based fuels continues to accelerate the move to full electric and plug-in electric hybrid vehicles. While we believe that other automobile manufacturers will take several years to adopt the technology, we are continuing our development efforts through smaller, but more focused market opportunities. Political pressure to innovate drive train technologies towards electric and plug-in hybrid solutions has put strong emphasis and interest in battery technology over the past several months.

Outside the U.S., we continue to further our agreement with ThyssenKrupp, the largest manufacturer of non-nuclear, manned submarines to develop and manufacture special, very large lithium-ion cells for propulsion.

Cost of Goods Sold

Cost of goods sold was $7,459,000 in the year ended December 31, 2008 compared to $3,729,000 in the same period in 2007, an increase of 100%. The increase was due to reclassification of other costs to Cost of Goods Sold. 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. 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. Costs allocated towards indirect costs in the past have been reclassified as direct costs resulting in both an absolute increase of the Costs of Goods Sold, as well as a percentage increase of these costs.

Engineering, Research and Development Expenses

Engineering, research and development expenses during the year ended December 31, 2008 decreased by 53% to $1,437,000 from $3,088,000 in the same period in 2007. This decrease was due to completion of some R&D projects in 2008, and the discontinuation of flat cell manufacturing and research in Plymouth Meeting.

General and Administrative Expenses

General and administrative expenses during the year ended December 31, 2008 increased by $701,000 or approximately 13% to $6,188,000 from $5,487,000 in the same period in 2007. This increase reflects our efforts to move to larger scale manufacturing and increase financing related efforts and costs. Due to the increased efforts we have paid consultants fees of approximately $1,500,000 during 2008. Partly this has been costs resulted out of the in April 2008 signed Governance Agreement in which the Company agreed to hire two fulltime consultants and $150,000 of the legal fees of the shareholder parties to the Governance Agreement have been paid by the Company.

Sales and Marketing Expenses

Sales and marketing expenses were $397,000 in the year ended December 31, 2008 compared to $444,000 in the same period in 2007. Sales and Marketing expenses represent costs incurred from sales associates and participation in trade shows relating to the sale of cells and or batteries. The amount spent on sales and marketing costs reflects our strategic focus to increase market recognition and the continuous of our efforts to sell products to bigger corporations, which require more travel and sales efforts. The decrease in our sales and marketing expense is because a higher amount of our marketing and sales costs have been contributed towards Cost of Goods Sold, since most efforts could be contributed to awarded sales contracts, which resulted in a decrease of the Sales and Marketing Costs.

Depreciation and Amortization

Depreciation and amortization during the year ended December 31, 2008 decreased by $21,000 to $330,000 from $351,000 in the same period in 2007 due to the fact that due to increased revenue a larger portion of depreciation has been contributed to Cost of Goods sold.

Interest Expense

Interest expense, net of interest income for the year ended December 31, 2008 decreased by $1,124,000 or 60% to $744,000 from $1,868,000 in the same period in 2007. Interest expense mainly represents interest accrued on the loans from the European subsidiary debt financing, which was paid in July 2008.

Warrants Expense (Income)

Charges for warrants were $(9,946,000) and $10,009,000, respectively, in the years ended December 31, 2008 and 2007. The decrease in the charge for the warrant expense is attributed as a result of the decrease of the Company’s stock price, and the fact that we mark the warrants to market every quarter.

Per EITF 00-19 Accounting for Derivatives Financial Instrument Indexed to, and Potentially Settled Into, a Company’s Own Stock, warrants issued with debt are classified as liabilities and marked to market at each reporting period.

Charge for Beneficial Conversion Feature

Charge for beneficial conversion feature was $3,827,000 and $1,700,000, respectively, in the year ended December 31, 2008 and 2007. For more information concerning this please refer to the Notes to Financial Statement contained herein.

Net Loss to Common Shareholders

Net loss to common shareholders was approximately $6,414,000 or $(0.00) per share for the year ended December 31, 2008 as compared to a net loss to common shareholders of $36,233,000 or $(0.03) for the year ended December 31, 2007.

Accumulated Deficit

We have incurred substantial operating losses and expect to incur additional operating losses over the next several years. As of December 31, 2008, our accumulated deficit was $137,473,000.

CRITICAL ACCOUNTING POLICIES

The Securities and Exchange Commission ("SEC") defines "critical accounting policies" as those that require application of management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods. Our significant accounting policies are described in Note 2 in the Notes to the Consolidated Financial Statements. Not all of these significant accounting policies require management to make difficult, subjective or complex judgments or estimates. However, the following policies could be deemed to be critical within the SEC definition.

Revenues

We sell large complete batteries and battery cells to various customers, mostly in the US and Europe. Revenue is recognized as services are rendered or products are delivered, the price to the buyer is fixed and determinable, and collectability is reasonably assured. In 2008 revenues were concentrated for 29% with two customers. Purchases were concentrated for 15% with one vendor.

Useful Lives of Tangible and Intangible Assets

Depreciation and amortization of tangible and intangible assets are based on estimates of the useful lives of the assets. We regularly review the useful life estimates established to determine their propriety. Changes in estimated useful lives could result in increased depreciation or amortization expense in the period of the change in estimate and in future periods that could materially impact our financial condition and results of operations.

Impairment of Long-Lived Assets

We follow Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS No. 144"), which requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. An impairment charge could materially impact our financial condition and results of operations.

Income Taxes

In preparing our consolidated financial statements, we make estimates of our current tax exposure and temporary differences resulting from timing differences for reporting items for book and tax purposes. We recognize deferred taxes by the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred income taxes are recognized for differences between the financial statement and tax bases of assets and liabilities at enacted statutory tax rates in effect for the years in which the differences are expected to reverse. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date. In addition, valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized. In consideration of our accumulated losses and lack of historical ability to generate taxable income to utilize our deferred tax assets, we have estimated that we will not be able to realize any benefit from our temporary differences and have recorded a full valuation allowance. If we become profitable in the future at levels which cause management to conclude that it is more likely than not that we will realize all or a portion of the net operating loss carry-forward, we would immediately record the estimated net realized value of the deferred tax asset at that time and would then provide for income taxes at a rate equal to our combined federal and state effective rates, which would be approximately 40% under current tax laws. Subsequent revisions to the estimated net realizable value of the deferred tax asset could cause our provision for income taxes to vary significantly from period to period.

Fair Value of Financial Instruments

Fair value estimates, assumptions and methods used to estimate fair value of our financial instruments are made in accordance with the requirements of SFAS No. 107, “Disclosures about Fair Value of Financial Instruments”. We have used available information to derive our estimates. However, because these estimates are made as of a specific point in time, they are not necessarily indicative of amounts we could realize currently. The use of different assumptions or estimating methods may have a material effect on the estimated fair value amounts.

Convertible Securities With Beneficial Conversion Features

The Company accounts for securities with embedded conversion features and warrant issuances in accordance with EITF 98-5: Accounting for convertible securities with beneficial conversion features or contingency adjustable conversion and EITF No. 00-27: Application of issue No. 98-5 to certain convertible instruments. The Company determines the fair values to be ascribed to detachable warrants issued with the convertible debentures utilizing the Black-Scholes method. Any discount derived from determining the fair value of the beneficial conversion features is amortized using the effective interest method to financing costs over the remaining life of the debenture. Warrants issued with debt are classified as liabilities and marked to market at each reporting period. For issuances of convertible Preferred Stock with beneficial conversion feature the discount is recognized upon issuance.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In October 2008, the FASB issued FSP No. 157-3. “Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active” ("FSP 157-3”). FSP 157-3 clarifies the application of SFAS 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. FSP 157-3 was effective for the Company on September 30, 2008 for all financial assets and liabilities recognized or disclosed at fair value in our Consolidated Financial Statements on a recurring basis (or at least annually).

In June 2008, the FASB issued EITF 07-5, Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity’s Own Stock.” EITF 07-5 provides guidance in assessing whether an equity-linked financial instrument (or embedded feature) is indexed to an entity’s own stock for purposes of determining whether the appropriate accounting treatment falls under the scope of SFAS 133, Accounting For Derivative Instruments and Hedging Activities” and/or EITF 00-19, Accounting For Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company’s Own Stock.” EITF 07-05 is effective as of the beginning of our 2009 fiscal year. The Company is currently evaluating the provisions of EITF 07-5 to determine the impact on the Company’s consolidated financial statements.

In May 2008, the FASB issued SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles. The statement is intended to improve financial reporting by identifying a consistent hierarchy for selecting accounting principles to be used in preparing financial statements that are presented in conformity with GAAP. Prior to the issuance of SFAS No. 162, GAAP hierarchy was defined in the American Institute of Certified Public Accountants (“AICPA”) Statement on Auditing Standards (SAS) No. 69, “The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles.” Unlike SAS No. 69, SFAS No. 162 is directed to the entity rather than the auditor. Statement No. 162 is effective 60 days following the SEC’s approval of the Public Company Accounting Oversight Board Auditing amendments to AU Section 411. The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles, SFAS No. 162 is not expected to have any material impact on the Company’s results of operations, financial condition or liquidity.

In May 2008, the FASB issued FASB Staff Position (FSP”) APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement).” FSP APB14-1 will require us to account separately for the liability and equity components of our convertible debt. The debt would be recognized at the present value of its cash flows discounted using our nonconvertible debt borrowing rate at the time of issuance. The equity component would be recognized as the difference between the proceeds from the issuance of the note and the fair value of the liability. The FSP also requires accretion of the resultant debt discount over the expected life of the debt. The FSP is effective for fiscal years beginning after December 15, 2008, and interim periods within those years. Entities are required to apply the FSP retrospectively for all periods presented. The Company is currently evaluating the provisions of this FSP to determine the impact on the Company’s consolidated financial statements.

Effective January 1, 2008, the Company adopted SFAS No. 157, "Fair Value Measurements". In February 2008, the Financial Accounting Standards Board ("FASB") issued FASB Staff Position No. FAS 157-2. "Effective Date of FASB Statement No. 157", which provides a one year deferral of the effective date of SFAS No. 157 for non-financial assets and non-financial liabilities, except those that are recognized or disclosed in the financial statements at fair value at least annually. Therefore, the Company has adopted the provisions of SFAS No. 157 with respect to its financial assets and liabilities only. SFAS No. 157 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and enhances disclosures about fair value measurements. Fair value is defined under SFAS No. 157 as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value under SFAS No. 157 must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value. The adoption of this Statement did not have a material impact on the Company's consolidated results of operations and financial condition.

Effective January 1, 2008, the Company adopted SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115" ("FAS 159"). FAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. FAS 159 does not affect any existing accounting literature that requires certain assets and liabilities to be carried at fair value. The adoption of this Statement did not have a material impact on the Company's consolidated results of operations and financial condition.

In December 2007, the FASB issued Statement of Financial Accounting Standard No. 160, "Noncontrolling Interests in Consolidated Financial Statements — an amendment of ARB No. 51" ("FAS 160"). FAS 160 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the retained interest and gain or loss when a subsidiary is deconsolidated. This statement is effective for financial statements issued for fiscal years beginning on or after December 15, 2008 with earlier adoption prohibited. The Company is currently evaluating the impact, if any, of FAS 160 on its operating results and financial position.

In December 2007, the FASB issued SFAS No. 141R, "Business Combinations," ("SFAS 141R") which establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree. SFAS 141R also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. SFAS 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008, and interim periods within those fiscal years. The Company is currently evaluating the impact, if any, of SFAS 141R on its operating results and financial position.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133 " ("FAS 161"). FAS 161 changes the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. The guidance in FAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. This Statement encourages, but does not require, comparative disclosures for earlier periods at initial adoption. The company is currently evaluating the provisions of FASB 161 to determine the impact on the company's consolidated financial statements.

RISK FACTORS

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.

RISKS RELATED TO OUR BUSINESS

WE HAVE A WORKING CAPITAL DEFICIT, WHICH MEANS THAT OUR CURRENT ASSETS ON DECEMBER 31, 2008 WERE NOT SUFFICIENT TO SATISFY OUR CURRENT LIABILITIES. We had a working capital deficit of approximately $11,360,000 at December 31, 2008, which means that our current liabilities exceeded our current assets on December 31, 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 December 31, 2008, we had total consolidated indebtedness of approximately $21,897,000. 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 from inception to December 31, 2008, including approximately $6,414,000 of net loss to common shareholders in the year ended December 31, 2008. We expect to incur substantial additional operating losses in the future. During the year ended December 31, 2008 and 2007, we generated revenues from batteries sales and development contracts in the amounts of $4,167,000 and $2,609,000, respectively. We cannot assure you that we will continue to generate revenues from operations or achieve profitability in the near future or at all. These conditions raise substantial doubt about our ability to continue as a going concern.

WE NEED SIGNIFICANT FINANCING FOR WORKING CAPITAL AND TO COMPLETE OUR PRODUCT COMMERCIALIZATION. 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 needs for working capital, repayment of debt and for capital expenditures over the next twelve months and to meet expansion plans. 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.

We have not entered into any definitive agreements related to a new financing. No assurance can be given that we will be successful in completing these or any other financings at the minimum level necessary to fund our working capital or to complete our product commercialization or at all. If we are unsuccessful in completing these financings, we will not be able to fund our working capital requirements, products, commercialization or execute our business plan. These conditions raise substantial doubt about our ability to continue as a going concern.

WE FACE RISKS RELATED TO OUR ACCOUNTING RESTATEMENTS AND LATE SEC FILINGS. As previously disclosed, the Company's prior auditors, BDO Seidman, LLP ("BDO Seidman"), notified the Company in connection with the preparation of the Company's audited financial statements for the year ended December 31, 2005 that BDO Seidman was evaluating all of the debt financings conducted by the Company during 2004, 2005 and 2006 as a result of evolving interpretations of the accounting rules relating to various convertible debt instruments, which include embedded derivatives. On October 17, 2006, BDO Seidman had not yet finished such evaluation and the Company terminated BDO Seidman. BDO Seidman notified the Company that as a result of the October 17, 2006 termination of BDO Seidman, the above described debt financing evaluation could not be completed by BDO Seidman and therefore the Company's previously issued audited financial statements and independent auditors report of BDO Seidman for the year ended December 31, 2004, and all quarterly financial statements for periods after December 31, 2004, should not be relied upon. Further, BDO Seidman notified the Company after their dismissal on October 17, 2006 that BDO Seidman would not be reissuing their auditor's opinion on the Company's financial statements for the year ended December 31, 2004.

Effective February 23, 2007 Amper, Politziner & Mattia LLP ("AP&M") was appointed by the Board of Directors of the Company to serve as the Company's independent registered public accounting firm to audit the Company's financial statements for the years ended December 31, 2006, 2005 and 2004.

On November 21, 2007, the Company filed a Form 10KSB/A which included audited financial statements for the years ended December 31, 2004 and 2005 audited by AP&M. On November 21, 2007 we publicly announced that we had re-evaluated our accounting for our convertible instruments and our intangible assets in previously reported financial statements. Following consultation with our independent accountants, AP&M, we restated our financial statements for the year ended December 31, 2004. On February 8, 2008, the Company filed a Form 10KSB which included audited financial statements for the year ended December 31, 2006. On May 15, 2008, the Company filed a

Form 10KSB which included audited financial statements for the year ended December 31, 2007.

The restatement of these financial statements and delay in filing financial statements and periodic reports with the SEC for the fiscal years ending December 31, 2005 to date may lead to litigation claims and/or regulatory proceedings against us. 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 as a result of the restatements and delay in filing financial statements and periodic reports with the SEC and we may not be able to effectuate our current business strategy. Moreover, we may be the subject of negative publicity focusing on the financial statement errors and resulting restatement and delay in filing financial statements and periodic reports with the SEC and negative reactions from our stockholders, creditors or others with whom we do business. The occurrence of any of the foregoing could harm our business and reputation and cause the price of our securities to decline.

IF WE FAIL TO MAINTAIN AN EFFECTIVE SYSTEM OF INTERNAL AND DISCLOSURE CONTROLS, WE MAY NOT BE ABLE TO ACCURATELY REPORT OUR FINANCIAL RESULTS OR PREVENT FRAUD. AS A RESULT, CURRENT AND POTENTIAL STOCKHOLDERS COULD LOSE CONFIDENCE IN OUR FINANCIAL REPORTING WHICH WOULD HARM OUR BUSINESS AND THE TRADING PRICE OF OUR SECURITIES. Effective internal and disclosure controls are necessary for us to provide reliable financial reports and effectively prevent fraud and to operate successfully as a public company. If we cannot provide reliable financial reports or prevent fraud, our reputation and operating results would be harmed. We have in the past discovered, and may in the future discover, areas of our disclosure and internal controls that need improvement. As a result after a review of our December 31, 2004 through 2008 operating results, we identified certain deficiencies in some of our disclosure controls and procedures.

We have undertaken improvements to our internal controls in an effort to remediate these deficiencies. We cannot be certain that our efforts to improve our internal and disclosure controls will be successful or that we will be able to maintain adequate controls over our financial processes and reporting in the future. Any failure to develop or maintain effective controls or difficulties encountered in their implementation or other effective improvement of our internal and disclosure controls could harm our operating results or cause us to fail to meet our reporting obligations. If we are unable to adequately establish or improve our internal controls over financial reporting, our external auditors may not be able to issue an unqualified opinion on the effectiveness of our controls. Ineffective internal and disclosure controls could also cause investors to lose confidence in our reported financial information, which would likely have a negative effect on the trading price of our securities.

WE FACE RISKS RELATED TO LATE TAX FILINGS. The Company 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.

THERE MAY BE NO REMAINING PROCEEDS FOR STOCKHOLDERS IN THE EVENT OF OUR DISSOLUTION. In the event of our dissolution, the proceeds from the liquidation of our assets, if any, will be first used to satisfy the claims of creditors. All obligations of the Company under the June 2008 9% Convertible Notes will be secured by security interests in all of the tangible and intangible fixed assets, including real estate, of the Company. Only after all outstanding debts are satisfied will the remaining proceeds, if any, be distributed to our stockholders. Accordingly, the ability of any investor to recover all or any portion of an investment in our securities under such circumstances will depend on the amount of funds so realized and claims to be satisfied there from.

WE HAVE NOT PRODUCED SIGNIFICANT COMMERCIAL QUANTITIES OF LITHIUM-ION BATTERIES. Our construction of large batteries for military, transportation and stationary power applications requires customized, tailored solutions for each application. At present, we operate a small production line that produces limited quantities of standardized cells. We have taken these cells and assembled them into various prototype batteries. We have had repeat orders for the same batteries, but to be successful, we must ultimately produce our lithium-ion batteries (i) in reasonable commercial quantities; (ii) at competitive costs; (iii) with appropriate performance characteristics; and (iv) with low failure rates. We currently have no high volume manufacturing capability or experience in large scale manufacturing of either our standard cells or our customized batteries. We have limited experience in automated cell assembly and packaging technology. We cannot give any assurance that we will be able to produce commercial lithium-ion batteries on a timely basis, at an acceptable cost or in the necessary commercial specifications or quantities.

COMPETITION IN THE RECHARGEABLE BATTERY INDUSTRY IS INTENSE. The rechargeable battery industry consists of major domestic and international companies, many of which have financial, technical, manufacturing, distribution, marketing, sales and other resources substantially greater than ours. We compete against companies producing lithium batteries as well as other primary and rechargeable battery technologies. Further, our competitors may introduce emerging technologies or refine existing technologies which could compete with our products and have a significant negative impact on our business and financial condition.

EXPANDING MARKET ACCEPTANCE OF OUR BATTERIES IS UNCERTAIN. While initial market acceptance of our cells and our custom engineered batteries has been good, we cannot guarantee going forward that we will be able to achieve market acceptance in larger more standardized markets. Market acceptance will depend on a number of factors, including:

- our ability to keep production costs low. Other advanced battery chemistries may be produced at a reduced cost. As we work to reduce the cost of our batteries, we expect that manufacturers of other advanced battery chemistries will do the same.

- lithium-ion battery life in various commercial applications. While initial testing is promising, it is difficult to predict the life of lithium-ion batteries in high rate applications. If our batteries do not last long enough when used for high rate applications, it is unlikely that there will be market acceptance of our battery products.

- timely introductions of new products. Our introduction of new products will be subject to the inherent risks of unforeseen problems and delays. Delays in product availability may negatively affect their market acceptance.

OUR BATTERY TECHNOLOGY MAY BECOME OBSOLETE. The market for our rechargeable batteries is characterized by changing technology and evolving industry standards, often resulting in product obsolescence or short product lifecycles. Changes in end-user requirements and new products introductions and enhancements by our competitors may also render our technology obsolete. Our success will depend upon our ability to introduce in a timely manner products whose performance will match or better our competitors' products. There can be no assurance that our competitors will not develop technologies or products that would render our technology and products obsolete or less marketable.

OUR BUSINESS STRATEGY DEPENDS ON THE CONTINUED GROWTH OF THE LITHIUM BATTERY INDUSTRY. We would be adversely affected if sales of rechargeable lithium batteries do not continue to grow. The growth in sales of rechargeable lithium batteries may be inhibited for any number of reasons, including:

- competition from other battery chemistries;

- the failure of large-scale commercial production of lithium battery powered hybrid electric vehicles;

- a significant downturn in military activities requiring rechargeable power sources; or

- the failure of the markets to accept the use of lithium batteries in large-scale applications, such as energy storage.

WE MAY NOT BE ABLE TO ACCOMMODATE INCREASED DEMAND FOR OUR BATTERIES. Rapid growth of our business may significantly strain our management, operations and technical resources. If we are successful in obtaining orders for commercial production of our batteries, we will be required to deliver large volumes of quality products to our customers on a timely basis and at a reasonable cost. We cannot assure you that we will obtain commercial scale orders for our batteries or that we will be able to satisfy commercial scale production requirements on a timely and cost-effective basis. As our business grows, we will also be required to continue to improve our operations, management and financial systems and controls. Our failure to manage our growth effectively could have an adverse effect on our ability to produce products and meet the demands of our customers.

CERTAIN COMPONENTS OF OUR BATTERIES POSE SAFETY RISKS THAT MAY CAUSE ACCIDENTS IN OUR FACILITIES AND IN THE USE OF OUR PRODUCTS. As with any battery, our lithium-ion batteries can short circuit when not handled properly. Due to the high energy and power density of lithium-ion batteries, a short circuit can cause rapid heat buildup. Under extreme circumstances, this could cause a fire. This is most likely to occur during the formation or testing phase of our process. While we incorporate safety procedures and specific safety testing in our battery testing lab to minimize safety risks, we cannot assure you that an accident in any part of our facilities where charged batteries are handled will not occur. Any such accident could result in injury to our employees or damage to our facility and would require an internal investigation by our technical staff. Likewise any battery that is abused by a customer, could, under extreme circumstances conceivably cause a fire. We employ all appropriate design and electronic protections. We also carry the appropriate liability insurance. Any such injuries, damages or investigations could lead to liability to our company, cause delays in manufacturing of our product and/or adversely affect market acceptance which could adversely affect our operations and financial condition.

Our manufacturing process incorporates pulverized solids, which can be toxic to employees when allowed to become airborne in high concentrations. We have incorporated safety controls and procedures into our pilot line manufacturing processes designed to maximize the safety of our employees and neighbors. Any related incident, including fire or personnel exposure to toxic substances, could result in significant production delays or claims for damages resulting from injuries, which could adversely affect our operations and financial condition.

WE MUST COMPLY WITH EXTENSIVE REGULATIONS GOVERNING SHIPMENT OF OUR BATTERIES AND OPERATION OF OUR FACILITY. We are subject to the U.S. Department of Transportation (USDOT) and the International Transport Association (IATA) regulations regarding shipment of lithium-ion batteries. Due to the size of our batteries, a permit is required to transport our lithium batteries from our manufacturing facility. Although similar batteries with other chemistries are routinely shipped from manufacturing facilities to all parts of the world, we cannot assure you that we will not encounter any difficulties in obtaining shipment permits or in complying with new or amended regulations regarding shipment of our products.

WE COULD INCUR SIGNIFICANT COSTS FOR VIOLATIONS OF OR TO COMPLY WITH APPLICABLE ENVIRONMENTAL AND OCCUPATIONAL HEALTH AND SAFETY LAWS AND REGULATIONS. National, state, local and foreign laws impose various environmental controls on the manufacture, storage, use and disposal of lithium batteries and of certain chemicals used in the manufacture of lithium batteries. Although we believe that our operations are in substantial compliance with current environmental regulations and that there are no environmental conditions that will require material expenditures for clean-up at our facility or at facilities to which we have sent waste for disposal, we cannot assure you that new laws or regulations or changes in existing laws or regulations will not impose costly compliance requirements on us or otherwise subject us to future liabilities. Moreover, foreign, state and local governments may enact additional restrictions relating to the disposal of lithium batteries used by our customers which could require us to respond to those restrictions or could negatively affect the demand for those batteries.

As with all employers in the U.S., we must comply with U.S. Occupational and Safety Administration (OSHA) regulations designed for the protection of employees while at the workplace. We are also subject to U.S. Environmental Protection Agency (USEPA) and Pennsylvania Department of Environmental Protection Agency (PADEP) regulations designed to protect the environment from contaminants that can be discharged from manufacturing facilities. We cannot assure you that we will not incur significant expenses or encounter any difficulties in complying with OSHA, USEPA, and PADEP regulations.

OUR BUSINESS AND GROWTH WILL SUFFER IF WE ARE UNABLE TO RETAIN KEY PERSONNEL. Our success depends in large part upon the services of a number of key employees and senior management. If we lose the services of one or more of our key employees or senior management, it could have a significant negative impact on our business.

WE CANNOT GUARANTEE THE PROTECTION OF OUR TECHNOLOGY OR PREVENT THE DEVELOPMENT OF SIMILAR TECHNOLOGY BY OUR COMPETITORS. Our success depends largely on the knowledge, ability, experience and technological expertise of our employees rather than on the legal protection of our patents and other proprietary rights. We claim proprietary rights in various unpatented technologies, know-how, trade secrets and trademarks relating to our products and manufacturing processes. We cannot guarantee the adequacy of protection these claims afford, or that our competitors will not independently develop or patent technologies that are substantially equivalent or superior to our technology. We protect our proprietary rights in our products and operations through contractual obligations, including nondisclosure agreements, with our employees and consultants. We cannot guarantee the adequacy of protection these contractual measures afford.

We have patents issued and patent applications pending in the U.S., Europe and elsewhere. We cannot assure you (i) that patents will be issued from any pending applications, (ii) that the claims allowed under any patents will be sufficiently broad to protect our technology, (iii) that any patents issued to us will not be challenged, invalidated or circumvented, or (iv) as to the adequacy of protection any patents or patent applications afford.

If we are found to be infringing upon third party patents, we cannot assure you that we will be able to obtain licenses with respect to such patents on acceptable terms, if at all. Our failure to obtain necessary licenses could lead to costly attempts to design around such patents or delay or even foreclose the development, manufacture or sale of our products.

WE MAY FACE LIABILITY IF OUR BATTERIES FAIL TO FUNCTION PROPERLY. We maintain liability insurance coverage that we believe is sufficient to protect us against potential claims. We cannot assure you that our liability insurance will continue to be available to us on its current terms or at all, or that such liability insurance will be sufficient to cover any claim or claims.

RISKS RELATED TO OUR SHARES

FUTURE SALES BY OUR STOCKHOLDERS MAY ADVERSELY AFFECT OUR STOCK PRICE AND OUR ABILITY TO RAISE FUNDS IN NEW STOCK OFFERINGS. Sales of our common stock in the public market could lower the market price of our common stock. Sales may also make it more difficult for us to sell equity securities or equity-related securities in the future at a time and price that our management deems acceptable or at all. As of December 31, 2008, we had 745,924,782 shares of common stock outstanding, without taking into account shares issuable upon exercise of outstanding Series B Convertible Preferred Stock, Series C Convertible Preferred Stock, convertible debentures, warrants or options.

THE MARKET PRICE OF OUR COMMON STOCK MAY BE VOLATILE, WHICH COULD CAUSE THE VALUE OF AN INVESTMENT IN OUR STOCK TO DECLINE. The market price of shares of our common stock has been and is likely to continue to be highly volatile. Factors that may have a significant effect on the market price of our common stock include the following:

- sales of large numbers of shares of our common stocks in the open market, including shares issuable at fluctuating conversion price at a discount to the market price of our common stock;
- our operating results;
- our need for additional financing;
- announcements of technological innovations or new commercial products by us or our competitors;
- developments in our patent or other proprietary rights or our competitors' developments;
- our relationships with current or future collaborative partners;
- governmental regulation;
- and factors and events beyond our control.

In addition, our common stock has been relatively thinly traded. Thinly traded common stock can be more volatile than common stock trading in an active public market. We cannot predict the extent to which an active public market for the common stock will develop.

In addition, the stock market in general has experienced extreme volatility that often has been unrelated to the operating performance of particular companies. These broad market and industry fluctuations may adversely affect the trading price of our common stock, regardless of our actual operating performance.

As a result of potential stock price volatility, investors may be unable to resell their shares of our common stock at or above the cost of their purchase prices. In addition, companies that have experienced volatility in the market price of their stock have been the subject of securities class action litigation. If we were to become the subject of securities class action litigation, this could result in substantial costs, a diversion of our management's attention and resources and harm to our business and financial condition.

OUR COMMON STOCK MAY BE AFFECTED BY LIMITED TRADING VOLUME AND MAY FLUCTUATE SIGNIFICANTLY. There has been a limited public market for our common stock and there can be no assurance that an active trading market for our common stock will develop. An absence of an active trading market could adversely affect our shareholders" ability to sell our common stock in short time periods, or possibly at all. Our common stock has experienced, and is likely to experience in the future, significant price and volume fluctuations that could adversely affect the market price of our common stock without regard to our operating performance. In addition, we believe that factors such as quarterly fluctuations in our financial results and changes in the overall economy or the condition of the financial markets could cause the price of our common stock to fluctuate substantially.

OUR COMMON STOCK IS DEEMED TO BE "PENNY STOCK," WHICH MAY MAKE IT MORE DIFFICULT FOR INVESTORS TO SELL THEIR SHARES DUE TO SUITABILITY REQUIREMENTS. Our common stock is deemed to be "penny stock" as that term is defined in Rule 3a51-11 promulgated under the Securities Exchange Act of 1934. These requirements may reduce the potential market for our common stock by reducing the number of potential investors. This may make it more difficult for investors in our common stock to sell shares to third parties or to otherwise dispose of them. This could cause our stock price to decline. Penny stocks are stocks:

- with a price of less than $5.00 per share;
- that are not traded on a "recognized" national exchange;
- whose prices are not quoted on the Nasdaq automated quotation system (Nasdaq-listed stocks must still have a price of not less than $5.00 per share); or
- in issuers with net tangible assets less than $2.0 million (if the issuer has been in continuous operation for at least three years) or $5.0 million (if in continuous operation for less than three years), or with average revenues of less than $6.0 million for the last three years.

Broker/dealers dealing in penny stocks are required to provide potential investors with a document disclosing the risks of penny stocks, Moreover, broker/dealers are required to determine whether an investment in a penny stock is a suitable investment for a prospective investor.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable because we are a smaller reporting company.

ITEM 8. FINANCIAL STATEMENTS

The consolidated balance sheets as of December 31, 2008 and 2007, and our consolidated statements of operations, changes in stockholders' deficit and comprehensive loss and cash flows for each of the years in the two year period ended December 31, 2008 and 2007, together with the report of Amper, Politziner & Mattia LLP, independent registered public accountants, are included at the end of this report. Reference is made to the "Index to Consolidated Financial Statements" on page F-l.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not Applicable.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We have carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and acting Chief Financial Officer of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-14. Based upon that evaluation, our Chief

Executive Officer and acting Chief Financial Officer concluded that our disclosure controls and procedures were not effective in timely alerting them to material information relating to the Company (including our subsidiary) required to be included in our periodic Securities and Exchange Commission filings. Additionally we do not have the ability to summarize and report information which we are required to file in periodic reports under the Securities Exchange Act of 1934 within the time periods specified in the Commission's rules. Changes are being made in our internal controls and other factors that will improve our controls subsequent to the date of their evaluation.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) and 15d-15(f) promulgated under the Exchange Act as a process designated by, or under the supervision of, our principal executive and principal financial officers and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and disposition of our assets;

- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and

- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2008. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control – Integrated Framework.

Based on our assessment, management believes that, as of December 31, 2008, our internal control over financial reporting was not effective due to the following:

(1) certain audit adjustments were made to such financial statements after being identified by Amper, Politziner and Mattia LLP

(2) certain disclosures required by GAAP were incorporated in such financial statements and the notes thereto after being identified by Amper, Politziner and Mattia LLP

(3) certain account analyses were either not accurately completed and /or not completed in a timely manner.

(4) inability to summarize and report financial information on a timely basis

(5) the Company's Form 10Q report for the period ended September 30, 2008 was filed with the Securities and Exchange Commission prior to the review and approval of the document by the Company's Audit Committee and Independent Registered Accounting Firm.

This annual report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit us to provide only management's report in this annual report.

Changes in Internal Control Over Financial Reporting

As described above, the Company's management assessed the effectiveness of the Company's internal control over financial reporting and identified material weaknesses in internal control over financial reporting as of December 31, 2008.

As for the material weakness identified at December 31, 2008, management has implemented the following remedial actions:

- Continues to change internal guidance and procedures, as needed.
- Hired and continues to search for additional personnel with the requisite knowledge and/or adequate training to control and monitor the effects of accounting principles and disclosures on the financial reporting of the Company.

Other than the remedial actions described above, management believes that no change in internal control over financial reporting occurred during 2008 that materially affected, or is reasonably likely to materially affect, such internal control over financial reporting.

We are continuing to actively assess and evaluate our most critical business and accounting processes to identify further enhancements and improvement opportunities.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The following table sets forth information concerning LTC's directors and executive officers and the directors and executive officers of GAIA Holding and GAIA as of December 31, 2008:

Name	Age	Position
Fred A. Mulder	67	Co-Chairman of the Board of LTC
Christiaan A. van den Berg	59	Co-Chairman of the Board of LTCChief Executive Officer and Executive Director of GAIA Holding Supervisory Director of GAIA
Theo M. Kremers	55	Chief Executive Officer of LTCManaging Director of GAIA Director of LTC
Dr. Klaus Brandt	60	Chief Technology Officer of LTCManaging Director of GAIA Director of LTC
Dr. Andrew J. Manning	61	Director of LTC
Frits Obers	52	Managing Director of GAIA
Kenneth Rudisuela	55	Chief Operating Officer

Fred A. Mulder was appointed as a Director and co-Chairman of LTC on April 28, 2008. Mr Mulder has extensive experience in the investment market and in managing companies. He currently is Chairman of the Board of LBI International AB, Chairman of the Investment Advisory Committee of Greenfield Capital Partners N.V. (private equity) and a Member of the Supervisory Board of W.P. Stewart & Co., Ltd, Aleri Lab, Inc. (Chicago/London), WAYSIS B.V., Duos Technology, Inc. (USA) and Force India (Formula 1 Team).

Christiaan A. van den Berg was appointed as a Director and co-Chairman of LTC on April 28, 2008. He has been the Chairman of LTC since May 18, 2007 and the Chief Executive Officer of Arch Hill Capital since May 2007. Mr. van den Berg is the Chief Executive Officer and Executive Director of GAIA Holding and a member of the supervisory Board of Directors of GAIA. Mr. van den Berg holds directorships in a number of Dutch and American private companies.

Theo M. Kremers was appointed as a Director of LTC on April 28, 2008 and appointed the Chief Executive Officer of LTC on June 26, 2008 and appointed Managing Director of GAIA in November 3, 2008. Mr. Kremers has been the founder and Chief Executive Officer and President of MARC Global Holdings Inc., headquartered in Dulles, VA. MARC Global Holdings has been acquired from TRW, Reston VA in 2000 as part of a buy-out. MARC Global Holdings Inc. has been one of the premier global suppliers of Supply Chain Execution Software solutions, with operating locations in the United States, the Netherlands, Germany and Australia. After his resignation in 2004, he became Managing Partner of a Dutch Private Equity fund, with as major focus area intelligent solutions and applications for the (deregulated) utility market. Mr. Kremers holds a masters degree in Electrical Engineering of the Technical University Eindhoven. Mr. Kremers holds directorship in a number of Dutch and American private companies.

Dr. Klaus Brandt, Ph.D. has been serving as the Chief Technology Officer of LTC since June 26, 2008 and acted as Chief Executive Officer of LTC from May 18, 2007 until June 26, 2008. Previously, Dr. Brandt served as the Executive Vice President of LTC from June 20, 2005. Dr. Brandt was appointed the Managing Director of GAIA on April 1, 2005 and has served as a director of LTC since September 27, 2006. Prior to joining GAIA and LTC Dr. Brandt served as a member of the Executive Board (Vorstand) that was responsible for Technology and Manufacturing at the German based company

Ionity AG (January 2, 2003 to March 15, 2005). From January 2, 1997 to December 31, 2002 Dr. Brandt was employed by The Gillette Company (U.S.A.) which is the parent company of Duracell, the world's largest manufacturer of alkaline batteries and other primary batteries for the consumer market. His tenure with Gillette entailed serving as Director of Advanced Materials and Processes of Duracell Worldwide Technology Center (January 2, 1997 to June 30, 2000) as well as Director of Portable Power, Gillette Advanced Technologies (July 1, 2000 to December 31, 2002). In 1992 Dr. Brandt joined Varta Battery AG (Germany), the leading battery manufacturer in Europe, where he served as Manager of Lithium Batteries at the Varta Research and Development center until 1996. While at Varta he was responsible for research and development of lithium-ion batteries for both portable and electric vehicle applications. From 1978 to 1992 Dr. Brandt worked for Moli Energy Limited (Canada) which was a start-up company that grew out of the research efforts at the University of British Columbia and was the first company to commercialize rechargeable Lithium batteries in 1986. From 1977 to 1978 he served as a Doctoral Fellow in the Physics department at the University of British Columbia (Vancouver, Canada). Prior to this Dr. Brandt received his Doctorate of Natural Science from the Technical University of Munich in 1977 where he wrote his thesis on solid state physics. He received a physics diploma from the University of Goettingen in 1973 where he wrote his thesis on theoretical physics.

Dr. Andrew J. Manning, Ph.D. served as the President and Chief Operating Officer of LTC from June 20, 2005 until October 1, 2007. Dr. Manning has served as a director of LTC since November 23, 2004. Previously Dr. Manning served as the Executive Vice President of Operations of LTC from January 2001 to January 2002, Chief Operating Officer of LTC from January 2002 to November 26, 2002 and Chief Technical Officer of LTC from January 2003. Dr. Manning joined LTC in 1994 as Director of Process Development, and was Vice President of Manufacturing from October 1999 to January 2001. Dr. Manning left the employ of the Company effective May 15, 2008.

Frits Obers has been serving as a consultant to LTC since April 28, 2009 and serves as Managing Director of GAIA since November 3, 2008. Mr. Obers has extensive experience in managing turn arounds of distressed venture companies. Mr. Obers worked for the Ministry of transport and headed the Department of vehicle registration. Thereafter Mr. Obers (co)founded two consultancy companies and was for 15 years a strategic advisor for environmental issues. Also Mr. Obers was the CEO of a Telecom Company.

Kenneth Rudisuela was appointed Chief Operating Officer of the Company on October 1, 2007. Mr. Ken Rudisuela has worked in the advanced battery and ultracapacitor industry for the last 24 years involved in the areas of development, manufacturing and commercialization. He is an early member and eventual General Manager of Moli Energy; a pioneer in the development of rechargeable lithium technology. Subsequently, he became a founding member of Ashurst Technologies responsible for all energy storage development efforts of three Institutes of Science in Kiev and the parent operations in Canada. In 1995 Mr. Rudisuela went on to establish Arcotronics Technology Services, a global company in developing and marketing of advanced battery manufacturing processes and machinery. Since 2005 Mr. Rudisuela also served the co-founder and CEO of UNCAP LLC, a developer of ultracapacitor technology. Mr. Rudisuela has a Bachelor of Applied Science Degree from the University of Waterloo. The Company concluded in January 2009 to cancel Mr. Rudisuela's employment agreement without cause and therefore Mr. Rudisuela will leave the Company on July 31, 2009.

Our directors hold office until the next annual meeting of our stockholders and until their successors have been duly elected and qualified.

ADVISOR TO BOARD

Mr. Ben van Schaik has been appointed as an Advisor to the Board of Directors of the Company as of December 1, 2008. 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. As the former Chief Executive Officer of DaimlerChrysler in Brazil, Mr. van Schaik gained a stellar reputation for his vision and managerial qualities. Currently, Mr. van Schaik is a Member of the Supervisory Board of Groeneveled Groep and Member of the Supervisory Board of Heineken Nederland.

AUDIT AND EXECUTIVE COMMITTEES

Effective April 28, 2008, the Board of Directors appointed Theo M.M. Kremers, Fred J. Mulder and Christiaan A. van den Berg as members of the Audit Committee. On June 26, 2008, Theo M.M. Kremers was appointed as Chief Executive Officer and resigned as a member of the Audit Committee.   Effective April 28, 2009, the Board of Directors appointed Klaus Brandt, Theo M.M. Kremers, Fred J. Mulder and Christiaan A. van den Berg as members of the Executive Committee.

No member of the audit committee is a “financial expert”.

SECTION 16(a) BENEFICIAL OWNERSHIP COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires our officers and directors, and persons who beneficially own, directly or indirectly, more than ten percent (10%) of the registered class of our equity securities to file reports of ownership and changes in ownership on Forms 3, 4 and 5 with the SEC. Officers, directors and greater than ten percent (10%) beneficial owners are required by SEC regulation to furnish us with copies of all Forms 3, 4 and 5 they file. No Forms 3, 4 and 5 relating to our common stock were filed late during 2008.

CODE OF ETHICS

We have adopted a Code of Ethics that applies to our Chief Executive Officer and Chief Financial and Accounting Officers.

ITEM 11. EXECUTIVE COMPENSATION

SUMMARY COMPENSATION TABLE

The following summary compensation table sets forth all compensation awarded to, earned by, or paid to the named executive officers paid by us during the fiscal years ended December 31, 2008, 2007 and 2006 in all capacities for the accounts of our Chief Executive Officer (CEO), Chief Financial Officer (CFO) and the three highest paid executive officers during the fiscal year ended December 31, 2008:

Name and Principal Position	Year	Salary	Bonus $	Stock Awards ($) (a)	Option Awards ($) (b)	Non-Equity Incentive Plan Compen-sation ($)	Nonqualified Deferred Compen-sation Earnings ($)	All other Compen-sation ($) (c)	Total ($)
Theo Kremers Chief Executive Officer of LTC, Managing Director of GAIA (1) (2)	2008	$245,066(7)							
Klaus Brandt Chief Technology Officer of LTC, Managing Director of GAIA (3)	2008	$309,796(8)							$309,796
	2007	$249,024(9)		$100,000(10)					$349,024
	2006	$240,185(11)							$240,185
Frits Obers Managing Director of GAIA(1)	2008	$245,066(7)							$245,066
Ken Rudisuela, Chief Operating Officer (4)	2008	$200,000(12)							$200,000
	2007	$ 50,000(13)							$ 50,000
	2008	$206,250(14)		$83,000(15)				$225,000(16)	$514,250

Amir Elbaz	2007	$225,000(17)	$100,000(18)	$325,000
Chief Financial Officer, Executive Vice President and Treasurer of LTC (5)	2006	$181,875(19)		$181,875
Andrew J. Manning (6)	2008	$126,041(20)		$126,041
	2007	$275,000(21)		$275,000
	2006	$349,902(22)		$349,902

(a) Reflects dollar amount expensed by the Company during applicable fiscal year for financial statement reporting purposes pursuant to FAS 123R. FAS 123R requires the Company to determine the overall value of the shares as of the date of grant based upon the Black-Scholes method of valuation, and to then expense that value over the service period over which the shares become exercisable (vest). As a general rule, for time-in-service-based shares, the Company will immediately expense any share or portion thereof which is vested upon grant, while expensing the balance on a pro rata basis over the remaining vesting term of the share. For a description FAS 123 R and the assumptions used in determining the value of the shares under the Black-Scholes model of valuation, see the notes to the financial statements included with this Form 10-K.

(b) Reflects dollar amount expensed by the Company during applicable fiscal year for financial statement reporting purposes pursuant to FAS 123R. FAS 123R requires the Company to determine the overall value of the stock awards as of the date of grant based upon the Black-Scholes method of valuation, and to then expense that value over the service period over which the stock awards become exercisable (vest). As a general rule, for time-in-service-based stock awards, the Company will immediately expense any stock awards or portion thereof which is vested upon grant, while expensing the balance on a pro rata basis over the remaining vesting term of the stock awards. For a description FAS 123 R and the assumptions used in determining the value of the stock awards under the Black-Scholes model of valuation, see the notes to the financial statements included with this Form 10-K.

(c) Includes all other compensation not reported in the preceding columns, including (i) perquisites and other personal benefits, or property, unless the aggregate amount of such compensation is less than $10,000; (ii) any “gross-ups” or other amounts reimbursed during the fiscal year for the payment of taxes; (iii) discounts from market price with respect to securities purchased from the Company except to the extent available generally to all security holders or to all salaried employees; (iv) any amounts paid or accrued in connection with any termination (including without limitation through retirement, resignation, severance or constructive termination, including change of responsibilities) or change in control; (v) contributions to vested and unvested defined contribution plans; (vi) any insurance premiums paid by, or on behalf of, the Company relating to life insurance for the benefit of the named executive officer; and (vii) any dividends or other earnings paid on stock or option awards that are not factored into the grant date fair value required to be reported in a preceding column.

(1) Theo Kremers and Frits Obers signed a consulting agreement with the Company on April 28, 2008 as part of the Governance Agreement between the Company, Arch Hill and a group of individual investors

(2) Theo Kremers has been serving as the Chief Executive Officer of LTC since June 26, 2008.

(3) Klaus Brandt has been serving as the Chief Technology Officer of LTC since June 26, 2008 and prior thereto as Chief Executive Officer of LTC from May 18, 2007 to June 26, 2008, Executive Vice President of LTC from June 20, 2005 to May 18, 2007 and Managing Director of GAIA since April 1, 2005.

(4) Ken Rudisuela has been serving as Chief Operating Officer of LTC since October 1, 2007 and will be leaving LTC on July 31, 2009.

(5) Amir Elbaz left the Company on October 15, 2008 as part of a jointly agreed severance agreement. Prior thereto he had been serving as Chief Financial Officer of LTC since October 11, 2006 and prior thereto as Executive Vice President of Corporate Communications and Business Development since August 2006. Amir Elbaz served as a consultant to the Company overseeing external and internal communications, public relations and marketing, as well as business ventures pursuant to a consulting agreement with the Company from October 2005 until October 10, 2006.

(6) Dr. Andrew J. Manning, Ph.D. served as the President and Chief Operating Officer of LTC from June 20, 2005 until October 1, 2007. Dr. Manning left the employ of the Company effective May 15, 2008.

(7) Consists of a consulting fee paid by LTC in Euros (166,560) and converted to dollar value based on the average conversion rate for 2008.

(8)

Consists of salary paid by GAIA in Euros (210,553) and converted to dollar value based on the average conversion rate for 2008.

(9) Consists of salary paid by GAIA in Euros (181,992) and converted to dollar value based on the average conversion rate for 2007.

(10) On November 27, 2007 the Executive Committee of the Board of Directors approved of the issuance of 1,000,000 shares to Klaus Brandt. This grant was given to the executive of the Company as a performance bonus for the development of the Company during 2007.

(11) Consists of salary paid by GAIA in Euros (182,000) and converted to dollar value based on a conversion rate prevailing on December 29, 2006.

(12) Consists of salary paid by LTC of $200,000 in 2008.

(13) Consists of salary paid by LTC of $50,000 in 2007.

(14) Consists of monthly salary paid by LTC till Nov 30, 2008 of $18,750, and thus a salary paid in 2008 of $206,250.

(15) On October 14, 2008 the Board of Directors approved a severance agreement with Mr. Amir Elbaz and part of the agreement the issuance of 1,500,000 shares to Amir Elbaz.

(16) On October 14, 2008 the Board of Directors approved a severance agreement with Mr. Amir Elbaz and part of the agreement a severance payment of one year's salary of $225,000.

(17) Consists of salary paid by LTC of $225,000 in 2007

(18) On November 27, 2007 the Executive Committee of the Board of Directors approved of the issuance of 1,000,000 shares to Amir Elbaz. This grant was given to the executive of the Company as a performance bonus for the development of the Company during 2007.

(19) Consists of consulting payments from January 1, 2006-October 10, 2006, and salary from October 11, 2006 to December 31, 2006.

(20) Base salary for 2008 was $275,000.

(21) Base salary for 2007 was $275,000.

(22) This amount includes payment for deferred salary from 2004 and 2005 in the amount of $74,902. Base salary for the year was $275,000.

STOCK GRANT TO EXECUTIVES

In 2008 no stock grants were given to management. As part of the separation agreement between Mr. Amir and the Company, Mr. Elbaz is entitled to 1,500,000 of common shares of the Company. The Company recognized a compensation expense of $83,000 for the year ended December 31, 2008.

COMPENSATION OF DIRECTORS

Directors receive no cash compensation for serving on our Board of Directors. Certain directors who serve as consultants to the Company did receive consulting fees as described below.

EMPLOYMENT AND CONSULTING AGREEMENTS

On December 5, 2006, the Company entered into an employment agreement with Amir Elbaz who served as the Chief Financial Officer and Treasurer of the Company from October 11, 2006 until October 14, 2008. The employment agreement provided for a three year term commencing on December 5, 2006, under which Mr. Elbaz received a base annual salary of $225,000. The employment agreement provides that if Mr. Elbaz is terminated by the Company other than for cause, Mr. Elbaz will be entitled to receive his base salary for a period equal to the lesser of 12 months from the date of termination or the remaining term of the employment agreement. On October 14, 2008 the Board of Directors approved a severance agreement with Mr. Amir Elbaz and part of the agreement the issuance of 1,500,000 shares to Amir Elbaz and the payment of one year's salary of $225,000.

On June 26, 2008, Dr. Klaus Brandt was appointed as the Chief Technology Officer of Lithium Technology Corporation by the Company's Board of Directors. Prior to this Dr. Klaus Brandt had been serving as Chief Executive Officer since May 18, 2007. Prior to this Dr. Klaus Brandt had been serving as a Director of the Company since September 27, 2006 and as an Executive Vice President since June 2005. Additionally, Dr. Brandt has been serving as the Managing Director of the Company's subsidiary, GAIA, since April 2005. Pursuant to the employment agreement with Dr. Brandt, which expired on December 31, 2007 he served as the Managing Director of GAIA. 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. As Chief Technology Officer his base annual salary has not been changed.

On October 1, 2007, the Company entered into an employment agreement with Kenneth 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 and a base annual salary of $200,000. 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. The Company concluded in January 2009 to cancel Mr. Rudisuela's employment agreement without cause and therefore Mr. Rudisuela will leave the Company on July 31, 2009.

On April 28, 2008 the Company entered into a consulting agreement 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 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.

The OUIDA Consulting Agreement provides for Theo Kremers, an employee of OUIDA Management Consultancy B.V. and a director and Chief Executive Officer 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.

In 2009 a consulting fee of $705,000 was claimed by Fidessa Asset Management for services rendered over the period April 1, 2008 until December 31, 2008. There is no signed agreement between LTC and Fidessa Asset Management S.A. regarding these consulting services and the Company is disputing the amount.

For the period October 1, 2006 until April 1, 2008 an agreement for advisory services 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 December 31, 2008, these shares have not been delivered.

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 December 31, 2008 and is included in the promissory notes of $1,777,000 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 $124,000.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth as of December 31, 2008, the number and percentage of outstanding shares of our common stock beneficially owned by (i) any person or group owning more than 5% of each class of voting securities, (ii) each director, (iii) each executive officer named in the Summary Compensation Table in the section entitled "Executive Compensation" and (iv) all such executive officers and directors as a group.

	Beneficial Ownership	
Name of Owner	Number of Shares	Percentage of Total (1)
5% or Greater Stockholders		
Arch Hill Capital, NV (2)	868,799,711(19)	60.95%
Stichting Gemeenschappelijk Bezit LTC (2)	525,366,785(20)	46.79%
Eduard Hagens (3)	100,000,000(21)	12.56%
Bauke Bakhuizen (4) **	36,214,000(22)	4.63%
Cornelis J.M. Borst (5) **	47,500,000(23)	6.15%
Bover B.V. (5) **	14,000,000(24)	1.84%
Benno J.G. de Leeuw (6) **	5,329,700(25)	0.71%
Benno de Leeuw Holding B.V. (6) **	105,000(26)	0.01%
Robert L.O. du Chatenier (7) **	34,193,350(27)	4.39%
Chadmin B.V. (7) **	16,916,675(28)	2.22%
J.F.G.M. Heerschap (8) **	61,250,000(29)	7.59%
Cornelis L.M. Meeuwis (9) **	36,306,675(30)	4.66%
Dreamweaver B.V. (9) **	33,916,675(31)	4.35%
Johannes C.L. Mol (10) **	50,591,675(32)	6.42%
Green Desert NV (10) **	50,591,675(33)	6.42%
Walter J.M. van der Mee (11) **	4,875,000(34)	0.65%
Directors and Named Executive Officers		
Christiaan A. van den Berg (2)(14)	0	0
Klaus Brandt (12)(15)	1,000,000(35)	*
Kenneth Rudisuela (13)(16)	0	0
Amir Elbaz	2,694,805(36)	*
Andrew J. Manning (15)	0	*
Theo M.M. Kremers (13)(15)(17)	0	0
Fred Mulder (13)(14)	0	0
Frits Obers (12) (18)	0	0
All Named Executive Officers and Directors as a Group (8 persons)	3,694,805(37)	*

* Less than 1%

** Based on Schedule 13 D dated April 28, 2008 reporting that the stockholders may be deemed a group as defined in Rule 13d-5(b) under the Exchange Act.

(1) The percentage of class calculation for each person or entity is based on the number of shares of Common Stock outstanding as of December 31, 2008 (745,924,782) plus the number of shares of Common Stock issuable to the

person or entity upon exercise of convertible securities held by such person or entity.

(2) Address: Parkweg 2, NL - Beech Avenue 129A, 1119 RB Schiphol-Rijk, Netherlands

(3) Address: Narcissenlaan 13, 2970 Schilde, Belgium.

(4) Address: Torenlaan 19, 3742 CR Baarn, The Netherlands

(5) Address: Boksheide 20, 5521 PM Eersel, The Netherlands

(6) Address: Leunweg 13, 5221 BC Engelen, The Netherlands

(7) Address: Valkeveenselaan 60, 1411 GT Naarden, The Netherlands

(8) Address: Heverstraat 8, 6088 BH Roggel, The Netherlands

(9) Address: Ulvenhoutselaan 2, 4835 MC Breda, The Netherlands

(10) Address: Kaya WFG Mensing 14, P.O. Box 3192, Willemstad, Curacao, Netherlands Antilles

(11) Address: Oude Huizerweg 17, 1261 BD Blaricum, The Netherlands

(12) Address: c/o GAIA, MontaniastraBe 17, D-99734 Nordhausen, Germany

(13) Address: c/o Lithium Technology Corporation, 5115 Campus Drive, Plymouth Meeting, PA

(14) Co-Chairman of the Company.

(15) Director of Company.

(16) Chief Operating Officer.

(17) Chief Executive Officer.

(18) Managing Director of GAIA.

(19) Consists of (i) 40,718,526 shares of Common Stock held by Arch Hill Capital, (ii) 112,542,100 shares of Common Stock issuable upon conversion of 45,016.84 shares of Series C Preferred Stock held by Arch Hill Capital; (iii) 190,172,300 shares of Common Stock to be delivered by the Company in connection with the February 2008 Debt Settlement, and (iv) all of the securities (the "Stichting LTC Shares") owned by Stichting Gemeenschappelijk Bezit LTC ("Stichting LTC"). See Note (20). The Stichting LTC Shares are owned directly by Stichting LTC, with Stichting LTC having the power to vote and dispose of the Stichting LTC Shares. Arch Hill Capital controls Stichting LTC and also has the power to vote and dispose of the Stichting LTC Shares. Accordingly, Arch Hill Capital is the beneficial owner of the Stichting LTC Shares. Cees Borst has the right to receive 1,500,000 shares of Common Stock from Stichting LTC. These shares are included in the number of shares beneficially owned by Stichting LTC.

(20) Consists of 148,568,784 shares of Common Stock, 264,103,114 shares issuable upon conversion of Series B Preferred Stock, 28,200,000 shares issuable upon conversion of Series C Preferred Stock, 1,500,000 shares issuable upon exercise of $2.00 warrants, 9,889,625 shares issuable upon conversion of $2.40 warrants, 17,050,000 shares issuable upon conversion of 125% A Warrants, 17,050,000 shares issuable upon conversion of 150% A Warrants, 18,400,000 shares issuable upon conversion of 125% B Warrants, 18,400,000 shares issuable upon conversion of 150% B Warrants, and 2,205,262 shares issuable upon exercise of $.38 warrants.

(21) Consists of 50,000,000 shares of Common Stock and 50,000,000 shares of Common Stock issuable upon conversion of Series C Preferred Stock.

(22) Mr. Bakhuizen beneficially owns 36,214,000 shares of Common Stock issuable upon conversion of 14,485.6 shares of Series C Preferred Stock.

(23) Mr. Borst beneficially owned 47,500,000 shares of Common Stock, consisting of (i) 20,750,000 shares of Common Stock, (ii) 11,250,000 shares of Common Stock issuable upon conversion of 4,500 shares of Series C Preferred Stock, (iii) 14,000,000 shares of Common Stock issuable upon conversion of 5,600 shares of Series C Preferred Stock (these shares are held by Bover -- see Note 24) and (iv) the right to receive 1,500,000 shares of Common Stock from Arch Hill Capital. See Note 19.

(24)

Bover B.V. beneficially owned 14,000,000 shares of Common Stock issuable upon conversion of 5,600 shares of Series C Preferred Stock.

(25) Benno De Leeuw beneficially owns 5,329,700 shares of Common Stock, consisting of (i) 105,000 shares of Common Stock (these shares are held by De Leeuw Holding -- see Note 26) and (ii) 5,224,700 shares of Common Stock issuable upon conversion of 2089.88 shares of Series C Preferred Stock.

(26) De Leeuw Holding beneficially owns 105,000 shares of Common Stock.

(27) Mr. Du Chatenier beneficially owns 34,193,350 shares of Common Stock, consisting of (i) 610,000 shares of Common Stock, (ii) 250,000 shares of Common Stock (these shares are held by Chadmin), (iii) 11,983,525 shares of Common Stock issuable upon conversion of 4,793.41 shares of Series C Preferred Stock, (iv) 4,683,150 shares of Common Stock issuable upon conversion of 1,873.26 shares of Series C Preferred Stock (these shares are registered in the name of Du Chatenier and beneficially owned by the minor children of Du Chatenier) and (v) 16,666,675 shares of Common Stock issuable upon conversion of 6,666.67 shares of Series C Preferred Stock (these shares are held by Chadmin -- see Note 28).

(28) Chadmin B.V. beneficially owns 16,916,675 shares of Common Stock, consisting of (i) 250,000 shares of Common Stock and (ii) 16,666,675 shares of Common Stock issuable upon conversion of 6,666.67 shares of Series C Preferred Stock.

(29) Mr. Heerschap beneficially owns 61,250,000 shares of Common Stock issuable upon conversion of 11,068.99 shares of Series C Preferred Stock.

(30) Mr. Meeuwis beneficially owns 36,306,675 shares of Common Stock, consisting of (i) 2,390,000 shares of Common Stock, (ii) 27,672,475 shares of Common Stock issuable upon conversion of 11,068.99 shares of Series C Preferred Stock (these shares are held by Dreamweaver) and (iii) 6,244,200 shares of Common Stock issuable upon conversion of 2,497.68 shares of Series C Preferred Stock (these shares are registered in the name of Dreamweaver and beneficially owned by the minor children of Meeuwis -- see Note 31.

(31) Dreamweaver B.V. beneficially owns 33,916,675 shares of Common Stock, consisting of (i) 27,672,475 shares of Common Stock issuable upon conversion of 11,068.99 shares of Series C Preferred Stock and (ii) 6,244,200 shares of Common Stock issuable upon conversion of 2497.68 shares of Series C Preferred Stock.

(32) Mr. Mol beneficially owns 50,591,675 shares of Common Stock, consisting of (i) 8,925,000 shares of Common Stock (these shares are held by Green Desert -- see Note 33) and (ii) 41,666,675 shares of Common Stock issuable upon conversion of 16,666.67 shares of Series C Preferred Stock (these shares are held by Green Desert -- see Note 33).

(33) Green Desert NV beneficially owned 50,591,675 shares of Common Stock, consisting of (i) 8,925,000 shares of Common Stock and (ii) 41,666,675 shares of Common Stock issuable upon conversion of 16,666.67 shares of Series C Preferred Stock.

(34) Mr. Van der Mee beneficially owns 4,875,000 shares of Common Stock, consisting of (i) 1,500,000 shares of Common Stock and (ii) 3,375,000 shares of Common Stock issuable upon conversion of 1,350 shares of Series C Preferred Stock.

(35) Consists of 1,000,000 shares of Common Stock approved by the Company on December 27, 2007.

(36) Consists of 194,805 outstanding shares of Common Stock, 1,000,000 shares of Common Stock approved by the Company on December 27, 2007 and 1,500,000 shares of Common Stock approved by the Company on October 14, 2008.

(37) Includes 194,805 outstanding shares of Common Stock, 2,000,000 shares of Common Stock approved by the Company on December 27, 2007 and 1,500,000 shares of Common Stock approved by the Company on October 14, 2008.

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

See Item 5 “Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.”

CHANGES IN CONTROL

On April 28, 2008 (the “Effective Time”) 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.

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.

The Arch Hill Parties, acting jointly, have the right to terminate the Governance Agreement upon ten days’ prior written notice if at any time the Investors collectively cease to beneficially own less than 50% of the aggregate number of the shares of Common Stock listed on Schedule A to the Governance Agreement as being beneficially owned by the Investors (disregarding any double counting).

The Investors, acting jointly, have the right to terminate the Governance Agreement upon ten days' prior written notice if at any time the Arch Hill Parties collectively cease to beneficially own less than 50% of the aggregate number of the shares of Common Stock listed on Schedule B to the Governance Agreement as being beneficially owned by Arch Hill (disregarding any double counting).

As described above, on April 28, 2008 the Company entered into a Governance Agreement relating to the composition of the Board and other matters. Pursuant to the Governance Agreement the following actions were taken:

Effective April 28, 2008, Ralph D. Ketchum, Marnix Snijder and Clemens E.M. van Nispen tot Sevenaer resigned as directors of the Company.

Effective April 28, 2008, the Board of Directors appointed Fred J. Mulder and Theo M.M. Kremers as directors of the Company. Pursuant to the foregoing actions, as of April 28, 2008, the Company's Board of Directors consisted of the following persons: Klaus Brandt, Amir Elbaz, Theo M.M. Kremers, Andrew J. Manning, Fred J. Mulder and Christiaan A. van den Berg.

Effective April 28, 2008, Fred J. Mulder and Christiaan A. van den Berg were appointed Co-Chairman of the Board of Directors. Mr. van den Berg has been serving as the Chairman of the Board of Directors of the Company since May 2007.

Certain of the provisions of the Governance Agreement may result in a change in control of the Company.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

As of December 31, 2008, Arch Hill Capital beneficially owned 868,799,711 shares of our common stock which constitutes approximately 61% of our common stock on an as-converted basis, including shares beneficially owned by Arch Hill Capital and shares issuable upon conversion of convertible securities held by Arch Hill Capital but not including any shares issuable upon conversion of outstanding convertible securities held by any other person. Accordingly, Arch Hill Capital is a controlling entity. In addition, Arch Hill Capital controls a majority of the voting power of GAIA Holding and GAIA by virtue of its ownership of a controlling interest in us. The calculation of percentage of our common stock beneficially owned by Arch Hill Capital is based on the number of shares of our common stock outstanding as of December 31, 2008 (745,924,782) plus the number of shares of our common stock issuable to Arch Hill Capital upon conversion of convertible securities held by such entity. See "Security Ownership of Certain Beneficial Owners and Management and Related Stockholders Matters."

On February 28, 2008, the Company, GAIA Akkumulatorenwerke GmbH ("GAIA"), Arch Hill Ventures N.V., Arch Hill Real Estate N.V. and Arch Hill Capital N.V. (collectively, the "Debt holders") executed a Debt Settlement Agreement. Pursuant to the Agreement $5,773,707 of debt owed by LTC and GAIA to the Debt holders 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. On March 6, 2008, the Company issued to Arch Hill 45,016.84 shares of Series C Preferred Stock convertible into 112,542,100 shares of Company common stock in lieu of common stock in partial satisfaction of its obligations under the Debt Settlement.

On April 28, 2008 (the "Effective Time") 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. See Item 12 "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters."

We have entered into agreements with certain of our executive officers and directors as described above in Item 10 "Executive Compensation".

As per December 31, 2008 an amount of $400,000 of fees to these directors and executive officers is included in the Accounts Payable.

In 2009 a consulting fee of $705,000 was billed by Fidessa Asset Management for services rendered over the Period April 1, 2008 until December 31, 2008. The fee was unpaid and recorded under Accounts Payable. There is no signed agreement between LTC and Fidessa Asset Management S.A. regarding consulting services.

For the period October 1, 2006 until April 1, 2008 an agreement for advisory services 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 December 31, 2008, these shares have not been delivered.

In 2008 Arch Hill Real Estate N.V. billed an amount of $70,000 as management fees to Gaia Holding BV. The amount was unpaid as per December 31, 2008 and is included in the subordinated loan of $1,776,000 from Arch Hill, in which balance unpaid management fees and unpaid interest for the years 2004-2008 are included. There is no signed agreement between Arch Hill Real Estate NV and GAIA Holding BV regarding the fees and the rendering of management services.

We believe that the transactions as described above were fair to us and were as favorable to us as those that we might have obtained from non-affiliated third parties, given the circumstances under which such transactions were proposed and effectuated.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

AUDIT FEES

The aggregate fees billed for fiscal 2008 for professional services rendered by Amper, Politziner & Mattia LLP (AP&M) as our principal accountant for the audit of our annual financial statements and review of financial statements included in our Form 10-Qs and services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements for fiscal year 2008 was $250,000.

The aggregate fees billed for fiscal year 2007 for professional services rendered by AP&M as our principal accountant for the audit of our annual financial statements and services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements for fiscal year 2007 was $210,000.

AUDIT-RELATED FEES

The aggregate fees billed in each of fiscal 2008 and 2007 for assurance and related services by our principal accountant that are reasonably related to the performance of the audit or review of our financial statements (and are not reported under Item 9(e)(1) of Schedule 14A) was $27,000 and $0, respectively.

TAX FEES

The aggregate fees billed in each of fiscal 2008 and 2007 for professional services rendered by our principal accountant tax compliance, tax advice and tax planning was $0 and $0, respectively.

ALL OTHER FEES

The aggregate fees billed in each of fiscal 2008 and 2007 for products and services provided by our principal accountant (other than the services reported in Items 9(e)(1) through 9(e)(3) of Schedule 14A) was $0 and $0, respectively.

PRE-APPROVAL POLICIES AND PROCEDURES

The decision to retain Amper, Politziner & Mattia LLP as our principal accountant for the audit of our financial statements for the year ended December 31, 2008 was approved by our Audit Committee on January 29, 2009.

We established an audit committee on November 16, 2007. Our audit committee's policy is to pre-approve all audit and permissible non-audit services performed by the independent accountant. The independent auditors and management are required to periodically report to the Company's Board of Directors regarding the extent of services provided by the independent auditors in accordance with this pre-approval, and the fees for the services performed to date. The Board of Directors may also pre-approve particular services on a case-by-case basis.

PART IV.

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as part of this Report for Form 10-K:

(1) Financial Statements. Please see the accompanying Index to Consolidated Financial Statements, which appears on page F-1 of this Report on Form 10-K.

(2) Financial Statement Schedules. Financial Statement Schedules have been omitted because the information required to be set forth therein is either not applicable or is included in the Consolidated Financial Statements or the notes thereto.

(3) Exhibits. See Item 15(b) below.

(b) Exhibits.

3.1	Restated Certificate of Incorporation, effective as of July 29, 2005 (1)
3.2	Certificate of Designation for Series B Preferred (2)
3.3	By-Laws, as amended (3)
3.4	Certificate of Designation of Series C Preferred Stock (4)
3.5	Amendment to Restated Certificate of Incorporation, effective as of March 25, 2009 (5)
4.1	10% Convertible Note dated July 11, 2007 (6)
4.2	Form of 9% Convertible Note issued June to December 2008 (7)
10.1	1994 Stock Incentive Plan, as amended (8)
10.2	Directors Stock Option Plan (8)
10.3	1998 Stock Incentive Plan (9)
10.4	2002 Stock Incentive Plan (10)
10.5	Form of Stock Option Agreement relating to LTC's 1994 Stock Incentive Plan, as amended (11)
10.6	Form of Stock Option Agreement relating to LTC's Directors Stock Option Plan (11)
10.7	Form of Stock Option Agreement relating to LTC's 1998 Stock Incentive Plan (9)
10.8	Form of Incentive Stock Option Agreement relating to LTC's 2002 Stock Incentive Plan (10)
10.9	Form of Non-Qualified Incentive Stock Option Agreement relating to LTC's 2002 Stock Incentive Plan [For Employees] (10)
10.10	Form of Non-Qualified Incentive Stock Option Agreement relating to LTC's 2002 Stock Incentive Plan [For Consultants and Non-Employee Directors] (10)
10.11	Lease Agreement, dated July 22, 1994, between PMP Whitemarsh Associates and LTC and Addendum dated July 22, 1994 (11)
10.12	Bridge Financing Agreement, dated as of December 31, 2001, between LTC and Arch Hill Capital (12)
10.13	Bridge Financing Amendment Agreement No. 5, dated as of April 14, 2003 between LTC and Arch Hill Capital (3)

10.14	Loan Contract and Agreement on Subordination between GAIA and Arch Hill Ventures NV (3)
10.15	Partnership Agreement between GAIA and Frankendael Participatiemaatschappij NV (3)
10.16	Partnership Agreement, dated March 4, 1999, between GAIA and Tamarchco GmbH (3)
10.17	Partnership Agreement between GAIA and Tamarchco GmbH (3)
10.18	Partnership Agreement between GAIA and Tamarchco GmbH (3)
10.19	Partnership Agreement dated August 21, 1998 between GAIA Akkumulatorenwerke GmbH and Technologie-Beteiligungs-Gesellschaft GmbH der Deutschen Ausgleichsbank (13)
10.20	Form of Stock Purchase Warrant dated as of January 20, 2004 between Lithium Technology Corporation and the Investors (14)
10.21	Form of $2.00 Stock Purchase Warrant dated as of April 13, 2004, issued to Arch Hill Capital NV (15)
10.22	Form of $2.40 Stock Purchase Warrant dated as of April 13, 2004, issued to Arch Hill Capital NV (15)
10.23	Form of 125% A Warrant (16)
10.24	Form of 150% A Warrant (16)
10.25	Form of 125% B Warrant (16)
10.26	Form of 150% B Warrant (16)
10.27	Form of 135% Warrants (17)
10.28	Form of Warrant dated May 6, 2005 issued to Bridgehead Partners, LLC (18)
10.29	Form of Warrant dated May 31, 2005 issued to North Coast Securities Corporation in connection with A Unit and B Unit Offering (18)
10.30	Form of Stock Purchase Warrant dated October 21, 2005 issued to Stichting Gemeenschappelijk Bezit LTC (2)
10.31	Fifth Amendment to Lease, dated March 31, 2006, between PMP Whitemarsh and LTC (19)
10.32	Agreement of Sublease dated June 16, 2007 between the Company and Arch Hill (20)
10.33	Agreement for Administration Services between the Company and Arch Hill dated July 16, 2007 (20)
10.34	Contract Services Agreement for Investor Relations Services between the Company and Arch Hill dated July 16, 2007 (20)
10.35	Employment Agreement between Lithium Technology Corporation and Ken Rudisuela effective October 1, 2007 (21)
10.36	Debt Settlement Agreement dated February 27, 2008, by and among Lithium Technology Corporation, GAIA Akkumulatorenwerke GmbH, Arch Hill Ventures N.V., Arch Hill Real Estate N.V. and Arch Hill Capital N.V. (22)
10.37	Share Issuance Agreement dated March 6, 2008 between the Company and Arch Hill Capital N.V. (23)
10.38	Governance Agreement dated April 28, 2008, among the Company, the Investors listed on Schedule A thereto, Stichting Gemeenschappelijk Bezit LTC and Arch Hill Capital N.V. (24)
10.39	Business Consultant Agreement dated April 28, 2008 between the Company and Christiaan A. van den Berg (24)

10.40	Business Consultant Agreement dated April 28, 2008 between the Company and Fred J. Mulder (24)
10.41	Business Consultant Agreement dated April 28, 2008 between the Company and Ouida Management Consulting B.V. (24)
10.42	Business Consultant Agreement dated April 28, 2008 between the Company and Romule B.V. (24)
10.43	Asset Purchase Agreement dated August 23, 2008 between the Company and Porous Power Technologies, LLC (25)
10.44	Sublease Agreement dated August 23, 2008 between the Company and Porous Power Technologies, LLC (25)
10.45	Amendment dated September 11, 2008 to July 2007 Note +
10.46	Revised June 2008 Convertible Note +
10.47	Amendment dated March 1, 2009 to July 2007 Note +
21.1	List of Subsidiaries (18)
31.1	Certification of Chief Executive Officer and Acting Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 +
32.1	Certification of Chief Executive Officer and Acting Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 +

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(1) Incorporated herein by reference to LTC's Quarterly Report on Form 10-QSB for the quarter ended June 30, 2005.

(2) Incorporated herein by reference to LTC's Quarterly Report on Form 10-QSB for the quarter ended September 30, 2005.

(3) Incorporated herein by reference to LTC's Annual Report on Form 10-KSB for the fiscal year ended December 31, 2002.

(4) Incorporated herein by reference to LTC's Current Report on Form 8-K dated November 28, 2006.

(5) Incorporated herein by reference to LCT's Current Report on Form 8-K dated March 25, 2009.

(6) Incorporated herein by reference to LTC's Current Report on Form 8-K dated July 11, 2007.

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

(8) Incorporated herein by reference to the exhibits contained in LTC's Information Statement Pursuant to Section 14(c) of the Securities Exchange Act of 1934, dated January 19, 1996.

(9) Incorporated herein by reference to LTC's Annual Report on Form 10-KSB for the fiscal year ended December 31, 1998.

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

(11) Incorporated herein by reference to LTC's Annual Report on Form 10-KSB for the fiscal year ended December 31, 1995.

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

(13) Incorporated herein by reference to LTC's Quarterly Report on Form 10-QSB for the quarter March 31, 2003.

(14) Incorporated herein by reference to LTC's Current Report on Form 8-K, dated January 26, 2004.

(15) Incorporated herein by reference to LTC's Annual Report on Form 10-KSB for the fiscal year ended December 31, 2003.

(16) Incorporated herein by reference to LTC's Current Report on Form 8-K, dated August 30, 2004.

(17) Incorporated herein by reference to LTC's Quarterly Report on Form 10-QSB for the quarter ended March 31, 2005.

(18) Incorporated herein by reference to LTC's Registration Statement on Form SB-2 (No 333-114998) filed on August 2, 2005.

(19) Incorporated herein by reference to LTC's Annual Report on Form 10-KSB for the fiscal year ended December 31, 2005.

(20) Incorporated herein by reference to LTC's Current Report on Form 8-K dated July 16, 2007.

(21) Incorporated herein by reference to LTC's Current Report on Form 8-K dated October 1, 2007.

(22) Incorporated herein by reference to LTC's Current Report on Form 8-K dated February 28, 2008.

(23) Incorporated herein by reference to LTC's Annual Report on Form 10-KSB for the fiscal year ended December 31, 2007.

(24) Incorporated herein by reference to LTC's Current Report on Form 8-K dated April 28, 2008.

(25) Incorporated herein by reference to LTC's Report on Form 10-Q dated September 30, 2008.

\+ Exhibit filed herewith.

Financial Statement Schedules. Reference is made to Item 15(a)(2) above.

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: June 13, 2009	BY:	/s/ Theo M.M. Kremers Theo M.M. Kremers, Chief Executive Officer (Principal Executive Officer & Principal Financial and Accounting Officer)

In accordance with the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Theo M.M. Kremers Theo M.M. Kremers	Chief Executive Officer & Director (Principal Executive Officer & Principal Financial and Accounting Officer)	June 13, 2009
/s/ Christiaan A. van den Berg Christiaan A. van den Berg	Director	June 12, 2009
/s/ Fred J. Mulder Fred J. Mulder	Director	June 12, 2009
/s/ Klaus Brandt Klaus Brandt	Director	June 12, 2009
/s/ Andrew J. Manning Andrew J. Manning	Director	June 12, 2009

LITHIUM TECHNOLOGY CORPORATION
AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

To the Stockholders of

Lithium Technology Corporation and Subsidiaries

We have audited the accompanying consolidated balance sheets of Lithium Technology Corporation and Subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of operations and comprehensive loss, stockholders' deficit, and cash flows for the years ended December 31, 2008 and 2007. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2008 and 2007, and the results of their operations and their cash flows for the for the years ended December 31, 2008 and 2007 in conformity with accounting principles generally accepted in the United States.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1, the Company has recurring losses from operations since inception and has a working capital deficiency that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Amper, Politziner & Mattia LLP
June 11, 2009
Edison, New Jersey

LITHIUM TECHNOLOGY CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31, 2008	December 31, 2007
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 792,000	$ 4,458,000
Accounts receivable	164,000	527,000
Inventories	2,623,000	3,320,000
Prepaid expenses and other current assets	173,000	703,000
Total current assets	3,752,000	9,008,000
Property and equipment, net	6,933,000	7,789,000
Related party receivables	274,000	579,000
Other assets	148,000	155,000
Total assets	$ 11,107,000	$ 17,531,000
LIABILITIES AND STOCKHOLDERS DEFICIT		
CURRENT LIABILITIES:		
Accounts payable	1,318,000	2,704,000
Accounts payable - related party	-	1,623,000
Accrued salaries	517,000	83,000
Accrued interest	954,000	504,000
Related parties debt	5,404,000	6,332,000
Current portion of long term debt	5,491,000	5,411,000
Other current liabilities and accrued expenses	1,136,000	2,245,000
Warrant liability	292,000	15,550,000
Total current liabilities	15,112,000	34,452,000
Long term debt	6,785,000	-
Total liabilities	$ 21,897,000	$ 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 December 31, 2008 and December 31, 2007	1,000	1,000
Convertible Preferred stock C, par value $.01 per share, authorized 300,000, issued and outstanding: 233,200 at December 31, 2008 and 218,183 at December 31, 2007	2,000	2,000
Common stock, par value $.01 per share, authorized - 750,000,000 at December 31, 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	122,528,000	111,998,000

Cumulative translation adjustments	(3,307,000)	(4,172,000)
Accumulated deficit	(137,473,000)	(131,059,000)
Total stockholders deficit	(10,790,000)	(16,921,000)
Total liabilities and stockholders deficit	$ 11,107,000	$ 17,531,000

See accompanying notes to consolidated financial statements.

LITHIUM TECHNOLOGY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

	YEARS ENDED DECEMBER 31, 2008	2007
REVENUES		
Products and services sales	$ 4,167,000	$ 2,609,000
COSTS AND EXPENSES		
Cost of goods sold	7,459,000	3,729,000
Engineering, research and development	1,437,000	3,088,000
General and administrative	6,188,000	5,487,000
Stock based compensation expense	83,000	200,000
Sales and marketing	397,000	444,000
Depreciation	330,000	351,000
Loss on sale of tangible assets	62,000	0
Total costs and expenses	15,956,000	13,299,000
Loss from operations	(11,789,000)	(10,690,000)
OTHER INCOME (EXPENSE)		
Interest expense	(744,000)	(1,868,000)
Interest expense related to amortization of discount on convertible debt	(3,827,000)	(1,700,000)
Change in fair value of warrants	9,946,000	(10,009,000)
Other	-	(124,000)
Total other income (expense)	5,375,000	(13,701,000)
NET LOSS	(6,414,000)	(24,391,000)
Dividends on preferred shares	-	(68,000)
Discount related to beneficial conversion feature of Preferred Stock	-	(11,774,000)
NET LOSS TO COMMON SHAREHOLDERS	$ (6,414,000)	$ (36,233,000)
OTHER COMPREHENSIVE LOSS		
Currency translation adjustments	865,000	(1,018,000)
COMPREHENSIVE INCOME (LOSS)	$ (5,549,000)	$ (37,251,000)
Weighted average number of common shares outstanding:	1,593,027,896	1,186,029,767
Basic and diluted loss per share	$ (0.00)	$ (0.03)

See accompanying notes to consolidated financial statements.

LITHIUM TECHNOLOGY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' DEFICIT

ble Preferred s A Stock	Convertible Preferred Class B Stock		Convertible Preferred Class C Stock		Common Stock		Additional Paid in	Dividends	Cumulative Translation	Accum
Amount	Shares	Amount	Shares	Amount	Shares	Amount	Capital	in Arrears	Adjustments	Deficit
$ 1,000,000	100,000	$ 1,000	97,635	$ 1,000	422,994,852	$ 4,230,000	$ 83,469,000	$ 113,000	$ (3,154,000)	$ (106,
			157,348	2,000			27,387,000			
					81,967,880	820,000	230,000			
					20,576,132	206,000	294,000			
					315,760	3,000	31,000			
							325,000			
							(11,774,000)			
							11,774,000			

			(36,800)	(1,000)	92,000,000	920,000	(920,000)			
(1,000,000)					11,065,664	110,000	889,000			
							(68,000)	68,000		
					2,004,494	20,000	161,000	(181,000)		
							200,000			
									(1,018,000)	
										(24,
$ -	100,000	$ 1,000	218,183	$ 2,000	630,924,782	$ 6,309,000	$ 111,998,000	$ -	$ (4,172,000)	$ (131,
					40,000,000	400,000	2,600,000			
			45,017				5,773,000			

(30,000)	75,000,000	750,000	(750,000)
			2,147,000
			(2,147,000)
			2,824,000
			83,000
			865,000

															(6,
$	-	100,000	$	1,000	233,200	$	2,000	745,924,782	$	7,459,000	$	122,528,000	$	-	$ (3,307,000)	$ (137,

See accompanying notes to consolidated financial statements

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LITHIUM TECHNOLOGY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	YEAR ENDED DECEMBER 31, 2008	2007
CASH FLOW FROM OPERATING ACTIVITIES		
Net Income / (Net loss)	$ (6,414,000)	$ (24,391,000)
Adjustments		
Depreciation expense	1,046,000	959,000
Impairment charge for fixed assets	230,000	-
Bad debt expense	163,000	-
Stock-based compensation expense	83,000	200,000
Loss on sale of property and equipment	62,000	15,000
Warrant income/change in fair value	(9,946,000)	10,009,000
Interest expense beneficial conversion feature	3,826,000	1,700,000
(Increase)/decrease in assets		
Inventories	697,000	(1,158,000)
Accounts receivable	512,000	(325,000)
Prepaid expenses and other assets	529,000	(607,000)
Increase/(Decrease) in liabilities		
Accounts payable & accrued expenses	(1,334,000)	565,000
Other current liabilities	-	(152,000)
Net cash used in operating activities	$ (10,546,000)	$ (13,185,000)
CASH FLOW FROM INVESTING ACTIVITIES		
Capital Expenditures	$ (705,000)	$ (1,931,000)
Net cash used in investing activities	$ (705,000)	$ -1,931,000
CASH FLOW FROM FINANCING ACTIVITIES		
Repayment of debt	$ (122,000)	$ (9,924,000)
Proceeds from loans from related parties	100,000	-
Proceeds from issuance of convertible debt	6,785,000	-
Proceeds from exercise of warrants	512,000	-
Proceeds from equity issuance	-	27,389,000
Net cash provided by financing activities	$ 7,275,000	$ 17,465,000
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	$ (3,976,000)	$ 2,349,000
CURRENCY EFFECTS ON CASH AND CASH EQUIVALENTS	310,000	133,000
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	4,458,000	1,976,000
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 792,000	$ 4,458,000

See accompanying notes to consolidated financial statements.

LITHIUM TECHNOLOGY CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1—ORGANIZATION, BUSINESS OF THE COMPANY AND LIQUIDITY

In 2002, Lithium Technology Corporation (“LTC”) closed share exchanges in which LTC acquired ownership of 100% of GAIA Holding B.V. (“GAIA Holding”) from Arch Hill Ventures, N.V., a private company limited by shares, incorporated under the laws of the Netherlands (“Arch Hill Ventures”), which is controlled by Arch Hill Capital N.V. (“Arch Hill Capital”), a private company limited by shares, incorporated under the laws of the Netherlands (the “Share Exchanges”). 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 were 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 (formerly known as Hill Gate Investments B.V.) was incorporated in 1990 and only had limited operations until the acquisition of GAIA on February 12, 1999. GAIA is a private limited liability company incorporated under the laws of Germany. GAIA Holding’s ownership interest in GAIA is held through certain trust arrangements (see Note 2).

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 a development stage.

The Company considers itself to have one operating segment in two geographical areas. The Company is an early 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 recently entered into a number of financing transactions (see Notes 4 and 7) and is continuing to seek other financing initiatives. The Company needs to raise additional capital to meet its working capital needs, for the repayment of debt and for capital expenditures. Such capital is expected to come from the sale of securities 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 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.

LITHIUM TECHNOLOGY CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2—SIGNIFICANT ACCOUNTING POLICIES

BASIS OF CONSOLIDATION

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

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

Certain prior period amounts have been reclassified to confirm to the current period presentation.

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

ESTIMATES AND UNCERTAINTIES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“Generally Accepted Accounting Principles”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period and related disclosures of contingent assets and liabilities. Actual results, as determined at a later date, could differ from these estimates.

FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value estimates, assumptions and methods used to estimate fair value of the Company’s financial instruments are made in accordance with the requirements of SFAS No. 107, “Disclosures about Fair Value of Financial Instruments.” The Company has used available information to derive its estimates. However, because these estimates are made as of a specific point in time, they are not necessarily indicative of amounts the Company could realize currently. The use of different assumptions or estimating methods may have a material effect on the estimated fair value amounts. The carrying amounts of cash and cash equivalents, accounts receivable, net, accounts payable and accrued expenses approximate fair value due to the short-term nature of the instruments.

CASH AND CASH EQUIVALENTS

The Company considers all highly liquid investment instruments purchased with an initial remaining maturity of three months or less to be cash equivalents. The Company maintains cash balances with financial institutions. Cash and cash equivalents include a restricted cash position of $363,000 as of December 31, 2008 and $307,000 as of December 31,2007.

ALLOWANCE FOR DOUBTFUL DEBTS

Accounts receivable are recorded net of allowance for doubtful accounts of $ 156,000 as of December 31, 2008 and of $1,000 as of December 31, 2007.

INVENTORIES

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

Write-down to market of inventories incurred an extra charge to cost of goods sold in 2008 of $ 1,120,000.

LITHIUM TECHNOLOGY CORPORATION AND SUBSIDIARIES
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Inventories are as follows:

	2008	2007
Finished Goods	$ 1,014,000	$ 1,814,000
Work In Process	808,000	757,000
Raw Materials	801,000	749,000
	$ 2,623,000	$ 3,320,000

PROPERTY AND EQUIPMENT

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

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

CONVERTIBLE SECURITIES WITH BENEFICIAL CONVERSION FEATURES

The Company accounts for securities with embedded conversion features and warrant issuances in accordance with EITF 98-5: Accounting for convertible securities with beneficial conversion features or contingency adjustable conversion and EITF No. 00-27: Application of issue No. 98-5 to certain convertible instruments. The Company determines the fair values to be ascribed to detachable warrants issued with the convertible debentures utilizing the Black-Scholes method. Any discount derived from determining the fair value of the beneficial conversion features is amortized using the effective interest method to financing costs over the remaining life of the debenture. Per EITF 00-19 Accounting for Derivatives Financial Instrument Indexed to, and Potentially Settled Into, a Company’s Own Stock, warrants issued with debt are classified as liabilities and marked to market at each reporting period. For issuances of convertible Preferred Stock with beneficial conversion feature the discount is recognized upon issuance.

LONG-LIVED ASSETS

The Company periodically evaluates the carrying value of long-lived assets when events and circumstances indicate the carrying amounts may not be recoverable. The carrying value of a long-lived asset is considered impaired when the anticipated undiscounted cash flows expected to result from the use and eventual disposition from such assets are less than the carrying value. If the sum of the expected cash flows (undiscounted and without finance charges) is less than the carrying amount of the asset, the Company recognizes an impairment loss on the asset by which the carrying value exceeds the fair value of the long-lived asset. Fair value is determined by quoted market prices in active markets, if available, or by using the anticipated cash flows discounted at a rate commensurate with the risks involved. The Company conducted an evaluation of the carrying values of its long-lived assets at the end of 2008 and no impairment charge was recorded except for equipment in Germany of $220,000 to General and Administrative expense.

INCOME TAXES

In preparing our consolidated financial statements, we make estimates of our current tax exposure and temporary differences resulting from timing differences for reporting items for book and tax purposes. We recognize deferred taxes by the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred income taxes are recognized for differences between the financial statement and tax bases of assets and liabilities at enacted statutory tax rates in effect for the years in which the differences are expected to reverse. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date. In addition, valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized. In consideration of our accumulated losses and lack of historical ability to generate taxable income to utilize our deferred tax assets, we have estimated that we will not be able to realize any benefit from our temporary differences and have recorded a full valuation allowance. If we become profitable in the future at levels which cause management to conclude that it is more likely than not that we will realize all or a portion of the net operating loss carry-forward, we would immediately record the estimated net realized value of the deferred tax asset at that time and would then provide for income taxes at a rate equal to our combined federal and state effective rates, which would be approximately 40% under current tax laws. Subsequent revisions to the estimated net realizable value of the deferred tax asset could cause our provision for income taxes to vary significantly from period to period.

LITHIUM TECHNOLOGY CORPORATION AND SUBSIDIARIES
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REVENUES

The Company sells battery cells and complete batteries to various clients. Revenue is recognized as services are rendered or products are delivered, the price to the buyer is fixed and determinable, and collectability is reasonably assured. Sales terms are Free on Board (FOB) origin. Trade accounts receivable potentially subject the Company to credit risk. The Company extends credit to its customers based upon an evaluation of the customer's financial condition and credit history and generally does not require collateral. Two of the Company's customers represented 28% of the Company's sales volume for the year ended December 31, 2008. As of December 31, 2008, no amounts were due from these customers. One of the Company's customers represented 24% of the Company's sales volume for the year ended December 31, 2007. Customers comprising the largest accounts receivable balances represented approximately 45% of total trade receivable balances at December 31, 2007.

OTHER INCOME

From time to time the Company receives subsidies from foreign governmental agencies to reimburse the Company for certain research and development expenditures. Subsidies are recorded as other income. In 2008 and 2007 there was no other income recorded.

FOREIGN CURRENCY TRANSLATION

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

NET LOSS PER COMMON SHARE

The Company has presented net loss per common share pursuant to SFAS No. 128, "Earnings Per Share". Net loss per common share is based upon the weighted average number of outstanding common shares. The Company has determined that the as-if converted common shares related to the preferred shares should be included in the weighted average shares outstanding for purposes of calculating basic earnings per share. The Company made such determination because: 1) Arch Hill Capital, which controls the Company, 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 years ended December 31, 2008 and 2007 were as follows:

	2008	2007
Series B Preferred Stock	264,103,114	264,103,114
Series C Preferred Stock	583,000,000	448,731,198
Common Stock	745,924,782	473,195,455
Total	1,593,027,896	1,186,029,767

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Due to net losses in the years ended December 31, 2008 and 2007, the effect of the potential common shares resulting from convertible promissory notes payable, stock options and warrants in those years were excluded, as the effect would have been anti-dilutive.

	2008	2007
Shares issuable under May 2006 12% Convertible Debentures	-	1,244,733
Shares issuable under July 2007 10% Convertible Notes	37,420,773	34,014,480
Shares issuable under June 2005 12% Convertible Debentures	-	3,922,660
Shares issuable under Outstanding Warrants	15,896,233	67,501,373
Shares issuable under Warrants issued upon conversion of Series A and B Units*	17,444,798	118,413,815
Executive Compensation	3,500,000	2,000,000
Fidessa Consulting Agreement	16,666,667	-
2008 Debt Settlement Agreement	190,172,300	-
June 2008, Convertible Loan	71,746,833	-
Shares issuable under exercise of options	89,152	89,902
	352,936,756	227,186,963

As of December 31, 2008 and 2007 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. In November 2008 the majority of the shareholders approved the increase of common stock by written consent. All appropriate filings have been filed with the SEC. The company filed on March 2, 2009 an amended Certificate of Corporation in which the amount of available common stock has been increased to 3 Billion.

RECENT ACCOUNTING PRONOUNCEMENTS

In October 2008, the FASB issued FSP No. 157-3. “Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active” ("FSP 157-3”). FSP 157-3 clarifies the application of SFAS 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. FSP 157-3 was effective for the Company on September 30, 2008 for all financial assets and liabilities recognized or disclosed at fair value in our Consolidated Financial Statements on a recurring basis (or at least annually).

In June 2008, the FASB issued EITF 07-5, Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity’s Own Stock.” EITF 07-5 provides guidance in assessing whether an equity-linked financial instrument (or embedded feature) is indexed to an entity’s own stock for purposes of determining whether the appropriate accounting treatment falls under the scope of SFAS 133, Accounting For Derivative Instruments and Hedging Activities” and/or EITF 00-19, Accounting For Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company’s Own Stock.” EITF 07-05 is effective as of the beginning of our 2009 fiscal year. The Company is currently evaluating the provisions of EITF 07-5 to determine the impact on the Company’s consolidated financial statements.

In May 2008, the FASB issued SFAS No. 162; The Hierarchy of Generally Accepted Accounting Principles. The statement is intended to improve financial reporting by identifying a consistent hierarchy for selecting accounting principles to be used in preparing financial statements that are presented in conformity with GAAP. Prior to the issuance of SFAS No. 162, GAAP hierarchy was defined in the American Institute of Certified Public Accountants

(“AICPA”) Statement on Auditing Standards (SAS) No. 69; “The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles.” Unlike SAS No. 69, SFAS No. 162 is directed to the entity rather than the auditor. Statement No. 162 is effective 60 days following the SEC’s approval of the Public Company Accounting Oversight Board Auditing amendments to AU Section 411. The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles, SFAS No. 162 is not expected to have any material impact on the Company’s results of operations, financial condition or liquidity.

In May 2008, the FASB issued FASB Staff Position (FSP”) APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement).” FSP APB14-1 will require us to account separately for the liability and equity components of our convertible debt. The debt would be recognized at the present value of its cash flows discounted using our nonconvertible debt borrowing rate at the time of issuance. The equity component would be recognized as the difference between the proceeds from the issuance of the note and the fair value of the liability. The FSP also requires accretion of the resultant debt discount over the expected life of the debt. The FSP is effective for fiscal years beginning after December 15, 2008, and interim periods within those years. Entities are required to apply the FSP retrospectively for all periods presented. The Company is currently evaluating the provisions of this FSP to determine the impact on the Company’s consolidated financial statements.

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Effective January 1, 2008, the Company adopted SFAS No. 157; “Fair Value Measurements”. In February 2008, the Financial Accounting Standards Board (“FASB”) issued FASB Staff Position No. FAS 157-2. “Effective Date of FASB Statement No. 157”, which provides a one year deferral of the effective date of SFAS No. 157 for non-financial assets and non-financial liabilities, except those that are recognized or disclosed in the financial statements at fair value at least annually. Therefore, the Company has adopted the provisions of SFAS No. 157 with respect to its financial assets and liabilities only. SFAS No. 157 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and enhances disclosures about fair value measurements. Fair value is defined under SFAS No. 157 as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value under SFAS No. 157 must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value. The adoption of this Statement did not have a material impact on the Company’s consolidated results of operations and financial condition.

Effective January 1, 2008, the Company adopted SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115” (“FAS 159”). FAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. FAS 159 does not affect any existing accounting literature that requires certain assets and liabilities to be carried at fair value. The adoption of this Statement did not have a material impact on the Company’s consolidated results of operations and financial condition.

In December 2007, the FASB issued Statement of Financial Accounting Standard No. 160, “Noncontrolling Interests in Consolidated Financial Statements — an amendment of ARB No. 51” (“FAS 160”). FAS 160 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the retained interest and gain or loss when a subsidiary is deconsolidated. This statement is effective for financial statements issued for fiscal years beginning on or after December 15, 2008 with earlier adoption prohibited. The Company is currently evaluating the impact, if any, of FAS 160 on its operating results and financial position.

In December 2007, the FASB issued SFAS No. 141R, “Business Combinations,” (“SFAS 141R”) which establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree. SFAS 141R also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. SFAS 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008, and interim periods within those fiscal years. The Company is currently evaluating the impact, if any, of SFAS 141R on its operating results and financial position.

In March 2008, the FASB issued SFAS No. 161, “Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133” (“FAS 161”). FAS 161 changes the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity’s financial position, financial performance, and cash flows. The guidance in FAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. This Statement encourages, but does not require, comparative disclosures for earlier periods at initial adoption. The company is currently evaluating the provisions of FASB 161 to determine the impact on the company's consolidated financial statements.

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NOTE 3—PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2008 and 2007 are summarized as follows:

	2008	2007
Land and buildings	$ 3,910,000	$ 3,756,000
Technical and laboratory equipment	8,352,000	8,864,000
Asset under construction and equipment deposit	285,000	285,000
Office equipment and other	1,244,000	987,000
Sub Total	13,791,000	13,892,000
Less: Accumulated depreciation and amortization	(6,858,000)	(6,103,000)
	$ 6,933,000	$ 7,789,000

Depreciation expense for the years ended December 31, 2008 and December 31, 2007 was $1,046,000 and $959,000, respectively. Assets under construction at December 31, 2008 and 2007 included equipment being constructed that was not yet placed into service.

NOTE 4—DEBT

	December 31, 2008	December 31, 2007
Current debt is summarized as follows:		
Loans From Financial Institutions	$ 82,000	$ 104,000
Silent Partner loans-TBG	2,162,000	2,259,000
July 2007 10% Convertible Note	3,247,000	3,048,000
Sub total current debt	$ 5,491,000	$ 5,411,000
Related party debt:		
Subordinated Loans from Arch Hill	3,627,000	6,272,000
Promissory Note to Arch Hill	1,777,000	60,000
Sub total Related party debt	5,404,000	6,332,000
Long term debt		
June 2008, 9% Convertible Note,	6,785,000	-
Warrant liability	292,000	15,550,000
Total debt	$ 17,972,000	$ 27,293,000

LOANS FROM FINANCIAL INSTITUTIONS

GAIA has two loans from financial institutions, which totaled $82,000 and $104,000 as of December 31, 2008 and December 31, 2007 respectively, that are collateralized by specific assets of the Company and bear European commercial standard rates, which were 7% and 7% as of December 31, 2008 and 2007, respectively

2006 GAIA AND DILO DEBT FINANCING

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

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

JULY 2007 10% CONVERTIBLE NOTE

On July 11, 2007, the European Subsidiaries Debt and accrued interest was satisfied with the payment of Euros 6 million and the issuance of a Company convertible note in the principal amount of U.S. $3,247,000 (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. The Company did not pay any underwriting discounts or commissions in connection with the issuance of the Convertible Note in this transaction. Issuance of the Convertible Note was exempt from registration under Section 4(2) of the Securities Act. The Convertible Note was issued to an accredited investor in a private transaction without the use of any form of general solicitation or advertising. The underlying securities are “restricted securities” subject to applicable limitations on resale. As of December 31, 2008, $3,247,000 plus accrued interest of $154,242 was outstanding under the Convertible Note. Upon issuance the Company recorded a beneficial conversion feature of $324,721 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 rate on the unpaid accrued interest as of September 1, 2008 was increased from 10% to 12%. On March 1, 2009 the note has been extended a second time until January 1, 2010.

MAY 2006 12% CONVERTIBLE DEBENTURE

On May 4, 2006, the Company sold $500,000 of equity units (the “2006 Units”) in a private placement. The 2006 Units consist of (i) a 12% convertible debenture in the principal amount of $500,000 (the “12% Debentures”), (ii) 500,000 warrants to purchase Company common stock at an exercise price of $0.20 per share (the “0.20 Warrants”), (iii) 500,000 warrants to purchase Company common stock at an exercise price of $0.25 per share (the “0.25 Warrants”), (iv) 1,000,000 warrants to purchase $0.10 per share (the “0.10 warrants”), and (v) 250,000 warrants to purchase Company common stock at an exercise price equal to the Conversion Price (as defined below) of the 12% Debentures (the “Conversion Price Warrants”). The 12% Debentures are entitled to receive a 12% annual interest payment payable semi-annually at the option of the Company in cash or shares of Company common stock valued at the then applicable conversion price of the 12% Debentures on June 30 and December 31 of each year beginning on December 31, 2006 or at the time of conversion of the principal to which such interest relates.On November 30, 2007 the Company issued 20,567,132 shares of common stock for the conversion of the Debenture at an exercise price of $0.0243 per share. Upon the conversion notice in November 4, 2006 of the conversion price warrants was set at $0.0243 per share.

The $0.20 Warrants, $0.25 Warrants and $0.10 Warrants are exercisable for a period of five years commencing on November 4, 2007. The Conversion Price Warrants are exercisable by the Debentureholder for a period of five years commencing on or after the date subsequent to November 4, 2007 on which all of the Debentures have been converted. On the date of issuance, the Company recorded a warrant liability of $59,991. As of December 31, 2008, the Company has warrant liability for the above warrants of $87,672.

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

SILENT PARTNERSHIP LOANS-TBG

Technology-Beteiligungs-Gesellschaft GmbH der Deutschen Ausgleichsbank (“TBG”) has provided a partnership loan, which bears interest at 6% per annum. GAIA The total amount payable to TBG under the Partnership Agreements at December 31, 2008 and December 31, 2007 was $2,162,000 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.

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From March 8, 2005 under the TBG Partnership Agreement, TBG is entitled to demand a non-recurrent remuneration of 30% of the amount invested plus 6% of the amount invested at the end of the period of participation for each year after the expiration of the fifth full year of participation under certain circumstances relating to the economic condition of GAIA. The Frankendael Partnership Agreement and the TBG Partnership Agreement each 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 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 $3,627,000and $6,272,000 as of December 31, 2008 and December 31, 2007. The outstanding amount as of December 31, 2008 consists out of unpaid management fees invoiced from Arch Hill to GAIA Holding BV over the period 2004 till 2008 and accrued interest.

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.

LITHIUM TECHNOLOGY CORPORATION AND SUBSIDIARIES
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A balance of $3,627,000 remains payable to Arch Hill after the issuance of the Series C Preferred Stock discussed above. . 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. As part of this increase the Company will be able to convert the balance of the above described debt of $3,627,000 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 December 31, 2008 and is included in the promissory notes of $1,777,000 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 $124,000.

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 December 23, 2008 for a total of Euros 4.80 million (approximately U.S. $6,785,000). The accrued interest on this amount is 139,000€ (approximately U.S. $204,000). 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 of the Convertible Notes from $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 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.

Based upon the decreased conversion price and under assumption that all note holders would voluntary choose for a conversion into shares, the principal and accrued interest under the Convertible Notes, would convert into 102,495,482 shares of Common Stock as of December 31, 2008.

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.

LITHIUM TECHNOLOGY CORPORATION AND SUBSIDIARIES
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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 there from 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.

OCTOBER 2005 8% DEBENTURE (CORNELL CAPITAL)

On October 7, 2005, the Company entered into a Securities Purchase Agreement with Cornell Capital pursuant to which the Company issued convertible debentures in the principal amount for $3,000,000, with an original maturity date of October 1, 2006. The debentures were convertible at the option of Cornell Capital any time up to maturity at a conversion price equal to $0.06 per share. The debentures had a one-year term and accrued interest at 8% per year. Interest and principal payments on the debenture were to commence on January 1, 2006 and end on October 1, 2006. The debenture was issued with five-year warrants to Cornell Capital to purchase 20,000,000 shares of common stock at the following exercise prices: 10,000,000 at $0.06 per share 5,000,000 at $0.07 per share and 5,000,000 at $0.10 per share. The terms of the Cornell Capital debenture were subsequently amended three times as described in our financial reports for the year 2007.

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

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

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

The October 2005 Debenture was settled in five tranches in May and June of 2007. Settlement of the debenture consisted of issuance of a total of 77,228,495 shares of common stock and payment of $2,011,475 plus approximately $770,000 cash payment of accrued interest. As of December 31, 2007 the Company reported a warrant liability for the Cornell warrants of $5,123,000.

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

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NOTE 5—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.See

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 December 31, 2008 is as follows:

	Foreign	Domestic	Total
Tax loss carry forwards	$ 24,358,000	$ 21,871,000	$ 46,229,000
Less valuation allowance	(2,358,000)	(21,871,000)	(46,229,000)
	$ -	$ -	$ -

A valuation allowance is provided when it is more likely than not that some portion of the deferred tax asset will not be realized. Management has determined, based on its recurring net losses, lack of a commercially viable product and limitations under current tax rules, that a full valuation allowance is appropriate.

Valuation Allowance, December 31, 2006	$ 37,262,000
Increase	4,439,000
Valuation Allowance, December 31, 2007	$ 41,701,000
Increase	4,528,000
Valuation Allowance, December 31, 2008	$ 46,229,000

At December 31, 2008, the company had net operating loss carry forwards for United States Federal income tax purposes of approximately $63,799,000 expiring in the years 2009 through 2025 and net operating loss carry forwards of approximately $55,498,000 for Pennsylvania state income tax purposes. Current United States Federal tax law limits the use of net operating loss carry forwards after there has been a substantial change in ownership, as defined in Internal Revenue code Section 382, during a three year period. Due to changes in ownership between 1993 and 1997, and the conversion of Senior Secured Convertible Notes in January 1999, and the Share Exchanges, there exists substantial risk that the Company’s use of net operating losses for United States and Pennsylvania tax purposes may be severely limited under the Internal Revenue Code. The Company and its subsidiaries are subject to audits for the past nine years as a result of not filing the respective tax returns for certain of those years.

In June 2006, the FASB issued FIN No. 48, Accounting for Uncertainty in Income Taxes-an interpretation of FASB Statement No. 109 (“FIN 48”) which clarifies the accounting for uncertainty in income taxes recognized in an enterprise’s financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes. FIN 48 prescribes a recognition threshold and measurement criteria for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN No. 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition and defines the criteria that must be met for the benefits of a tax position to be recognized. The cumulative effect of the change in accounting principle must be recorded as an adjustment to opening retained earnings. Effective January 1, 2007, the Company adopted FIN No. 48 and determined that such adoption did not have a material impact on its consolidated financial statements.

LITHIUM TECHNOLOGY CORPORATION AND SUBSIDIARIES
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NOTE 6—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. This matter has not been resolved as of December 31, 2008 or as of the date of this report and 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. Montgomery County 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.

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.

LITHIUM TECHNOLOGY CORPORATION AND SUBSIDIARIES
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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.

EMPLOYMENT AND 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 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 US $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).

LITHIUM TECHNOLOGY CORPORATION AND SUBSIDIARIES
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The OUIDA Consulting Agreement provides for Theo Kremers, an employee of OUIDA Management Consultancy B.V. and a director and Chief Executive Officer 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.

In 2009 a consulting fee of $705,000 was claimed by Fidessa Asset Management for services rendered over the period April 1, 2008 until December 31, 2008. There is no signed agreement between LTC and Fidessa Asset Management S.A. regarding these consulting services and the Company is disputing the amount.

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 December 31, 2008 these shares have not been delivered by the Company

NOTE 7—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. The Company issued 100,000 preferred B shares in connection with the Debt Exchange in October 2005. The shares of Series B Convertible Preferred Stock have the same dividend rights as the Company’s common stock shares. 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 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 B Preferred Stock is classified in permanent equity on the Company’s consolidated balance sheet.

LITHIUM TECHNOLOGY CORPORATION AND SUBSIDIARIES
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SERIES C PREFERRED

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 $11,773,723 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) Sub divide 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.

LITHIUM TECHNOLOGY CORPORATION AND SUBSIDIARIES
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On September 3, 2008 30,000 shares of Series C Preferred Stock held by investors were converted into 75,000,000 shares of Company common stock.

2002 STOCK INCENTIVE PLAN

LTC's Board of Directors adopted the 2002 Stock Incentive Plan (the "2002 Plan") in January 2002. The 2002 Plan terminates in 2012. A total of 350,000 shares of common stock are reserved and available for grant. No options were granted for the years ended December 31, 2008 and 2007. The exercise price of an option granted under the 2002 Plan will not be less than the fair market value of the Company's common stock on the date of grant; however, for any non qualified Stock Option the option price per share of common stock, may alternatively be fixed at any price deemed to be fair and reasonable, as of the date of the grant. Options granted that are not vested will be cancelled immediately upon termination of the grantee's employment or association with LTC, except in certain situations such as retirement, death or disability. Vested options are exercisable for up to sixty months upon termination of the Grantee's employment or association with LTC.

All outstanding employees and directors options are summarized as follows:

	Options	Weighted Average Exercise Price
Outstanding and Exercisable, January 1, 2007	118,355	$ 4.85
Expired	(28,453)	5
Outstanding and Exercisable December 31, 2007	89,902	$ 4.78
Expired	(750)	2
Outstanding and Exercisable December 31, 2008	89,152	$ 4.80

The following table summarizes information about stock options outstanding at December 31, 2008:

Range of Exercise Prices	Options Outstanding	Weighted Average Remaining Contractual Life
$ 2.30	2,000	0.1 years
$ 2.80	1,000	4 years
$ 4.00	32,500	2.5 years
$ 4.40	730	2 years
$ 5.20	41,695	1.5 years
$ 5.60	9,227	2 years
$ 9.60	2,000	1.5 years
Balance outstanding as of December 31, 2008	89,152	

LITHIUM TECHNOLOGY CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

WARRANTS

Warrants as of December 31, 2007 and 2008 are summarized as follows:

	Warrants	Weighted Average Exercise Price
Outstanding and Exercisable, December 31, 2006	175,585,524	$ 0.2507
Issued	11,065,665	0.1243
Exercised	(576,000)	0.0550
Expired	(160,000)	3.6063
Outstanding and Exercisable, December 31, 2007	185,915,189	$ 0.2335
Exercised	(40,000,000)	0.0128
Expired	(112,574,158)	0.0836
Outstanding and Exercisable, December 31, 2008	33,341,031	$ 1.1327

The following table summarizes information about warrants outstanding as of December 31, 2008:

Exercise Price	Number of Warrants Outstanding	Time to Expiration in Years	
$ 0.2250	277,779	0.1	Years
0.2750	277,779	0.1	Years
2.0000	1,000,000	0.1	Years
0.0240	1,570,000	0.1	Years
0.0270	300,000	0.1	Years
0.0280	130,000	0.1	Years
0.0290	262,836	0.1	Years
0.0310	130,000	0.1	Years
0.0340	150,000	0.1	Years
0.0390	280,000	0,1	Years
0.0440	250,000	0.1	Years
0.0490	250,000	0.1	Years
0.0520	180,000	0.1	Years
0.0570	230,000	0.1	Years
0.0620	50,000	0.1	Years
0.0820	250,000	0.1	Years
0.0840	50,000	0.1	Years
0.0860	100,000	0.1	Years
0.0880	25,000	0.1	Years
0.0890	50,000	0.1	Years
0.0940	75,000	0.1	Years
0.0970	50,000	0.1	Years
0.0990	25,000	0.1	Years
0.1000	25,000	0.1	Years
0.1760	25,000	0.1	Years
0.2200	25,000	0.1	Years

0.3520	25,000	0.1	Years
0.6600	25,000	0.1	Years
0.1500	662,503	0.1	Years
0.1800	662503	0.1	Years
0.1445	1,307,698	0.1	Years

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	0.1736	1,307,698	0.1	Years
	2.0000	1,500,000	0.3	Years
	2.4000	10,500,000	0.3	Years
	0.0257	131,578	0.4	Years
	0.0675	2,510,000	0.4	Years
	0.0201	500,000	0.4	Years
	0.0245	746,557	0.4	Years
	0.0550	20,000	0.4	Years
	0.1870	264,739	0.4	Years
	0.2570	684,099	0.7	Years
	0.3800	2,205,262	1.8	Years
	0.0300	2,000,000	1.9	Years
	0.2500	500,000	2.3	Years
	0.2000	500,000	2.3	Years
	0.1000	1,000,000	2.3	Years
	0.0243	250,000	2.3	Years
Total warrants outstanding as of December 31, 2008		33,341,030		

NOTE 8—SEGMENTS

Segment Information

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

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:

	Year Ended December 31, 2008	Year Ended December 31, 2008
Revenues		
Domestic Operations	$ 1,301,000	$ 1,504,000
European Operations	2,866,000	1,105,000
	$ 4,167,000	$ 2,609,000

Long-lived assets, net				
Domestic Operations	$	3,000	$	101,000
European Operations		6,930,000		7,688,000
	$	6,933,000	$	7,789,000

In 2008 revenues were concentrated for 29% with 2 customers and purchases were concentrated for 15% with 1 vendor. In 2007, 24% of revenue was derived from one customer.

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NOTE 9—SUPPLEMENTAL CASH FLOW INFORMATION

SUPPLEMENTAL CASH FLOW INFORMATION

For the Years Ended December 31,

2008	2007
Convertible Preferred Series C Shares with $300 par value were converted into common stock with a par value of $750,000.	Convertible debentures and accrued interest of $989,000 were converted into common stock with par value of $820,000.
112,574,159 outstanding warrants with a related warrant liability of $2,824,000 expired	Convertible debenture of $500,000 was converted into common stock with par value of $206,000.
45,017 shares of Convertible Preferred Series C stock with $450 par value was issued in a debt settlement agreement with Arch Hill.	Convertible Preferred Series A of $1,000,000 was converted into common stock with par value of $111,000.
1,500,000 shares of common stock with $15,000 par value were issued to a former officer of the Company	Accrued dividends of $181,000 were paid through the issuance of common stock with a par value of $20,000.
	Convertible Preferred Series C shares with $380 par value were converted into common stock with par value of $920,000.
	Discount of $325,000 was recorded on July 2007 10% Convertible Debentures.
	576,000 Warrants with a cashless exercise feature were converted into common stock with a total par value of $3,200.

NOTE 10—SUBSEQUENT EVENTS

2009 Amendment of Certificate of Incorporation

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.

2007 Convertible Debenture Extension

On March 1, 2009 the July 2007 10% Convertible Note was extended a second time until January 1, 2010.

Reduction of Exercise Price of June 2008 Converible Note

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.

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 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.

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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.