LITHIUM TECHNOLOGY CORP
Form 10-Q/A
December 10, 2010

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

FORM 10-Q/A-2

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

For the Quarterly Period ended September 30, 2008

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the transition period from to

Commission File Number 1-10446

LITHIUM TECHNOLOGY CORPORATION

(Name of Issuer in Its Charter)

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

5115 CAMPUS DRIVE, PLYMOUTH MEETING, PENNSYLVANIA 19462

(Address of Principal Executive Offices) (Zip Code)

(610) 940-6090

(Issuer's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act of 1934 during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes o No x

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

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: As of December 10, 2010, 1,887,173,002 shares of common stock.

LITHIUM TECHNOLOGY CORPORATION AND SUBSIDIARIES
FORM 10-Q/A-2
FOR THE QUARTER ENDED SEPTEMBER 30, 2008
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EXPLANATORY NOTE

The Company's September 30, 2008 Form 10-Q report was originally filed on May 22, 2009 with the Securities and Exchange Commission prior to the review and approval of the document by the Company's Audit Committee and its Independent Registered Public Accounting Firm. Management believes this occurred because of certain weaknesses in the Company's internal controls over financial reporting related to lack of adequate resources and personnel, which are disclosed in this Form 10-Q/A-2, Item 4T. On May 26, 2009, the Company filed a Form 8-K disclosing that the information contained in the September 30, 2008 Form 10-Q filed on May 22, 2009 was not to be relied upon because the Company's independent registered public accounting firm, had not completed its review of the Company's September 30, 2008 financial statements. We also disclosed that all information contained in the September 30, 2008 Form 10-Q, including the September 30, 2008 consolidated financial statements, was subject to updates and revisions, and should therefore not be relied upon. Subsequently, the Company's independent registered public accounting firm completed their review of the Company's consolidated financial statements for the quarter ended September 30, 2008 and upon approval by the Company's Audit Committee we filed an amended Form 10-Q for the period September 30, 2008 on August 21, 2009.

We are filing this Amendment No. 2 to the Quarterly Report on Form 10-Q/A for the quarter ended September 30, 2008 to report the differences between the financial statements included in the May 22, 2009 filing and the filing of the amended Form 10-Q filed on August 21, 2009. (See Note 1 under Notes to Consolidated Financial Statements). These differences are a result of certain adjustments and reclassifications which were made to the quarterly financial statements based upon the review performed by the Company's Independent Registered Public Accounting Firm.

The following table reflects the impact of the restatement on the cumulative net loss for the three and nine months ended September 30, 2008:

	Three Months	Nine Months
Increase/ (Decrease) to Net Loss to Common Shareholders	$4,659,000	$4,133,000

Revised financial statements indicating the original report filed May 22, 2009, the adjustments (if any) and the restated numbers filed August 21, 2009 are disclosed in Note 1 in Notes to Consolidated Financial Statements.

Report of Independent Registered Public Accounting Firm

We have reviewed the condensed consolidated balance sheet of Lithium Technology Corporation as of September 30, 2008, and the related condensed consolidated statements of operations and comprehensive loss for the three-month and nine-month periods ended September 30, 2008 and 2007, and condensed consolidated statements of cash flows for nine-month periods ended September 30, 2008 and 2007. These interim financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying interim financial statements for them to be in conformity with U.S. generally accepted accounting principles.

Note 1 of the Company's audited financial statements as of December 31, 2007, and for the year then ended discloses that 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. Our auditor's report on those financial statements includes an explanatory paragraph referring to the matters in Note 1 of those financial statements and indicating that these matters raised substantial doubt about the Company's ability to continue as a going concern. As indicated in Note 3 of the Company's unaudited interim financial statements as of September 30, 2008, and for the three and nine months then ended, there was still substantial doubt about the Company's ability to continue as a going concern. The accompanying interim financial information does not include any adjustments that might result from the outcome of this uncertainty.

/s/ Amper, Politziner & Mattia, LLP
August 21, 2009
Edison, New Jersey

PART I.

FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

LITHIUM TECHNOLOGY CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

		September 30, 2008 (unaudited) (restated)		December 31, 2007 (audited)
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	$	296,000	$	4,458,000
Accounts receivable		241,000		527,000
Inventories		2,326,000		3,320,000
Prepaid expenses and other current assets		409,000		703,000
Total current assets	$	3,272,000	$	9,008,000
Property and equipment, net		7,332,000		7,789,000
Related party receivables		277,000		579,000
Other assets		152,000		155,000
Total assets	$	11,033,000	$	17,531,000
LIABILITIES AND STOCKHOLDERS DEFICIT				
CURRENT LIABILITIES:				
Accounts payable	$	2,671,000	$	2,704,000
Accrued salaries		241,000		83,000
Accrued interest		701,000		504,000
Current portion of long term debts		5,562,000		5,411,000
Related party debt		5,254,000		7,955,000
Other current liabilities and accrued expenses		1,307,000		2,245,000
Warrant liability		890,000		15,550,000
Total current liabilities	$	16,626,000	$	34,452,000
LONG TERM DEBT				
Long term debts		3,776,000		-
Total Long Term Debt	$	3,776,000	$	-
Total liabilities	$	20,402,000	$	34,452,000
COMMITMENTS AND CONTINGENCIES				
STOCKHOLDERS DEFICIT				
Convertible Preferred stock B, par value $.01 per share, authorized, issued and outstanding: 100,000 at September 30, 2008 and December 31, 2007	$	1,000	$	1,000
		2,000		2,000

Convertible Preferred stock C, par value $.01 per share, authorized 300,000, issued and outstanding: 233,300 at September 30, 2008 and 218,183 at December 31, 2007				
Common stock, par value $.01 per share, authorized - 750,000,000 at September 30, 2008 and December 31, 2007 respectively; issued and outstanding - 745,924,782 and 630,924,782		7,459,000		6,309,000
Additional paid-in capital		122,152,000		111,998,000
Cumulative translation adjustments		(3,851,000)		(4,172,000)
Accumulated deficit		(135,132,000)		(131,059,000)
Total stockholders deficit	$	(9,369,000)	$	(16,921,000)
Total liabilities and stockholders deficit	$	11,033,000	$	17,531,000

See accompanying notes to condensed consolidated financial statements.

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

	NINE MONTHS ENDED SEPTEMBER 30,		THREE MONTHS ENDED SEPTEMBER 30,	
	2008 (unaudited) (restated)	2007 (unaudited)	2008 (unaudited) (restated)	2007 (unaudited)
REVENUES				
Products and services sales	$3,602,000	$2,024,000	$1,306,000	$843,000
COSTS AND EXPENSES				
Cost of goods sold	5,410,000	2,602,000	2,142,000	1,034,000
Engineering, research and development	1,494,000	2,320,000	5,000	690,000
General and administrative	4,424,000	3,930,000	1,320,000	1,130,000
Stock based compensation expense	-		-	
Sales and marketing	537,000	318,000	181,000	236,000
Depreciation	1,150,000	693,000	567,000	114,000
Total costs and expenses	$13,015,000	$9,863,000	$4,215,000	$3,204,000
Income (Loss) from operations	$(9,413,000)	$(7,839,000)	$(2,909,000)	$(2,361,000)
OTHER INCOME (EXPENSE)				
Interest expense, net of interest income	$(485,000)	$(1,588,000)	$(275,000)	$(252,000)
Interest expense related to amortization of discount on convertible debt	(3,827,000)	(1,633,000)	(55,000)	(58,000)
Warrant expense/change in fair value income	9,643,000	(16,242,000)	1,220,000	(875,000)
Other	9,000	(18,000)	(232,000)	33,000
Total other income (expense)	$5,340,000	$(19,481,000)	$658,000	$(1,152,000)
NET INCOME (LOSS)	$(4,073,000)	$(27,320,000)	$(2,251,000)	$(3,513,000)
Dividends on preferred shares	-	(58,000)	-	(18,000)
Discount related to beneficial conversion feature of Preferred Stock	(2,147,000)	(11,274,000)	-	(137,000)
NET INCOME (LOSS) TO COMMON SHAREHOLDERS	$(6,220,000)	$(38,652,000)	$(2,251,000)	$(3,668,000)
OTHER COMPREHENSIVE INCOME (LOSS)				
NET INCOME (LOSS)	$(4,073,000)	$(27,320,000)	$(2,251,000)	$(3,513,000)
Currency translation adjustments	321,000	(623,000)	(189,000)	$-
COMPREHENSIVE INCOME (LOSS)	$(3,752,000)	$(27,943,000)	$(2,440,000)	$(3,513,000)
Weighted average number of common shares outstanding:	1,559,832,447	1,124,583,396	1,593,027,896	1,297,721,107
Basic and diluted net (loss)/income per share	$(0.00)	$(0.02)	$(0.00)	$(0.00)

See accompanying notes to condensed consolidated financial statements.

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LITHIUM TECHNOLOGY CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

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

See accompanying notes to condensed consolidated financial statements.

LITHIUM TECHNOLOGY CORPORATION
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1—RESTATEMENT OF CONSOLIDATED FINANCIAL STATEMENTS FOR PERIOD ENDED SEPTEMBER 30, 2008

The Company's September 30, 2008 Form 10-Q report was originally filed on May 22, 2009 with the Securities and Exchange Commission prior to the review and approval of the document by the Company's Audit Committee and its Independent Registered Public Accounting Firm. Management believes this occurred because of certain weaknesses in the Company's internal controls over financial reporting related to lack of adequate resources and personnel, which are disclosed in this Form 10-Q/A-2, Item 4T. On May 26, 2009, the Company filed a Form 8-K disclosing that the information contained in the September 30, 2008 Form 10-Q filed on May 22, 2009 was not to be relied upon because the Company's independent registered public accounting firm, had not completed its review of the Company's September 2008 financial statements. We also disclosed that all information contained in the September 30, 2008 Form 10-Q, including the September 30, 2008 consolidated financial statements, was subject to updates and revisions, and should therefore not be relied upon. Subsequently, the Company's independent registered public accounting firm completed their review of the Company's consolidated financial statements for the quarter ended September 30, 2008 and upon approval by the Company's Audit Committee we filed an amended Form 10-Q for the period September 30, 2008 on August 21, 2009.

The following tables for the quarter ended September 30, 2008 shows the differences between the financial statements included in the May 22, 2009 filing and the amended filing of the Form 10-Q filed on August 21, 2009. These differences are a result of certain adjustments and reclassifications which were made to the quarterly financial statements based upon the review performed by the Company's Independent Registered Public Accounting Firm.

LITHIUM TECHNOLOGY CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2008 10QA filed 8/21/09 (unaudited) (restated)	September 30, 2008 10Q filed 5/22/09 (unaudited)	Difference
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	$ 296,000	$ 296,000	$ -
Accounts receivable	241,000	241,000	-
Inventories	2,326,000	2,326,000	-
Prepaid expenses and other current assets	409,000	409,000	-
Total current assets	$ 3,272,000	$ 3,272,000	$ -
Property and equipment, net	7,332,000	7,470,000	(138,000)
Related party receivables	277,000	277,000	-
Other assets	152,000	-	152,000
Total assets	$ 11,033,000	$ 11,019,000	$ 14,000
LIABILITIES AND STOCKHOLDERS DEFICIT			
CURRENT LIABILITIES:			
Bank Debt	$ -	$ 99,000	$ (99,000)
Accounts payable	2,671,000	2,681,000	(10,000)
Accounts payable - related parties	-	-	-
Accrued salaries	241,000	241,000	-
Accrued interest	701,000	701,000	-
Current portion of long term debts	5,562,000	5,463,000	99,000
Related party debt	5,254,000	5,254,000	-
Other current liabilities and accrued expenses	1,307,000	1,307,000	-
Warrant liability	890,000	890,000	-
Total current liabilities	$ 16,626,000	$ 16,636,000	$ (10,000)
LONG TERM DEBT			
Long term debts	3,776,000	3,776,000	-
Total Long Term Debt	$ 3,776,000	$ 3,776,000	$ -
Total liabilities	$ 20,402,000	$ 20,412,000	$ (10,000)
COMMITMENTS AND CONTINGENCIES			
STOCKHOLDERS DEFICIT			
Convertible Preferred stock B, par value $.01 per share, authorized, issued and outstanding: 100,000 at September 30, 2008 and December 31, 2007	$ 1,000	$ 1,000	$ -
Convertible Preferred stock C, par value $.01 per share, authorized 300,000, issued and outstanding: 233,300 at September 30, 2008 and 218,183 at December 31, 2007	2,000	3,000	(1,000)

Common stock, par value $.01 per share, authorized - 750,000,000 at September 30, 2008 and December 31, 2007 respectively; issued and outstanding - 745,924,782 and 630,924,782		7,459,000			7,459,000			-
Additional paid-in capital		122,152,000			117,971,000			4,181,000
Cumulative translation adjustments		(3,851,000	)		(1,784,000	)		(2,067,000)
Accumulated deficit		(135,132,000	)		(133,043,000	)		(2,089,000)
Total stockholders deficit	$	(9,369,000	)	$	(9,393,000	)	$	24,000
Total liabilities and stockholders deficit	$	11,033,000		$	11,019,000		$	14,000

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

	NINE MONTHS ENDED SEPTEMBER 30,			THREE MONTHS ENDED SEPTEMBER 30,		
	2008 10QA filed 8/21/09 (unaudited) (restated)	2008 10Q filed 5/22/09 (unaudited)	Difference	2008 10QA filed 8/21/09 (unaudited) (restated)	2008 10Q filed 5/22/09 (unaudited)	Difference
REVENUES						
Products and services sales	$3,602,000	$3,602,000	$-	$1,306,000	$1,306,000	$-
COSTS AND EXPENSES						
Cost of goods sold	5,410,000	6,443,000	(1,033,000)	2,142,000	3,175,000	(1,033,000)
Engineering, research and development	1,494,000	1,394,000	100,000	5,000	(95,000)	100,000
General and administrative	4,424,000	5,401,000	(977,000)	1,320,000	2,297,000	(977,000)
Stock based compensation expense	-	-	-	-	-	-
Sales and marketing	537,000	537,000	-	181,000	(46,000)	227,000
Depreciation	1,150,000	331,000	819,000	567,000	(25,000)	592,000
Total costs and expenses	$13,015,000	$14,106,000	$(1,091,000)	$4,215,000	$5,306,000	$(1,091,000)
Income (Loss) from operations	$(9,413,000)	$(10,504,000)	$1,091,000	$(2,909,000)	$(4,000,000)	$1,091,000
OTHER INCOME (EXPENSE)						
Interest expense, net of interest income	$(485,000)	$(580,000)	$95,000	$(275,000)	$(370,000)	$95,000
Interest expense related to amortization of discount on convertible debt	(3,827,000)	(3,827,000)	-	(55,000)	(55,000)	-
Warrant expense/change in fair value income	9,643,000	12,173,000	(2,530,000)	1,220,000	3,750,000	(2,530,000)
Other	9,000	651,000	(642,000)	(232,000)	936,000	(1,168,000)
Total other income (expense)	$5,340,000	$8,417,000	$(3,077,000)	$658,000	$4,261,000	$(3,603,000)
	$(4,073,000)	$(2,087,000)	$(1,986,000)	$(2,251,000)	$261,000	$(2,512,000)

NET INCOME (LOSS)						
Dividends on preferred shares	-	-	-	-	-	-
Discount related to beneficial conversion feature of Preferred Stock	(2,147,000)	-	(2,147,000)	-	2,147,000	(2,147,000)
NET INCOME (LOSS) TO COMMON SHAREHOLDERS	$(6,220,000)	$(2,087,000)	$(4,133,000)	$(2,251,000)	$2,408,000	$(4,659,000)
OTHER COMPREHENSIVE INCOME (LOSS)						
NET INCOME (LOSS)	$(4,073,000)	$(2,087,000)	$(1,986,000)	$(2,251,000)	$261,000	$(2,512,000)
Currency translation adjustments	321,000	103,000	218,000	(189,000)	$-	(189,000)
COMPREHENSIVE INCOME (LOSS)	$(3,752,000)	$(1,984,000)	$(1,768,000)	$(2,440,000)	$261,000	$(2,701,000)
Weighted average number of common shares outstanding:	1,559,832,447	1,593,027,896	(33,195,449)	1,593,027,896	1,593,027,896	-
Basic and diluted net (loss)/income per share	$(0.00)	$(0.00)	$(0.00)	$(0.00)	$0.00	$(0.00)

LITHIUM TECHNOLOGY CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	NINE MONTHS ENDED SEPTEMBER 30,		
	2008 10QA filed 8/21/09 (unaudited) (restated)	208 10Q filed 5/22/09 (unaudited)	Difference
CASH FLOW FROM OPERATING ACTIVITIES			
Net loss	$(4,073,000)	$(2,087,000)	(1,986,000)
Adjustments			
Depreciation expense	810,000	883,000	(73,000)
Impairment charge for fixed assets	225,000	-	225,000
Bad debt expense	160,000	-	160,000
Stock-based compensation expense	-	-	-
Loss on sale of property and equipment	81,000	-	81,000
Warrant income/change in fair value	(9,643,000)	(12,173,000)	2,530,000
Interest expense beneficial conversion feature	3,826,000	3,827,000	(1,000)
(Increase)/decrease in assets			
Inventories	994,000	201,000	793,000
Accounts receivable	428,000	176,000	252,000
Prepaid expenses and other assets	294,000	294,000	-
Increase/(Decrease) in liabilities			
Accounts payable & accrued expenses	(489,000)	332,000	(821,000)
Other current liabilities	-	(904,000)	904,000
Net cash used in operating activities	$(7,387,000)	$(9,451,000)	$2,064,000
CASH FLOW FROM INVESTING ACTIVITIES			
Capital Expenditures	$(715,000)	$(467,000)	(248,000)
Net cash used in investing activities	$(715,000)	$(467,000)	$(248,000)
CASH FLOW FROM FINANCING ACTIVITIES			
Repayment of debt	$(105,000)	$(2,858,000)	2,753,000
Proceeds from loans from related parties	100,000	-	100,000
Proceeds from issuance of convertible debt	3,776,000	3,776,000	-
Proceeds from exercise of warrants	512,000	(2,487,000)	2,999,000
Proceeds from equity issuance	-	7,123,000	(7,123,000)
Net cash provided by financing activities	$4,283,000	$5,554,000	$(1,271,000)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	$(3,819,000)	$(4,364,000)	$545,000
CURRENCY EFFECTS ON CASH AND CASH EQUIVALENTS	(343,000)	103,000	(446,000)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	4,458,000	4,458,000	-
CASH AND CASH EQUIVALENTS, END OF PERIOD	$296,000	$197,000	$99,000

NOTE 2—BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and rules and regulations of the Securities and Exchange Commission (the “SEC”) applicable to interim periods. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. These financial statements should be read in conjunction with the Company’s financial statements included in the Company’s Annual Reports on Form 10-KSB filed with the Securities and Exchange Commission for the year ended December 31, 2007. Operating results for the interim periods shown in this report are not necessarily indicative of the results for the full year.

NOTE 3—ORGANIZATION, BUSINESS OF THE COMPANY AND LIQUIDITY

In 2002, Lithium Technology Corporation (“LTC” or the “Company”) closed share exchanges in which LTC acquired ownership of 100% of GAIA Holding B.V. (“GAIA Holding”) from Arch Hill Ventures, NV, a private company limited by shares, incorporated under the laws of the Netherlands (“Arch Hill Ventures”), which is controlled by Arch Hill Capital NV (“Arch Hill Capital”), a private company limited by shares, incorporated under the laws of the Netherlands (the “Share Exchanges”). In November 2004, Arch Hill Capital and Arch Hill Ventures transferred all LTC securities owned by such entities to Stichting Gemeenschappelijk Bezit GAIA (“Stichting GAIA”) and Stichting Gemeenschappelijk Bezit LTC (“Stichting LTC”), entities controlled by Arch Hill Capital.

Subsequent to the Share Exchanges, Arch Hill Capital effectively controls LTC. As a result, the Share Exchanges have been accounted for as a reverse acquisition, whereby for financial reporting purposes, GAIA Holding is considered the acquiring company. Hence, the historical financial statements of GAIA Holding became the historical financial statements of the Company and include the results of operations of LTC only from the acquisition date of October 4, 2002.

GAIA Holding, a private limited liability company incorporated under the laws of the Netherlands, is the 100% beneficial owner of GAIA Akkumulatorenwerke GmbH (“GAIA”). GAIA Holding was incorporated in 1990 and only had limited operations until the acquisition of GAIA on February 12, 1999 (inception of development stage). GAIA is a private limited liability company incorporated under the laws of Germany. GAIA Holding’s ownership interest in GAIA is held through certain trust arrangements.

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

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

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

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

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

NOTE 4—SIGNIFICANT ACCOUNTING POLICIES

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

NOTE 5—INVENTORIES

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

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

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

NOTE 6—PROPERTY AND EQUIPMENT

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

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

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

NOTE 7—INCOME TAXES

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

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