LITHIUM TECHNOLOGY CORP
Form 10KSB/A
November 21, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-KSB/A-l

(Mark One)

x ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.
For the fiscal year ended December 31, 2005

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.
For the transition period from _____ to _____

Commission File Number 1-10446

LITHIUM TECHNOLOGY CORPORATION

(Name of Small Business Issuer in Its Charter)

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

5115 CAMPUS DRIVE, PLYMOUTH MEETING, PENNSYLVANIA 19462

(Address of Principal Executive Offices) (Zip Code)

(610) 940-6090

(Issuer s Telephone Number, Including Area Code)

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

Check whether the issuer is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. ¨

Note. Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Exchange Act from their obligations under those Sections.

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

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. x

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

Large accelerated filer ¨ an accelerated filer ¨ or a non-accelerated filer ¨

State issuer s revenues for its most recent fiscal year. $1,803,000.

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was sold, or the average bid and asked prices of such common equity, as of a specified date within the past 60 days. The aggregate market value was approximately $5,326,720 as of April 6, 2006, based upon the mean between the closing bid and asked price for the common stock on April 6, 2006 as quoted by the NASD OTC Electronic Bulletin Board of $0.02.

(ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Check whether the issuer has filed all documents and reports required to be filed by Section 12,13 or 15(d) of the Exchange Act after the distribution of securities under a plan confirmed by a court. Yes ¨ No ¨

(APPLICABLE ONLY TO CORPORATE REGISTRANTS)

State the number of shares outstanding of each of the issuer s classes of common equity, as of the latest practicable date: As of April 6, 2006, 366,615,359 shares of common stock.

DOCUMENTS INCORPORATED BY REFERENCE

If the following documents are incorporated by reference, briefly describe them and identify the part of the Form 10-KSB (e.g., Part I, Part II, etc.) into which the document is incorporated: (1) any annual report to security-holders; (2) any proxy or information statement; and (3) any prospectus filed pursuant to Rule 424(b) or (c) of the Securities Act of 1933 (Securities Act). The listed documents should be clearly described for identification purposes (e.g., annual report to security holders for fiscal year ended December 24, 1990). None.

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

EXPLANATORY NOTE

General

Lithium Technology Corporation (we, us, or the Company) is filing this Amendment No. 1 (this Amendment) to its Annual Report on Form 10-KSB for the year ended December 31, 2005, (i) to file audited consolidated financial statements for the years ended December 31, 2004 and 2005, (ii) to reflect restatements of the Company s financial statements for the year ended December 31, 2004 for the reasons described below and (iii) to restate certain additional information as set forth below.

Background

The Company engaged BDO Seidman, LLP (BDO Seidman) as its independent registered public accounting firm effective June 14, 2004. BDO Seidman reviewed the Company s financial statements for the quarters ended March 31, 2004, June 30, 2004, and September 30, 2004 contained in the Company s Form 10-QSBs for each such quarter (the Original 2004 Form 10-QSB) filed with the Securities and Exchange Commission (SEC). BDO Seidman audited the Company s financial statements for the year ended December 31, 2004 (the 2004 Financial Statements) included in the Company s Form 10-KSB for the year ended December 31, 2004 (the Original 2004 Form 10-KSB). BDO Seidman also reviewed the Company s financial statements for the quarters ended March 31, 2005, June 30, 2005, and September 30, 2005 contained in the Company s Form 10-QSBs for each such quarter filed with the SEC (the Original 2005 Form 10-QSBs).

BDO Seidman was engaged to audit the Company s financial statements for the year ended December 31, 2005 (the 2005 Financial Statements). The Company prepared the 2005 Financial Statements during the first quarter of 2006 and presented the same to BDO Seidman for audit.

As described in the Company s Report on Form 8-K dated May 31, 2006, BDO Seidman notified the Company in connection with the audit of the Company s 2005 Financial Statements that BDO Seidman was evaluating all of the debt and equity 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 (the BDO Seidman Debt Financing Evaluation).

The Company filed with the SEC a Form 10-KSB for the fiscal year ended December 31, 2005 on April 17, 2006 which included 2005 Financial Statements which were not audited by BDO Seidman (the Original 2005 Form 10-KSB). In addition, the Company filed with the SEC on May 22, 2006 a Form 10-QSB for the quarter ended March 31, 2006 which included quarterly financial statements for the quarter ended March 31, 2006 which were not reviewed by BDO Seidman.

As of October 17, 2006, BDO Seidman had not yet completed the BDO Seidman Debt Financing Evaluation nor completed the audit of the 2005 Financial Statements and on such date the Company dismissed BDO Seidman as its independent registered public accounting firm. Thereafter, BDO Seidman notified the Company that as a result of the October 1 7, 2006 termination of BDO Seidman, the BDO Seidman Debt Financing Evaluation could not be completed by BDO Seidman and therefore the Company s previously issued audited 2004 Financial Statements and independent auditors report of BDO Seidman, which are contained in the Original 2004 Form 10-KSB and all quarterly financial statements for periods after December 31, 2004 which are contained in the Original 2005 Form 10-QSBs, 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 2004 Financial Statements which was contained in the Original 2004 Form 10-KSB.

Amendment

The Company engaged Amper, Politziner, & Mattia, P.C. (AP&M) on February 23, 2007 to serve as the Company s independent registered public accounting firm to audit the Company s financial statements for the years ended December 31, 2004, 2005 and 2006 and review the Company s interim financial statements.

This Amendment is being filed (i) to file audited consolidated financial statements for the years ended December 31, 2004 and 2005, (ii) to reflect restatements of the Company s financial statements for the year ended December 31, 2004 for the reasons described below and (iii) to restate certain additional information as set forth below. For a more detailed description of the restatements, see

Note 1, Restatement of Financial Statement, to the accompanying audited consolidated financial statements and the section entitled Restatement in Management s Discussion and Analysis of Financial Condition and Results of Operations in this Amendment.

No attempt has been made in this Amendment to modify or update disclosures in the Original 2005 Form 10-KSB except as required to address the above issues and certain other issues noted below. This Amendment does not reflect events occurring after the filing of the Original 2005 Form 10-KSB or modify or update any related disclosures. Information not affected by the Amendment is unchanged and reflects the disclosure made at the time of the filing of the Original 2005 Form 10-KSB with the SEC. Accordingly, this Amendment should be read in conjunction with the Original 2005 Form 10-KSB and our filings made with the SEC subsequent to the filing of the Original 2005 Form 10-KSB.

In accordance with Rule 12b-15 promulgated under the Securities and Exchange Act of 1934, as amended, the complete texts of Part II, Item 6 -Management s Discussion and Analysis of Financial Condition and Results of Operations, Item 7 -Financial Statements, Item 8A -Controls and Procedures and Part II -Item 13 -Exhibits and Item 14 -Principal Accountant Fees and Services are set forth herein, including those portions of the text that have not been amended from that set forth in the Form 10-KSB. Currently-dated certifications from our Chief Executive Officer and our Chief Financial Officer and the consent of our independent registered public accounting firm have been included as exhibits to this Amendment.

As discussed in Item 6 -Management s Discussion and Analysis of Financial Condition and Results of Operations and Item 8A -Controls and Procedures, in connection with the audit of our financial statements for the year ended December 31, 2004, the Company re-evaluated its accounting for its convertible instruments. In reviewing the accounting treatment of the Company s convertible debentures, the Company determined that the embedded default penalties require bifurcation and fair value accounting in accordance with FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities , and EITF 00-19, Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in a Company s Own Stock . Management determined that the default features of the convertible debentures should be valued at zero.

The Company determined that the embedded conversion options, which were previously bifurcated, did not require bifurcation and fair value accounting in accordance with FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities , and EITF 00-19, Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in a Company s Own Stock . The Company incorrectly applied the guidance in SFAS No. 133 in the analysis of these transactions and has determined that the embedded conversion features did not meet the criteria to be classified as derivatives. As such, the Company no longer has a derivative liability related to the embedded conversion feature.

The Company also determined that warrants issued with its convertible instruments should be accounted for as liabilities with changes in fair values reflected in earnings under the guidance of FASB Statement No. 150, Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity . The impact of this change in accounting treatment resulted in an increase of net loss in the amount of $13,523,000 for the year ended December 31, 2004.

The Company determined that the debt discount ($5,000,000) that was previously recorded was amortized over the life of the debt using the straight-line method and not the effective interest method.

The Company also determined that it did not capitalize all debt issuance costs related to the issuance of its convertible notes as required by the accounting guidance.

The Company has reevaluated its intangible assets as previously reported for the year ended December 31, 2004. Per the reevaluation, management has determined that LTC patents have been fully impaired at December 31, 2004 as a result of management s decision to refocus its strategic direction. Therefore, the Company recorded an impairment charge of $8,926,000, for the year ended December 31, 2004.

Lastly, the Company identified additional adjustments as a result of this restatement and review of its financial records which related mainly to certain unrecorded liabilities and expenses.

The total impact of this restatement on the Company s statement of operations was to increase the net loss applicable to common stockholders for the year ended December 31, 2004 by approximately $19,687 (in thousands).

A summary of all adjustments included in this Annual Report on Form 10-KSB/A-1 is detailed below.

The following table reflects the impact of the restatement on the cumulative net loss for the year ended December 31, 2004 (in thousands):

	December 31, 2004
Increase/(Decrease) to Net Loss	
Write off of derivative liability	$ (3,654)
Warrant expense	13,523
Depreciation and amortization	(828)
Impairment of intangibles patents	8,926
Interest expense, non-warrant, net	76
Interest expense, beneficial conversion	819
Other adjustments	825
Total increase/(decrease) to net loss	$ 19,687

The effects of our restatement on previously reported consolidated financial statements as of December 31, 2004 and for the year ended December 31, 2004 are summarized as follows:

The following table reflects the impact of the restatement on the Consolidated Balance Sheet (in thousands):

	December 31, 2004 (as previously reported)	December 31, 2004 (restated)
Selected Balance Sheet Data:		
Current assets	$ 1,414	$ 1,481
Total assets	16,528	8,705
Current liabilities	5,401	38,335
Total liabilities	22,496	38,335
Additional paid-in capital	50,105	51,409
Accumulated deficit	(55,910)	(75,597)
Total stockholders deficit	(5,968)	(29,630)

The following table reflects the impact of the restatement on the Consolidated Statement of Operations (in thousands, except per share data):

	December 31, 2004 (as previously reported)	December 31, 2004 (restated)
Selected Statement of Operations Data:		
Total other (expense) income, net	$ (3,716)	$ (4,611)
Comprehensive loss	(17,964)	(37,611)
Net loss attributable to common shareholders	(18,531)	(38,218)
Basic and diluted net loss per share	$ (0.57)	$ (1.17)

The following table reflects the impact of the restatement on the Consolidated Statements of Cash Flows (in thousands, except per share data):

	December 31, 2004 (as previously reported)	December 31, 2004 (restated)
Selected Cash Flow Data:		
Net loss to common shareholders	$ (14,751)	$ (38,218)
Net cash used in operating activities	(7,670)	(8,721)
Net cash used in investing activities	(1,059)	(1,376)
Net cash received from financing activities	8,828	10,228
Currency effect on cash	14	(18)

In connection with its audit of the Company s consolidated financial statements for the years ended December 31, 2005 and 2004, the Company s independent registered public accounting firm, AP&M, informed management and the Audit Committee of the Board of Directors that it had noted certain conditions which it had concluded, in the aggregate, represents a material weakness in the Company s internal controls over financial reporting. AP&M noted that, before the audited financial statements for the years ended 2005 and 2004 were finalized, (1) certain audit adjustments were made to such financial statements after being identified by AP&M, (2) certain disclosures required by GAAP were incorporated in such financial statements and the notes thereto after being identified by AP&M and (3) certain account analyses were either not accurately completed and /or not completed in a timely manner.

We have not amended and do not intend to amend our previously filed Original 2004 Form 10-KSB or Original 2004 Form 10-QSBs or Original 2005 Form 10-QSBs affected by the restatement described herein. For this reason, the consolidated financial statements, auditors reports and related financial information for the affected periods contained in such reports should no longer be relied upon.

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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 April 6, 2006, the noon buying rate for Euros as reported by the Federal Reserve Bank of New York was 1.2216 to $1.00 U.S.

FORWARD-LOOKING STATEMENTS

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. This report contains certain forward-looking statements and information that are based on the beliefs of management as well as assumptions made by and information currently available to management. The statements contained in this Report relating to matters that are not historical facts are forward-looking statements that involve risks and uncertainties, including, but not limited to, the successful commercialization of our batteries, future demand for our products, general economic conditions, government and environmental regulation, competition and customer strategies, technological innovations in the battery industries, changes in our business strategy or development plans, capital deployment, business disruptions, our ability to consummate future financings and other risks and uncertainties, certain of which are beyond our control. Additional factors that could affect the Company s forward-looking statements include, among other things: the restatement of the quarterly financial statements for the first three quarters in the fiscal year ended December 31, 2004; 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 caused by restatement; 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.

ITEM 6. 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.

GENERAL

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

RESTATEMENT

For the year ended December 31, 2004, the Company has re-evaluated its accounting for its convertible instruments. In reviewing the accounting treatment of the Company s convertible debentures, the Company determined that the embedded default penalties require bifurcation and fair value accounting in accordance with FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities , and EITF 00-19, Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in a Company s Own Stock . Management determined that the default features of the convertible debentures should be valued at zero.

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The Company determined that the debt discount ($5,000,000) that was previously recorded was amortized over the life of the debt using the straight-line method and not the effective interest method.

The Company also determined that it did not capitalize all debt issuance costs related to the issuance of its convertible notes as required by the accounting guidance.

The Company has reevaluated its intangible assets as previously reported for the year ended December 31, 2004. Per the reevaluation, management has determined that LTC patents have been fully impaired at December 31, 2004 as a result of management s decision to refocus its strategic direction. Therefore, the Company recorded an impairment charge of $8,926,000, for the year ended December 31, 2004.

Lastly, the Company identified additional adjustments as a result of this restatement and review of its financial records which related mainly to certain unrecorded liabilities and expenses.

The total impact of this restatement on the Company s statement of operations was to increase the net loss applicable to common stockholders for the year ended December 31, 2004 by approximately $19,687 (in thousands).

A summary of all adjustments included in this Annual Report on Form 10-KSB/A-1 is detailed below.

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Net cash used in investing activities	(1,059)	(1,376)
Net cash received from financing activities	8,828	10,228
Currency effect on cash	14	(18)

The disclosure set forth in this Management s Discussion and Analysis of Financial Condition and Results of Operations has been revised for the effects of the restatement.

LIQUIDITY AND FINANCIAL CONDITION

GENERAL

At December 31, 2005, cash and cash equivalents were $46,000. Total liabilities as of December 31, 2005 were $23,609,000 consisting of current liabilities in the aggregate amount of $23,609,000. At December 31, 2005, assets included $569,000 in inventories, property and equipment, net of depreciation, of $5,390, 000, net intangibles of $108,000, prepaid expenses and other assets of $333,000 and debt issuance cost of $814,000. As of December 31, 2005, our working capital deficit was $22,299,000 as compared to $36,854,000 at December 31, 2004. 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, 2005
Current debt is summarized as follows:	
Non-related party debt	
March 2005 12% Convertible Debenture	$ 2,000,000
October 2005 8% Debenture, net of discount	$ 1,294,000
June 2005 12% Debentures	$ 1,350,000
Portfolio Lenders Convertible Note	$ 400,000
8% Convertible Notes	$ 47,000
Loans From Financial Institutions	$ 1,629,000
Silent Partnership Loans Non-Related Parties	$ 1,816,000
Related Party debt	
Subordinated Loans from Related Party	3,565,000
Bridge Notes	$ 385,000
Warrant Liability	$ 6,214,000
Total Debt	**$ 18,700,000**

For more detailed information on long-term liabilities, see Note 6 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. During 2005, we entered into a $15 million standby equity distribution agreement with Cornell Capital Partners, L.P. In addition, we also raised approximately $11.0 million net proceeds in debt and equity financings transactions, including financings under the standby equity distribution agreement in 2005.

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, including the sale of common stock under the standby equity distribution agreement described below. 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 will provide any further funding under the bridge financing agreement described below.

The following is a general description of our most recent financing transactions. See also the Notes to Consolidated Financial Statements included with this Report.

PORTFOLIO LENDERS II, LLC CONVERTIBLE NOTE

On December 6, 2005, we entered into a Bridge Loan Agreement pursuant to which we issued convertible notes in the principal amount of $400,000 (the Notes) to Portfolio Lenders II, LLC (the Noteholder) in a private placement. The Notes are convertible at the option of the Noteholder any time up to maturity at a conversion price equal to $0.50 per share. The Notes bear interest at 15% per annum, which was prepaid by the Company on the closing date. As of December 31, 2005, there was $400,000 in principal outstanding under the Notes.

The Notes are repayable upon the earliest to occur of the following: (1) (a) $200,000 shall be repaid by March 6, 2006; and (b) $200,000 shall be repaid by June 14,2006; or (2) (a) $200,000 shall be repaid within two business days of the closing date of an investment of at least $3 million in the Company; and (b) $200,000 shall be repaid on the earliest of two business days of the closing date of a second investment of at least $2 million in the Company (each of the foregoing, a Repayment Date). We have repaid the $200,000 which was due on March 6, 2006.

In connection with the issuance of the Notes, the Company entered into an escrow agreement under which put notices under the standby equity distribution agreement were deposited and certain monies received under that agreement will be received and forwarded to the Noteholder. As additional security, we have agreed to pledge to the Noteholder 14,000,000 shares of our common stock once the Company has sufficient shares of common stock available for issuance.

Debt issuance costs in connection with this transaction included 5% cash compensation in the form of a discount to the purchase price of the notes, or $20,000.

BRIDGE NOTES

Arch Hill Capital and LTC entered into a bridge financing agreement in December 2001 and Arch Hill Ventures and GAIA entered into a bridge financing agreement in December 2000. At various times during 2005, Arch Hill Capital advanced a total of $385,000 to LTC under the bridge financing agreement. As of December 31,2005, $385,000 of advances were outstanding under the Arch Hill Capital bridge financing agreement.

OCTOBER 2005 8% CONVERTIBLE DEBENTURE (CORNELL CAPITAL)

On October 7, 2005, the Company entered into a securities purchase agreement with Cornell Capital pursuant to which the Company issued a convertible debenture in the principal amount of $3,000,000, with an original maturity date of October 1, 2006 and a conversion price of $0.06. The debenture was repayable in ten equal monthly installments with accrued interest at 8% per year commencing January 1, 2006 and ending October I, 2006. Commissions to Cornell Capital in connection with this transaction

included 7.5% cash compensation in the form of a discount to the purchase price of the debentures, or $225,000, and five-year warrants to purchase 20,000,000 shares of common stock at the following exercise prices: 10,000,000 at $0.06 per share, 5,000,000 at $0.07 per share and 5,000,000 at $0.10 per share (the Warrants). We also paid structuring fees to Yorkville Advisors Management of $10,000. As of December 31, 2005, there was $3,000,000 outstanding under the debenture. We entered into a pledge and escrow agreement pursuant to which we agreed to issue to Cornell Capital 250,000,000 shares of common stock in the event of default under the debenture as security for our obligations thereunder. We also granted Cornell Capital a security interest in the assets of LTC. In the event of default, Cornell Capital, in addition to any other remedies, may convert any or all of the outstanding principal of the debentures into common stock at a fixed conversion price equal to $0.0128 per share.

On January 31, 2006, we entered into an amendment of the debenture (the First Amendment) which provided that all payments of principal and accrued interest on the Debenture otherwise due on or before March 15,2006 were due on March 15, 2006. The First Amendment also provided that in the event we close on any debt or equity financing, we must use fifty percent of the proceeds of the new financing (net of placement fees and commissions) to repay principal and interest outstanding under the Debenture. The First Amendment further provided that in the event we did not repay all outstanding principal and accrued interest on the Debenture on March 15,2006, (i) we must repay $900,000 of principal and accrued interest on March 15, 2006 and repay the balance of the outstanding principal and interest on the Debenture over seven equal payments commencing April 1, 2006 until October 1, 2006, and (ii) the exercise price of the 20,000,000 Warrants would be reduced to $0.0128 on a pro-rata basis in relation to the amount of principal of the Debenture not repaid by us as of March 15, 2006. The First Amendment also provided that at any time prior to March 15, 2006 we could at our option with three business days advance written notice redeem a portion or all amounts outstanding under the Debenture in an amount equal to the principal amount outstanding and accrued interest being redeemed. No redemption premium was due by us for redemption of the Debenture prior to March 15, 2006. The Debenture was not convertible from January 31, 2006 through March 15, 2006 provided we were current on our payment obligations under the Debenture. As of March 15, 2006, $3,000,000 in principal plus accrued interest was outstanding on the Debenture.

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

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

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

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

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

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

Debt issuance costs for this transaction consist of commissions to Cornell Capital in the amount of $225,000 and structuring fees to Yorkville Advisors Management of $10,000. The balance of the debt issuance costs at December 31, 2005 is $205,000.

STANDBY EQUITY DISTRIBUTION AGREEMENT

On March 11, 2005, the Company entered into a standby equity distribution agreement with Cornell Capital pursuant to which we may, at our discretion, periodically sell to Cornell Capital shares of our common stock for a total purchase price of up to $15,000,000. For each share of common stock purchased under the standby equity distribution agreement, Cornell Capital will pay the Company 98% of the lowest volume weighted average price of our common stock as quoted by on the Over-the-Counter Bulletin Board or other principal market on which the Company s common stock is traded for the five days immediately following the date we deliver a notice requiring Cornell Capital to purchase our shares under the standby equity distribution agreement. Further, Cornell Capital will retain a fee of 5% of each advance under the standby equity distribution agreement for a total effective discount to the market price of our common stock of 7%. This 7% discount is an underwriting discount.

The volume weighted average price is calculated automatically by Bloomberg L.P., a reporting service, and is calculated by multiplying the number of our shares sold on a given day by the actual sales prices and adding up the totals.

Pursuant to the standby equity distribution agreement, the Company may periodically sell shares of common stock to Cornell Capital to raise capital to fund our working capital needs. The periodic sale of shares is known as an advance. The Company may request an advance every five trading days. A closing will be held one trading day after the end of each pricing period at which time the Company will deliver shares of common stock and Cornell Capital will pay the advance amount requested by the Company.

The Company may request advances under the standby equity distribution agreement now that the underlying shares are registered with the SEC. Thereafter, the Company may continue to request advances until Cornell Capital has advanced $15.0 million or August 12, 2007, whichever occurs first.

The amount of each advance is limited to a maximum draw down of $200,000 every five trading days and the aggregate amount of advances may not exceed $800,000 in any 30-day period. The amount available under the standby equity distribution agreement is not dependent on the price or volume of our common stock. We may not request advances if the shares to be issued in connection with such advances would result in Cornell Capital owning more than 9.9% of our outstanding common stock. As of April 6, 2006, the Company had 366,615,359 shares outstanding so Cornell Capital could not own in excess of 40,282,931 shares. The Company will be unable to sell additional shares of its common stock to the investor under the standby equity distribution agreement if it is unable to reduce its holdings so as to remain below the 9.9% threshold.

As of April 6, 2006, the Company sold 117,483,981 shares of common stock to Cornell Capital for $2,800,000 pursuant to the standby equity distribution agreement at prices ranging from $0.0130 to $0.0647. Of such proceeds, the Company paid commitment fees to Cornell Capital of 5% of the gross proceeds, or $140,000 in the aggregate and the Company paid structuring fees to Yorkville Advisors Management aggregating $7,000, with net proceeds to the Company of $2,653,000 from such sales.

The Company cannot predict the actual number of shares of common stock that will be issued pursuant to the standby equity distribution agreement, in part, because the purchase price of the shares will fluctuate based on prevailing market conditions and the Company has not determined the total amount of advances we intend to draw. Nonetheless, the Company can estimate the number of shares of our common stock that will be issued using certain assumptions. Assuming the Company issues shares of common stock at a price of $0.06 per share and draw down on the entire standby equity distribution agreement, the Company would issue 250,000,000 shares of common stock to Cornell Capital for gross proceeds of $15.0 million.

Cornell Capital is an underwriter within the meaning of the Securities Act of 1933 in connection with the sale of common stock issuable under the standby equity distribution agreement.

October 2005 Debt Exchange

On October 21, 2005, pursuant to a Debt Exchange Agreement between the Company, GAIA Holding, GAIA, Arch Hill Capital and Arch Hill Ventures, the Company exchanged approximately $4.4 million of debt owed by GAIA to Arch Hill Ventures for our equity securities as described below (the Debt Exchange).

Tamarchco GmbH (Tamarchco), a 100% owned subsidiary of Arch Hill Ventures, has provided three silent partnership loans to GAIA consisting of 2,364,501 ($2,883,510) including interest through July 31, 2005 under the First Tamarchco Partnership Agreement (the Tamarchco I Debt), a 246,979 ($301,192) loan including interest through July 31, 2005 under the Second Tamarchco Partnership Agreement (the Tamarchco II Debt) and a 206,168 ($251,421) loan including interest through July 31,2005 under the Third Tamarchco Partnership Agreement (the Tamarchco III Debt) (the three partnership agreements, the Tamarchco Partnership Agreements).

Tamarchco is entitled to receive an annual 4% share in profits related to its contributions under the First Tamarchco Agreement and an annual 12% share in profits related to its contribution under the Second and Third Tamarchco Agreements payable once GAIA has generated an accumulated profit amounting to $4,837,000. Tamarchco assigned to Arch Hill Ventures its right to repayment of the Tamarchco I Debt, Tamarchco II Debt and Tamarchco III Debt (together the Tamarchco Debt).

Frankendael Participatiemaatschappij NV (Frankendael) has provided a partnership loan to GAIA consisting of 547,078 ($667,162) including interest through July 31, 2005 (the Frankendael Debt). Frankendael is entitled to receive an annual 12% share in profits related to its contributions under the Frankendael Partnership Agreement payable once GAIA has generated an accumulated profit amounting to $4,627,000. Frankendael has assigned to Arch Hill Ventures its right to repayment of the Frankendael Debt.

In the Debt Exchange the Company issued to Arch Hill Ventures in exchange for the Tamarchco Debt $3,436,123 of 10% convertible debentures and warrants to purchase 1,718,062 shares of the Company s common stock with an exercise price of $0.38 per share. As further consideration for the exchange of the Tamarchco Debt, Arch Hill Ventures agreed in the Debt Exchange Agreement to transfer to us its 100% ownership interest in Tamarchco.

In the Debt Exchange we issued to Arch Hill Ventures in exchange for the Frankendael Debt $667,162 of the Company s 10% convertible debentures and warrants to purchase 333,581 shares of the Company s common stock with an exercise price of $0.38 per share.

The Company owed interest in the amount of 251,937 ($307,237) to Arch Hill Ventures on debt previously exchanged for our securities (the Interest Due). On October 21, 2005 in the Debt Exchange, we issued to Arch Hill Ventures in exchange for the Interest Due $307,237 convertible debentures and 153,619 warrants of the Company s common stock at an exercise price of $0.38 per share.

As a condition of the closing of the Debt Exchange, we received from the Company s financial advisor, an opinion that the debt exchange is fair from a financial point of view to the Company s stockholders.

The 10% convertible debentures issued to Arch Hill Ventures in the Debt Exchange (the October 2005 debentures) has a maturity date of October 21,2007 at which time the principal amount and all accrued interest on the October 2005 debentures is due and payable. Interest payments on the October 2005 debentures are due and payable in cash quarterly, or at the option of Arch Hill Ventures, in the Company s common stock at a price equal to the conversion price of the Company s common stock commencing December 31, 2005. The October 2005 debentures are convertible at any time at the option of the holder at a conversion price then in effect as in accordance with the agreement.

The Company has the right to prepay all or a portion of the outstanding October 2005 debentures and accrued and unpaid interest upon prior written notice to the holders of the October 2005 debentures in an amount equal to 130% of principal and interest for prepayments occurring from October 21, 2005 through December 20,2005 (60 days), 140% for prepayments of principal and interest occurring from December 20, 2005 through January 19, 2006 (61-90 days) or 150% for prepayment of principal and interest occurring on or after January 19, 2006 (91st day +).

The warrants are exercisable one year from issuance and thereafter only if the warrantholder has not sold any LTC equity securities within the prior six months and expire five years from the date of issuance. The warrants are subject to exercise price adjustments upon the occurrence of certain events including stock dividends, stock splits, mergers, reclassifications of stock or our recapitalization. The exercise price of the warrants is also subject to reduction if we issue any rights, options or warrants to purchase shares of the Company s common stock at a price less than the market price of our shares as quoted on the OTC Bulletin Board. As noted below, the Company, on October 24, 2005, converted the entire amount of these debentures into 100,000 shares of the Company s Class B Preferred stock.

On October 21, 2005 Arch Hill Ventures, which is controlled by Arch Hill Capital, transferred the right to receive the October 2005 debentures and warrants to Stichting Gemeenschappelijk Bezit LTC, which is also controlled by Arch Hill Capital.

On October 24, 2005, Stichting LTC delivered a conversion notice to the Company to convert all of the October 2005 debentures into Company Common Stock at a conversion price of $0.0167 per share, for a total of 264,103,114 shares of Common Stock. In lieu of delivering such shares of Common Stock which are currently pledged as security under the Cornell debenture or reserved for issuance under the Cornell standby equity distribution agreement, on November 14, 2005, the Company authorized the issuance of 100,000 shares of Series B Convertible Preferred Stock and issued such shares to Stichting LTC. The 100,000 shares of Series B Convertible Preferred Stock is convertible into an aggregate of 264,103,114 shares of Common Stock and has voting rights equal to 264,103,114 shares of Common Stock.

No commissions were paid to any brokers in connection with the Debt Exchange or the issuance of the Arch Hill Ventures Securities.

8% CONVERTIBLE NOTES

From May 18, 2005 to July 6, 2005, the Company closed on $298,000 of equity units (the 2005 Units) in a private placement. Each 2005 Unit, with a purchase price of $1,000 per unit, consists of a convertible promissory note in the principal amount of $1,000 (the 8% Notes) and one warrant for each share of common stock issued upon conversion of the 8% Notes to purchase one-half share of LTC common stock. The 8% Notes are entitled to receive an 8% annual interest payment payable in shares of Company common stock.

During the year ended December 31, 2005, $251,000 principal of 8% Notes were converted into an aggregate of 5,020,000 shares of common stock at a conversion price of $0.05 per share. The converting Noteholders were issued warrants to purchase 2,510,000 shares of common stock in the aggregate, at $0.0675 per share. As of December 31, 2005, $47,000 in principal of 8% Notes were outstanding.

The Placement Agent in the 2005 Unit Financing and certain affiliated person were issued warrants to purchase 596,000 shares of our common stock at $.055 per share relating to the 2005 Unit financing.

JUNE 2005 12% DEBENTURES

On June 9,2005, we entered into a Debenture Purchase Agreement with an investor, pursuant to which we issued $1,200,000 of convertible debentures and $150,000 of convertible debentures as compensation for the transaction (together, the 12% Debentures). The 12% Debentures have a two year term and accrue interest at 12% per year payable in arrears in shares of common stock at the conversion price at conversion or maturity. As of December 31, 2005, $1,350,000 in principal of the 12% Debentures was outstanding.

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

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

MARCH 2005 12% DEBENTURE

On March 11, 2005, we entered into a debenture purchase agreement with a third party lender, pursuant to which we issued debentures in the principal amount of $2,500,000. The debentures contain a provision that in the event that the holder elects to waive the conversion feature of the debentures by April 15, 2005, the maturity and amortization of the debentures will be amended such that the debentures will be repaid in 10 equal monthly installments with accrued interest commencing July 15, 2005. The investor waived the conversion feature simultaneously with the closing of the transaction. Pursuant to an amendment dated January 31, 2006, the original maturity date of June 15, 2006 was amended to December 31, 2006 and the original interest rate of 12% per year was amended to 15% per year effective as of October 15, 2005. No monthly payments of principal or interest are due and owing by us prior to December 31,2006.

In connection with the debenture purchase agreement, we entered into an escrow agreement under which put notices under the standby equity distribution agreement were deposited and certain monies received under that agreement will be received and forwarded to the debenture holder if we do not repay the debenture from other sources of capital. As of December 31, 2005 $2,000,000 in principal of the debentures was outstanding.

MANAGEMENT S PLANS TO OVERCOME OPERATING AND

LIQUIDITY DIFFICULTIES

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

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

We have recently entered into a number of financing transactions (see Notes 6 and 9). 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, including the sale of common stock under the Standby Equity Distribution Agreement. (See Note 9) We believe that if we raise approximately $15 million in debt and equity financings, including, under the Standby Equity Distribution Agreement, we would have sufficient funds to meet our needs for working capital and repayment of debt (approximately $11 million) and for capital expenditures (approximately $4 million) over the next twelve months.

No assurance can be given that we will be successful in completing any financings at the minimum level necessary to fund our capital equipment, debt repayment or working capital requirements, or at all. If we are unsuccessful in completing these financings, we will not be able to meet our working capital, debt repayment or capital equipment needs or execute our business plan. In such case we will assess all available alternatives including a sale of our assets or merger, the suspension of operations and possibly liquidation, auction, bankruptcy, or other measures.

GOING CONCERN MATTERS

Our accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the continuation of operations, realization of assets and liquidation of liabilities in the ordinary course of business. Since inception, we have incurred substantial operating losses and expect to incur additional operating losses over the next several years. As of December 31, 2005, we had an accumulated deficit of approximately $86,379,000. 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, including the sale of common stock under the standby equity distribution agreement. No assurances can be given that such financing will be available in sufficient amounts or at all. Continuation of our operations in 2006 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, 2005 COMPARED TO YEAR ENDED DECEMBER 31, 2004

Revenues from Development Contracts and Prototype Sales

Revenues from development contracts and prototype sales increased to $1,803,000 or 135% in the year ended December 31, 2005 from $768,000 in the same period in 2004. We also had income from foreign government subsidies of $0 in 2005 compared to $435,000 in 2004. The increase in revenues from development contracts and prototypes sales and decrease in income from foreign government subsidiaries is a result of our movement from the product and process development and refinement stage to the early production stage of our products.

As we are still a development stage enterprise, our mission continues to be to become a leading manufacturer of rechargeable lithium power solutions for advanced national security, transportation and stationary power applications. We also license our technology and have the capability to enter into other collaborative efforts with third parties.

As a result of our involvement with the military market over the past year, we have received increasing number of orders for prototypes from various customers. Our prototype product has been utilized in unmanned aerial vehicles (UAVs), and unmanned underwater vehicles (UUVs) as well as in robotics. Our main focus is to provide solutions for the U.S. Military s need for battery applications within new high tech military systems.

Our efforts during 2005 in the high-tech military area resulted in a number of contracts and/or sub-contracts which have contributed to our significant growth in revenues for the year ended December 31, 2005.

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

In the transportation market, the rapidly increasing cost of petroleum-based fuels continue to accelerate the move to 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 opportunities. Following the success of Penn State University s second place in the Ford Future Truck Competition last year, we filled additional orders from Penn State, University of California-Davis, and a British EV/HEV manufacturer.

Cost of Goods Sold

Cost of goods sold was $2,408,000 in the year ended December 31, 2005. In the year ended December 31,2004, the costs of manufacturing pre-production and scale up units were reported as part of Engineering, Research and Development Expenses.

Engineering, Research and Development Expenses

Engineering, research and development expenses during the year ended December 31, 2005 decreased by 43% to $2,961,000 from $5,192,000 in the same period in 2004. In the year ended December 31, 2004, the costs of manufacturing pre-production and scale up units were reported as part of Engineering, Research and Development Expenses.

General and Administrative Expenses

General and administrative expenses during the year ended December 31, 2005 decreased by $1,189,000 or approximately 20% to $4,493,000 from $5,682,000 in the same period in 2004. This decrease was primarily due to the segregation of Sales and Marketing expenses as a separate item in 2005.

Sales and Marketing Expenses

Sales and marketing expenses were $479,000 in the year ended December 31, 2005. In the year ended December 31, 2004, these expenses were reported as part of General and Administrative Expenses. Sales and Marketing expenses represent costs incurred from sales associates and participation in trade shows relating to the sale of cells and or batteries.

Depreciation and Amortization

Depreciation and amortization during the year ended December 31, 2005 increased by $283,000 to $1,278,000 from $995,000 in the same period in 2004.

Interest Expense, Net of Interest Income

Interest expense, net of interest income for the year ended December 31, 2005 increased by $252,000 or 14% to $2,094,000 from $1,842,000 in the same period in 2004. Interest expense mainly represents interest accrued on the loans from Arch Hill Capital and Arch Hill Ventures and other lenders as well as the interest accrued on the January 2004 and April 2004 debentures and the March 2005 Debenture. Both the January and April 2004 convertible debentures were fully converted as of December 31, 2005.

Warrants Expense (Income)

Charges for warrants were ($7,842,000) and $13,523,000, respectively, in the years ended December 31, 2005 and 2004. The change reflects the change in fair value of the warrants mainly due to decline in the Company s stock price during 2005.

Beneficial Conversion Feature

Interest expense related to charge for beneficial conversion feature were $6,667,000 and $3,204,000, respectively, in the years ended December 31, 2005 and 2004.

Net Loss to Common Shareholders

Net loss to common shareholders was approximately $10,582,000 or $(0.05) per share for the year ended December 31, 2005 as compared to a net loss of $ 38,218,000 or $(1.17) for the year ended December 31, 2004. The decrease in our net loss is primarily attributed to the recognition of the impairment of intangibles in 2004 and changes in the warrants valuation between 2004 and 2005.

Accumulated Deficit

Since inception, we have incurred substantial operating losses and expect to incur substantial additional operating losses over the next several years. As of December 31, 2005, our accumulated deficit was $86,179,000.

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 perform certain research and development for other companies and sell prototypes to third parties. 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.

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

Effective January 1, 2002, we adopted Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS No. 144) SFAS No. 144 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

As part of the process of preparing our consolidated financial statements, we are required to estimate our taxes in each of the jurisdictions of operation. This process involves management estimating the actual current tax expense together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within the consolidated balance sheet. We then must assess the likelihood that the deferred tax assets will be recovered from future taxable income and, to the extent recovery is not likely, we must establish a valuation allowance. Future taxable income depends on the ability to generate income in excess of allowable deductions. Significant management judgment is required in determining the provision for income taxes, deferred tax assets and liabilities and any valuation allowance recorded against net deferred tax assets. In the event that actual results differ from these estimates or we adjust these estimates in future periods, we may need to change our valuation allowance that could materially impact our financial condition and results of operations.

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 debt 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 to financing costs over the remaining life of the debenture. Warrants are marked to market at any reporting period.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

On December 16, 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123(R), Share-Based Payment , which is a revision of SFAS No. 123 and supersedes APB Opinion 25. SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be valued at fair value on the date of grant, and to be expensed over the applicable vesting period. Pro forma disclosure of the income statement effects of share-based payments is no longer an alternative. SFAS No. 123(R) is effective for all stock-based awards granted on or after January 1, 2006. In addition, companies must also recognize compensation expense related to any awards that are not fully vested as of the effective date. Compensation expense for the unvested awards will be measured based on the fair value of the awards previously calculated in developing the pro forma disclosures in accordance with the provisions of SFAS No. 123.

The Company plans to adopt SFAS No. 123(R) on January 1, 2006. This change in accounting is not expected to materially impact our results of operations. We have not completed the calculation of this impact. However, because we currently account for share-based payments to our employees using the intrinsic value method, our results of operations have not included the recognition of compensation expense for the issuance of stock option awards.

On December 16, 2004, the FASB issued SFAS No. 153, Exchanges of Nonmonetary Assets , which is an amendment to APB Opinion No. 29. It states that the exchanges on nonmonetary assets should be measured based on the fair value of the assets exchanged. Further, FSAS No. 153 eliminates the narrow exception for nonmonetary exchanges of similar productive assets and replaces it with a broader exception for exchanges of nonmonetary assets that do not have commercial substance . SFAS No. 153 is effective for financial statements for fiscal years beginning after June 15, 2005. Earlier application is permitted for nonmonetary asset exchanges incurred during fiscal years beginning after the date that this statement is issued. Management believes the adoption of this Statement will not have an effect on the consolidated financial statements.

In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections a replacement of APB Opinion No. 20 and FASB Statement No. 3 (SFAS No. 154). SFAS No. 154 requires retrospective application as the required method for reporting a change in accounting principle, unless impracticable or a pronouncement includes specific transition provisions. SFAS No. 154 also requires that a change in depreciation, amortization or depletion method for long-lived, nonfinancial assets be accounted for as a change in accounting estimate effected by a change in accounting principle. This statement carries forward the guidance in APB Opinion No. 20, Accounting Changes, for the reporting of the correction of an error and a change in accounting estimate. SFAS No. 154 is effective beginning January 1, 2006. SFAS No. 154 is not expected to have a significant impact on our financial position, results of operations or cash flows.

In February 2006, the FASB issued SFAS No. 155, Accounting for Certain Hybrid Financial Instruments -an amendment of FASB Statements No. 133 and 140 . SFAS No. 155 resolves issues addressed in SFAS No. 133 Implementation Issue No. Dl, Application of Statement 133 to Beneficial Interests in Securitized Financial Assets . SFAS No. 155 will become effective for the Company s fiscal year after September 15, 2006. The impact of SFAS No. 155 will depend upon the nature and extent of any new derivative instruments entered into after the effective date.

In June 2005, the FASB ratified Emerging Issues Task Force (EITF) Issue No. 05-2, The Meaning of Conventional Convertible Debt Instrument in EITF No. 00-19, Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company s Own Stock (EITF No. 05-2), which addresses when a convertible debt instrument should be considered conventional for the purpose of applying the guidance in EITF No. 00-19. EITF No. 05-2 also retained the exemption under EITF No. 00-19 for conventional convertible debt instruments and indicated that convertible preferred stock having a mandatory redemption date may qualify for the exemption provided under EITF No. 00-19 for conventional convertible debt if the instrument s economic characteristics are more similar to debt than equity. EITF No. 05-2 is effective for new instruments entered into and instruments modified in periods beginning after June 29, 2005. The Company has applied the requirements of EITF No. 05-2 since the required implementation date. The adoption of this pronouncement did not have an impact on the Company s consolidated financial position, results of operations or cash flows.

EITF Issue No. 05-4 The Effect of a Liquidated Damages Clause on a Freestanding Financial Instrument Subject to EITF Issue No. 00-19, Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company s Own Stock (EITF No. 05-4) addresses financial instruments, such as stock purchase warrants, which are accounted for under EITF 00-19 that may be issued at the same time and in contemplation of a registration rights agreement that includes a liquidated damages clause. The consensus for EITF No. 05-4 has not been finalized. The adoption of this pronouncement is not expected to have an impact on the Company s consolidated financial position, results of operations, or cash flows.

In September 2005, the FASB ratified the EITF s Issue No. 05-7, Accounting for Modifications to Conversion Options Embedded in Debt Instruments and Related Issues (EITF 05-7), which addresses whether a modification to a conversion option that changes its fair value effects the recognition of interest expense for the associated debt instrument after the modification, and whether a borrower should recognize a beneficial conversion feature, not a debt extinguishment, if a debt modification increases the intrinsic value of the debt (for example, the modification reduces the conversion price of the debt). The adoption of this pronouncement did not have an impact on the Company s consolidated financial position, results of operations or cash flows.

In September 2005, the FASB ratified the following consensus reached in EITF Issue 05-8: a) The issuance of convertible debt with a beneficial conversion feature results in a basis difference in applying FASB Statement of Financial Accounting Standards SFAS No. 109. This consensus is effective in the first interim or annual reporting period commencing after December 15, 2005, with early application permitted. The effect of applying the consensus should be accounted for retroactively to all debt instruments containing a beneficial conversion feature that are subject to EITF Issue 00-27 (and thus is applicable to debt instruments converted or extinguished in prior periods but which are still presented in the financial statements). The adoption of this pronouncement did not have an impact on the Company s consolidated financial position, results of operations or cash flows.

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, 2005 WERE NOT SUFFICIENT TO SATISFY OUR CURRENT LIABILITIES. We had a working capital deficit of approximately $22,299,000 at December 31, 2005, which means that our current liabilities exceeded our current assets on December 31, 2005. 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, 2005, we had total consolidated current portion of indebtedness of approximately $23,609,000. The level of our indebtedness and related debt service requirements could negatively impact our ability to obtain any necessary financing in the future for working capital, capital expenditures or other purposes. A substantial portion of our future cash flow from operations, if any, may be dedicated to the payment of principal and interest on our indebtedness. Our high leverage may also limit our flexibility to react to changes in business and may place us at a competitive disadvantage to less highly leveraged competitors. In addition, creditors who remain unpaid may initiate collection proceedings, which could hamper our operations due to our short term cash needs or the effect on our assets subject to debt.

WE HAVE A HISTORY OF OPERATING LOSSES AND HAVE BEEN UNPROFITABLE SINCE INCEPTION. We incurred net losses of approximately $86,179,000 from February 12, 1999 (date of inception) to December 31, 2005, including approximately $10,582,000 of net loss to common shareholders in the year ended December 31, 2005. We expect to incur substantial additional operating losses in the future. During the year ended December 31, 2005 and 2004, we generated revenues from development contracts and prototype sales in the amounts of $1,803,000 and $768,000, respectively. We cannot assure you that we will continue to generate revenues from operations or achieve profitability in the near future or at all.

WE NEED SIGNIFICANT FINANCING TO CONTINUE TO DEVELOP AND COMMERCIALIZE OUR TECHNOLOGY. We have recently entered into a number of financing transactions and are continuing to seek other financing initiatives. We will need to raise additional capital to meet our working capital needs and to complete our product commercialization process. Such capital is expected to come from the sale of securities, including the sale of common stock under the standby equity distribution agreement. We believe that if we raise approximately $15 million in debt and equity financings including under the standby equity distribution agreement, we would have sufficient funds to meet our operating and capital expenditures needs for at least twelve months. If we do not raise such additional capital, we will assess all available alternatives including a sale of our assets or merger, the suspension of operations and possibly liquidation, auction, bankruptcy, or other measures.

Except as described herein, we have not entered into any definitive agreements related to a new financing and 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 capital

equipment requirements, current operations or at all. If we are unsuccessful in completing these financings at such minimum level, we will not be able to fund our capital equipment requirements or current expenses or execute our business plan. If we are unsuccessful in completing these financings at or near the maximum level or an additional financing, we will not be able to pursue our business strategy. Additional financing may not be available on terms favorable to us or at all. Even if we do obtain financing, it may result in dilution to our stockholders.

WE FACE RISKS RELATED TO OUR ACCOUNTING RESTATEMENTS. 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, we restated our financial statements for the year ended December 31, 2004 as set forth herein.

The restatement of these financial statements 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 these restatements 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 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 and 2005 operating results, we identified certain deficiencies in some of our disclosure controls and procedures which we have addressed in Item 8A Controls and Procedures.

We have undertaken improvements to our internal controls in an effort to remediate these deficiencies as set forth in Item 8A Controls and Procedures. 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 or 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.

THE STANDBY EQUITY DISTRIBUTION AGREEMENT AND CONVERTIBLE DEBENTURES CONTAIN CERTAIN COVENANTS PROHIBITING US FROM RAISING CAPITAL AT LESS THAN THE MARKET PRICE. The standby equity distribution agreement and convertible debentures held by Cornell Capital contain covenants that, subject to certain exceptions, restrict the following activities:

Raising capital from the sale of stock or other securities convertible into stock at a price less than the market price of our common stock on the date of issuance; or

Granting a security interest in our assets, which security interest may be needed in order to obtain borrowings or capital from a lender, except that the secured party is obligated to subordinate the priority of its security interest under certain circumstances.

The existence of these covenants may severely limit our ability to borrow money or raise capital from the sale of stock or convertible securities because any potential lender will want to pay a discount to the market price of our stock or because any potential lender will likely require collateral in the form of a security interest on our assets to secure a loan and purchasers of our stock or convertible securities.

RESTRICTIONS UNDER THE STANDBY EQUITY DISTRIBUTION AGREEMENT COULD SIGNIFICANTLY LIMIT OUR ABILITY TO ACCESS FUNDS WHEN NEEDED. We are dependent on external financing to fund our operations. Our financing needs are expected to be provided from the standby equity distribution agreement, in large part. No assurances can be given that such financing will be available in sufficient amounts or at all when needed since there are restrictions on our ability to request advances under the standby equity distribution agreement. For example, our ability to request an advance is conditioned upon us maintaining an effective registration statement for the shares of common stock with the Securities and Exchange Commission. Further, we may not request advances if the shares to be issued in connection with such advances would result in Cornell Capital owning more than 9.9% of our outstanding common stock. Even if we request advances the amount of each advance is limited to a maximum draw down of $200,000 every five trading days and $800,000 every thirty days. These restrictions may significantly limit and delay our ability to access funds under the standby equity distribution agreement.

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, including Cornell Capital which has a security interest in our U.S. assets granted in connection with the debenture financing. 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.

ARCH HILL CAPITAL IS A CONTROLLING STOCKHOLDER OF LTC AND IS THEREFORE ABLE TO CONTROL THE MANAGEMENT AND POLICIES OF LTC. Arch Hill Capital beneficially owns 503,758,196 shares of our common stock as of April 6, 2006. The 503,758,196 shares of our common stock beneficially owned by Arch Hill Capital constitute approximately 70% 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 stockholder and is able to control the outcome of all matters submitted to our stockholders for approval, including the election of our directors, amendments to our Certificate of Incorporation or a merger, sale of assets or other significant transactions, without the approval of our other stockholders. 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. As a result, Arch Hill Capital has an effective veto power over the management and operations of, and corporate transactions by, us, GAIA Holding or GAIA which management or non-control stockholders of such entities might desire.

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 April 6, 2006 (366,615,359) plus the number of shares of our common stock issuable to Arch Hill Capital upon conversion of convertible securities held by such entity.

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 April 6, 2006, we had 366,615,359 shares of common stock outstanding, without taking into account shares issuable upon exercise of outstanding Series A Convertible Preferred Stock, Promissory Note Series A, Series B Convertible Preferred Stock, Promissory Note Series B, convertible notes, convertible debentures, warrants or options or shares issuable under the standby equity distribution agreement or 250,000,000 shares of common stock pledged by us to Cornell Capital as security.

EXISTING SHAREHOLDERS MAY EXPERIENCE SIGNIFICANT DILUTION FROM OUR SALE OF SHARES UNDER THE STANDBY EQUITY DISTRIBUTION AGREEMENT. The sale of shares pursuant to the standby equity distribution agreement may have a dilutive impact on our stockholders. As a result, our net income per share could decrease in future periods, and the market price of our common stock could decline. In addition, the lower our stock price is, the more shares of common stock we will have to issue under the standby equity distribution agreement to draw down the full amount. If our stock price is lower, then our existing stockholders would experience greater dilution.

THE INVESTOR UNDER THE STANDBY EQUITY DISTRIBUTION AGREEMENT WILL PAY LESS THAN THE THEN-PREVAILING MARKET PRICE OF OUR COMMON STOCK. The common stock to be issued under the standby equity distribution agreement will be issued at a 2% discount to the volume weighted average price for the five trading days immediately following the notice date of an advance. These discounted sales could cause the price of our common stock to decline.

THE SALE OF OUR STOCK UNDER OUR STANDBY EQUITY DISTRIBUTION AGREEMENT COULD ENCOURAGE SHORT SALES BY THIRD PARTIES, WHICH COULD CONTRIBUTE TO THE FUTURE DECLINE OF OUR STOCK PRICE. The significant downward pressure on the price of our common stock caused by the sale of material amounts of common stock under the standby equity distribution agreement could encourage short sales by third parties. In a short sale, a prospective seller borrows stock from a shareholder or broker and sells the borrowed stock. The prospective seller hopes that the stock price will decline, at

which time the seller can purchase shares at a lower price to repay the lender. The seller profits when the stock price declines because it is purchasing shares at a price lower than the sale price of the borrowed stock. Such sales could place further downward pressure on the price of our common stock by increasing the number of shares being sold.

WE DO NOT HAVE ENOUGH SHARES OF COMMON STOCK AUTHORIZED TO ISSUE SHARES OF COMMON STOCK TO ALL HOLDERS OF OUR CONVERTIBLE SECURITIES UPON CONVERSION OF SUCH SECURITIES. We intend to seek stockholder approval of an increase in the authorized number of shares of our common stock to make available that number of shares of our common stock as will be required for the conversion of all of our outstanding convertible securities and securities which may be issued as part of a new financing. Although our controlling stockholder has indicated its willingness to vote in favor of an increase in the authorized number of shares of our common stock, no assurance can be given that we will be able to obtain a stockholder vote in favor of such an increase in a timely manner or at all.

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 3&51-1 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 stock:

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 7. FINANCIAL STATEMENTS

The consolidated balance sheets as of December 31, 2004 and 2005, and our consolidated statements of operations, changes in stockholders equity and comprehensive loss and cash flows for each of the years in the two year period ended December 31, 2005, together with the report of Amper, Politziner & Mattia, P.C., independent registered public accounts, are included at the end of this report. Reference is made to the Index to Consolidated Financial Statements on page F-l.

ITEM 8A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f)and 15d-15(0) under the Exchange Act. The Company s internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

The Company s management assessed the effectiveness of the Company s internal control over financial reporting as of December 31, 2005. In our Annual Report on Form 10-KSB for the year ended December 31, 2005, filed with the SEC on April 17, 2006, management concluded that the Company s internal control over financial reporting was effective as of December 31, 2005. Subsequently, management identified material weaknesses in internal control over financial reporting, which existed as of December 31, 2005 and described in the following paragraph:

Specifically, management determined that its controls over the accounting of certain debt and equity transactions executed during the year were ineffective. This material weakness is attributed to lack of technical expertise with respect to the application of Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities, as amended as well as Statement of Financial Accounting Standards No. 150, Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity , and related accounting guidance.*

In connection with its audit of the Company s consolidated financial statements for the years ended December 31, 2005 and 2004, the Company s independent registered public accounting firm, Amper, Politziner & Mattia, P.C. (AP&M) informed management and the Audit Committee of the Board of Directors that it had noted certain conditions which it had concluded, in the aggregate, represents a material weakness in the Company s internal controls over financial reporting. AP&M noted that, before the audited financial statements for the years ended 2005 and 2004 were finalized, (1) certain audit adjustments were made to such financial statements after being identified by AP&M, (2) certain disclosures required by GAAP were incorporated in such financial statements and the notes thereto after being identified by AP&M and (3) certain account analyses were either not accurately completed and /or not completed in a timely manner.

As a result of this weakness, a restatement of the Company s consolidated financial results for 2004 and 2005 was necessary. Management has revised its earlier assessment and has now concluded that the Company s internal control over financial reporting was not effective as of December 31, 2005.

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 a material weakness in internal control over financial reporting as of December 31, 2005.

As for the material weakness identified at December 31, 2005, management has implemented the following remedial actions:

- Engaged an outside expert to analyze and review all debt and equity transactions to ensure the reporting of such transactions is in accordance with generally accepted accounting principles.

- Hired 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 2005 that materially affected, or is reasonably likely to materially affect, such internal control over financial reporting.

As a result of these efforts, the previously identified material weaknesses in internal control over financial reporting have been remediated as of December 31, 2005. We are continuing to actively assess and evaluate our most critical business and accounting processes to identify further enhancements and improvement opportunities.

ITEM 13. EXHIBITS

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

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)
4.1	Form of 8% Convertible notes (19)
4.2	Form of Unsecured Debentures dated March 11, 2005 (4)
4.3	Form of 12% Convertible Debentures dated June 9, 2005 (20)
4.4	Form of Secured 8% Convertible Debenture dated October 7, 2005 issued to Cornell Capital Partners, LP (2)
4.5	Form of Convertible Debenture dated October 21, 2005 to Stichting Gemeenschappelijk Bezit LTC (2)
4.6	Form of 15% convertible Note dated December 6, 2005 (5)
10.1	1994 Stock Incentive Plan, as amended (6)
10.2	Directors Stock Option Plan (6)
10.3	1998 Stock Incentive Plan (7)
10.4	2002 Stock Incentive Plan (8)
10.5	Form of Stock Option Agreement relating to LTC s 1994 Stock Incentive Plan, as amended (10)
10.6	Form of Stock Option Agreement relating to LTC s Directors Stock Option Plan (10)
10.7	Form of Stock Option Agreement relating to LTC s 1998 Stock Incentive Plan (7)
10.8	Form of Incentive Stock Option Agreement relating to LTC s 2002 Stock Incentive Plan (8)
10.9	Form of Non-Qualified Incentive Stock Option Agreement relating to LTC s 2002 Stock Incentive Plan (for Employees) (8)
10.10	Form of Non-Qualified Incentive Stock Option Agreement relating to LTC s 2002 Stock Incentive Plan (for consultants and non-employee directors) (8)
10.11	Lease Agreement, dated July 22, 1994, between PMP Whitemarsh Associates and LTC and Addendum dated July 22, 1994 (10)
10.12	Bridge Financing Agreement, dated as of December 31, 2001, between LTC and Arch Hill Capital (9)
10.13	Bridge Financing Amendment Agreement No. 5, dated as of April 14, 2003 between LTC and Arch Hill Capital (3)

10.14 Form of Warrant, dated October 4, 2002, issued to principals of Colebrooke Capital, Inc. (11)

10.15 Form of Warrant, dated December 13, 2002, issued to principals of Colebrooke Capital, Inc. (12)

10.16 Loan Contract No. 1101216000, dated June 24, 1998, between GAIA and Bank fur Kleine und Mittlere Unternehmen (Bank for Small and Mid-Sized Companies) Aktiengesellschaft (3)

10.17 Loan with initial fixed-rate interest, dated July 22, 1998, between GAIA and Kreissparkasse Nordhausen (Direct Savings Bank) (3)

10.18 Loan contract and Agreement on Subordination between GAIA and Arch Hill Ventures NV (3)

10.19 Partnership Agreement between GAIA and Frankendael Participatiemaatschappij NV (3)

10.20 Partnership Agreement, dated March 4, 1999, between GAIA and Tamarchco GmbH (3)

10.21 Partnership Agreement between GAIA and Tamarchco GmbH (3)

10.22 Partnership Agreement between GAIA and Tamarchco GmbH (3)

10.23 Partnership Agreement dated August 21, 1998 between GAIA Akkumulatorenwerke GmbH and Technologie-Beteiligungs-Gesellschaft GmbH der Deutschen Ausgleichsbank (13)

10.24 Form of Stock Purchase Warrant dated as of January 20, 2004 between Lithium Technology corporation and the Investors (14)

10.25 Form of Debt Exchange Agreement, dated as of April 13, 2004 between Lithium Technology corporation, GAIA Holding NV, GAIA Akkumulatorenwerke GmbH, Arch Hill Capital NV and Arch Hill Ventures NV (15)

10.26 Form of $2.00 Stock Purchase Warrant dated as of April 13, 2004, issued to Arch Hill Capital NV (15)

10.27 Form of $2.40 Stock Purchase Warrant dated as of April 13, 2004, issued to Arch Hill Capital NV (15)

10.28 Form of Stock Purchase Warrant dated as of May 5, 2004 issued to finders in January 10% Convertible Debenture financing. (16)

10.29 Form of Consulting Agreement dated as of July 12, 2004 between Lithium Technology Corporation and Ilion Technology Corporation. (17)

10.30 Form of 125% A Warrant. (18)

10.31 Form of 150% A Warrant (18)

10.32 Form of 125% B Warrant (18)

10.33 Form of 150% B Warrant (18)

10.34 Standby Equity Distribution Agreement dated as of March 11, 2005 between Lithium Technology Corporation and Cornell Capital Partners, L.P. (4)

10.35 Registration Rights Agreement dated March 11, 2005 by and between Lithium Technology Corporation and Cornell Capital Partners, LP in connection with the Standby Equity Distribution Agreement.(4)

10.36 Placement Agent Agreement dated as of March 11, 2005 by and among Lithium Technology Corporation, Cornell Capital Partners, LP and Newbridge Securities Corporation in connection with the Standby Equity Distribution Agreement.(4)

10.37 Escrow Agreement dated as of March 11,2005 by and between Lithium Technology Corporation and Cornell Capital Partners, LP in connection with the Standby Equity Distribution Agreement (4)

10.38 Form of Debenture Purchase Agreement dated as of March 11, 2005 (4)

10.39 Form of Escrow Agreement dated as of March 11,2005 entered in connection with the Debenture Purchase Agreement (4)

10.40 Fourth Amendment to Lease, dated March 31, 2005, between PMP Whitemarsh Associates and LTC (4)

10.41 Series B Amendment Agreement, dated as of May 11,2005 (4)

10.42 Form of Warrant dated as of June 1, 2004 issued to Bridgehead Partners, LLC (4)

10.43 Form of 135% Warrants (19)

10.44 Form of Warrant dated as of May 6, 2005 issued to Bridgehead Partners, LLC (20)

10.45 Form of Debenture Purchase Agreement dated as of June 9,2005 (20)

10.46 Employment Agreement between GAIA and Dr. Klaus Brandt dated April 7, 2005 (20)

10.47 Form of Warrant dated May 31, 2005 issued to North Coast Securities Corporation in connection with A Unit and B Unit Offering (20)

10.48 Form of Warrant dated July 15, 2005 issued to North Coast Securities Corporation in connection with 2005 Unit Offering (20)

10.49 Securities Purchase Agreement dated as of October 7,2005 between the Company and Cornell Capital Partners, LP (2)

10.50 Escrow Agreement dated as of October 7, 2005 between the Company and Cornell Capital Partners, LP in connection with the Securities Purchase Agreement (2)

10.51 Investor Registration Rights Agreement dated as of October 7,2005 between the Company and Cornell Capital Partners, LP in connection with the Securities Purchase Agreement (2)

10.52 Pledge and Escrow Agreement dated as of October 7, 2005 between the Company and Cornell Capital Partners, LP in connection with the Securities Purchase Agreement (2)

10.53 Security Agreement dated as of October 7, 2005 between the Company and Cornell Capital Partners, LP in connection with the Securities Purchase Agreement (2)

10.54	Warrant to purchase 10,000,000 shares at $.06 per share dated as of October 7,2005 issued by the Company to Cornell Capital Partners, LP in connection with the Securities Purchase Agreement (2)
10.55	Warrant to purchase 5,000,000 shares at $.07 per share dated as of October 7, 2005 issued by the Company to Cornell Capital Partners, LP in connection with the Securities Purchase Agreement (2)
10.56	Warrant to purchase 5,000,000 shares at $. 10 per share dated as of October 7, 2005 issued by the Company to Cornell Capital Partners, LP in connection with the Securities Purchase Agreement (2)
10.57	Debt Exchange Agreement dated October 21, 2005 between Lithium Technology Corporation, GAIA Holding NV, GAIA Akkumulatorenwerke GmbH, Arch Hill Capital NV and Arch Hill Ventures NV (2)
10.58	Form of Stock Purchase Warrant dated October 21, 2005 issued to Stichting Gemeenschappelijk Bezit LTC (2)
10.59	Form of Note Purchase Agreement dated December 6, 2005 (5)
10.60	Warrant to Purchase 2,000,000 shares at $.03 per share dated as of December 6, 2005 issued by the Company in connection with the Note Purchase Agreement (5)
10.61	Letter Agreement with Cornell Capital Partners, LP dated January 31, 2006 (5)
10.62	Letter Agreement with Cornell Capital Partners, LP dated March 21,2006 (21)
10.63	Fifth Amendment to Lease, dated March 31, 2006, between PMP Whitemarsh and LTC(21)
21.1	List of Subsidiaries (20)
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 +
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 +
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 +
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 +

(1) Incorporated 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 Annual Report on Form 10-KSB for the fiscal year ended December 31, 2004

(5) Incorporated by reference to LTC s Registration Statement on Form SB-2 (No. 333-131530) filed on February 3, 2006.
(6) 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
(7) Incorporated herein by reference to LTC s Annual Report on Form 10-KSB for the fiscal year ended December 31, 1998.
(8) Incorporated herein by reference to LTC s Annual Report on Form 10-KSB for the fiscal year ended December 31, 2001.
(9) Incorporated herein by reference to LTC s Current Report on Form 8-K, dated January 23, 2002.
(10) Incorporated herein by reference to LTC s Annual Report on Form 10-KSB for the fiscal year ended December 31,1995
(11) Incorporated herein by reference to LTC s Current Report on Form 8-K, dated October 4, 2002.
(12) Incorporated herein by reference to LTC s Current Report on Form 8-KA, dated October 4, 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 Quarterly Report on Form 10-QSB for the quarter ended March 31, 2004.
(17) Incorporated herein by reference to LTC s Quarterly Report on Form 10-QSB for the quarter ended June 30, 2004
(18) Incorporated herein by reference to LTC s Current Report on Form 8-K, dated August 30, 2004.
(19) Incorporated herein by reference to LTC s Quarterly Report on Form 10-QSB for the quarter ended March 31, 2005
(20) Incorporated herein by reference to LTCs Registration Statement on Form SB-2 (No 333-114998) filed on August 2, 2005
(21) Incorporated herein by reference to LTC s Annual Report on Form 10-KSB for the Year Ended December 31, 2005
+ Exhibit filed herewith.

(b) Reports on Form 8K. During the quarter ended December 31, 2005, we filed the following Reports on Form 8-K. We filed a Form 8-K dated October 7, 2005 repotting on the Cornell Capital Debenture transaction. We tiled a Form 8-K dated October 21, 2005 reporting on a Debt Exchange with Stichting Gemeenschappelijk Bezit LTC.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES
AUDIT FEES

The aggregate fees billed for fiscal 2005 for professional services rendered by BDO Seidman as our principal accountant for the audit of our annual financial statements and review of financial statements included in our Form 10-QSB and services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements for fiscal year 2005 was $323,796.

The aggregate fees billed for fiscal 2004 for professional services rendered by BDO Seidman as our principal accountant for the audit of our annual financial statements and review of financial statements included in our Form 10-QSB and services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements for fiscal year 2004 was $236,433.

The aggregate fees billed for fiscal years 2004 and 2005 for professional services rendered by Amper Politziner as our principal accountant for the audit of our annual financial statements and review of financial statements included in our Form 10KSB and services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements for fiscal years 2004 and 2005 was $574,000.

AUDIT-RELATED FEES

The aggregate fees billed in each of fiscal 2005 and 2004 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)(l) of Schedule 14A) were $163,000.

TAX FEES

The aggregate fees billed in each of fiscal 2005 and 2004 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 2005 and 2004 for products and services provided by our principal accountant (other than the services reported in Items 9(e)(l) through 9(e)(3) of Schedule 14A) was $0 and $0, respectively.

PRE-APPROVAL POLICIES AND PROCEDURES

The decision to retain BDO Seidman as our principal accountant for the audit of our financial statements for the year ended December 31, 2004 was approved by our Board of Directors. We did not have a separate audit committee at such time. At that time, our entire Board of Directors performed all the functions that may be delegated to an audit committee.

We established an audit committee on April 13, 2005. 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. Our audit committee approved the engagement of BDO Seidman as our principal accountant for the audit of our financial statements for the year ended December 31, 2005.

The decision to retain Amper Politziner as our principal accountant for the audit of our financial statements for the year ended December 31, 2004 and 2005 was approved by our Board of Directors on February 19, 2007.

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: November 21, 2007

BY: /s/ Klaus Brandt
Klaus Brandt, Chief Executive Officer
(Principal Executive Officer)

Date: November 21, 2007

BY: /s/ Amir Elbaz
Amir Elbaz, Chief Financial 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/ Klaus Brandt Klaus Brandt	Chief Executive Officer & Director (Principal Executive Officer)	November 21, 2007
/s/ Amir Elbaz Amir Elbaz	Chief Financial Officer, Executive Vice President, Treasurer and Director (Principal Financial and Accounting Officer)	November 21, 2007
/s/ Christiaan A. van den Berg Christiaan A. van den Berg	Director	November 21, 2007
/s/ Ralph D. Ketchum Ralph D. Ketchum	Director	November 21, 2007
/s/ Andrew J. Manning Andrew J. Manning	Director	November 21, 2007
/s/ Arif Maskatia Arif Maskatia	Director	November 21, 2007
/s/ Marnix A. Snijder Marnix A. Snijder	Director	November 21, 2007
/s/ Jonkheer Clemens E.M. van Nispen tot Sevenaer Jonkheer Clemens E.M. van Nispen tot Sevenaer	Director	November 21, 2007

LITHIUM TECHNOLOGY CORPORATION

AND SUBSIDIARIES

(DEVELOPMENT STAGE COMPANIES)

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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 (a development stage company) as of December 31, 2005 and 2004, and the related consolidated statements of operations, stockholders equity, and cash flows for the years ended December 31, 2005 and 2004 and for the period from February 12, 1999 (inception of development stage) to December 31, 2005. 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 Lithium Technology Corporation and Subsidiaries (a development stage company) as of December 31, 2005 and 2004, and the results of its operations and cash flows for the years ended December 31, 2005 and 2004 and for the period from February 12, 1999 (inception of development stage) to December 31, 2005, 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 2, 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 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As discussed in Note 1, the financial statements for the year ended December 31, 2004 have been restated.

/s/ Amper, Politziner & Mattia P.C.

November 20, 2007
Edison, New Jersey

LITHIUM TECHNOLOGY CORPORATION AND SUBSIDIARIES

(DEVELOPMENT STAGE COMPANIES)

CONSOLIDATED BALANCE SHEETS

	December 31 2005	December 31 2004
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 46,000	$ 240,000
Accounts receivable, net of Allowance of $0 and $7,000, respectively	234,000	115,000
Inventories	569,000	141,000
Related party receivable	150,000	134,000
Prepaid expenses and other current assets	311,000	851,000
Total current assets	1,310,000	1,481,000
Property and equipment, net	5,390,000	6,461,000
Intangibles, net	108,000	317,000
Debt issue costs, net	814,000	399,000
Other assets	22,000	47,000
Total assets	$ 7,644,000	$ 8,705,000
LIABILITIES AND STOCKHOLDERS DEFICIT		
CURRENT LIABILITIES:		
Current portion of long-term debt	$ 8,536,000	$ 7,298,000
Accrued salaries	175,000	310,000
Accrued interest	1,003,000	817,000
Other current liabilities and accrued expenses	1,031,000	1,362,000
Accounts Payable	2,700,000	2,749,000
Related party debt	3,950,000	12,002,000
Warrant liability	6,214,000	13,797,000
Total current liabilities	23,609,000	38,335,000
Total liabilities	$ 23,609,000	$ 38,335,000
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS DEFICIT		
Convertible Preferred stock A, par value $.01 per share, authorized, issued and outstanding: 1,000 at December 31, 2005 and no shares at December 31, 2004	$ 1,000,000	
Convertible Preferred stock B, par value $.01 per share, authorized, issued and outstanding: 100,000 at December 31, 2005 and no shares at December 31, 2004	1,000	
Common stock, par value $.01 per share, authorized 750,000,000 and 125,000,000 shares at December 31, 2005 and December 31, 2004 respectively; issued and outstanding 266,335,979 and 53,352,000 shares at December 31, 2005 and December 31, 2004, respectively.	2,663,000	534,000
Additional paid-in capital	71,377,000	51,409,000
Cumulative translation adjustments	(4,627,000)	(5,776,000)
Accumulated deficit	(200,000)	(200,000)
Deficit accumulated during development stage	(86,179,000)	(75,597,000)
Total stockholders deficit	(15,965,000)	(29,630,000)
Total liabilities and stockholders deficit	$ 7,644,000	$ 8,705,000

See accompanying notes to consolidated financial statements.

LITHIUM TECHNOLOGY CORPORATION AND SUBSIBIARIES

(DEVELOPMENT STAGE COMPANIES)

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

	YEAR ENDED December 31,		PERIOD FROM 12-Feb-99 (INCEPTION OF DEVELOPMENT STAGE) TO DECEMBER 31,
	2005	2004 (Restated)	2005
REVENUES:			
Development contracts and prototype sales	$ 1,803,000	$ 768,000	$ 2,921,000
COST AND EXPENSES:			
Cost of goods sold	2,408,000		2,408,000
Engineering, research and development	2,961,000	5,192,000	21,664,000
General and administrative	4,493,000	5,682,000	19,262,000
Warrants expense/Change in fair value	(7,842,000)	13,523,000	5,681,000
Impairment of intangibles patents		8,926,000	12,626,000
Sales and marketing	479,000		479,000
Depreciation and amortization	799,000	847,000	10,240,000
Amortization of debt issue costs	245,000	148,000	393,000
Loss on sale of tangible fixed assets		57,000	107,000
Total costs and expenses	3,543,000	34,375,000	72,467,000
OTHER INCOME (EXPENSE):			
Foreign government subsidies		435,000	2,842,000
Interest expense, net of interest income	(2,094,000)	(1,842,000)	(9,523,000)
Interest expense related to beneficial conversion feature	(6,667,000)	(3,204,000)	(9,871,000)
Other	(81,000)		(81,000)
Total other income (expense)	(8,842,000)	(4,611,000)	(16,633,000)
NET LOSS TO COMMON SHAREHOLDERS	$ (10,582,000)	$ (38,218,000)	$ (86,179,000)
Currency translation adjustments	1,149,000	607,000	(4,627,000)
COMPREHENSIVE LOSS	$ (9,433,000)	$ (37,611,000)	$ (90,806,000)
Weighted average number of common shares outstanding:	233,038,317	32,612,005	
Basic and diluted net loss per share:	$ (0.05)	$ (1.17)	

See accompanying notes to consolidated financial statements.

LITHIUM TECHNOLOGY CORPORATION AND SUBSIDIARIES

(DEVELOPMENT STAGE COMPANIES)

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY (DEFICIT)

	Convertible Preferred Class A Stock		Convertible Preferred Class B Stock		Common Stock		Additional Paid in	Cumulative Transactions	Accumulated	Accumulated During
	Shares	Amount	Shares	Amount	Shares	Amount	Capital	Adjustments	Deficit	Development
Balances at February 12, 1999	1,000						20,000		(200,000)	
Foreign currency translation adjustments								478,000		
Net Loss										(9,208,000)
Balances at December 31, 1999	1,000						20,000	478,000	(200,000)	(9,208,000)
Foreign currency translation adjustments								489,000		
Net Loss										(4,586,000)
Balances at December 31, 2000	1,000						20,000	967,000	(200,000)	(13,794,000)
Foreign currency translation adjustments								694,000		
Capital contribution on asset transfer with Arch Hill affiliate							149,000			
Net loss										(4,210,000)
Balances at December 31, 2001	1,000						169,000	1,661,000	(200,000)	(18,004,000)
Capital contribution by Arch Hill affiliate in lieu of debt repayment							1,585,000			
Common stock deemed issued in Share Exchanges					3,214,855	32,000	7,021,000			

Stock issued upon conversion of convertible notes		1,196,604	12,000	1,903,000			
Foreign currency translation adjustments					(3,250,000)		
Net Loss							(9,184,000)
Balances at December 31, 2002	1,000	4,411,459	44,000	10,678,000	(1,589,000)	(200,000)	(27,188,000)
Foreign currency translation adjustments					(4,794,000)		
Net loss							(10,191,000)
Ending balance As of 12/31/03	1,000	4,411,459	44,000	10,678,000	(6,383,000)	(200,000)	(37,379,000)
As of 12/31/03	1,000	4,411,459	44,000	10,678,000	(6,383,000)	(200,000)	(37,379,000)
Discount on 10% January 2004 Debenture				1,155,000			
Stock Issued upon conversion of January 2004 10% Debentures		3,499,941	35,000	491,000			
Common stock issued for interest on January 2004 10% Debentures		12,000	0	7,000			
Discount on April 2004 10% Debentures				1,611,000			
April 2004 Debt Exchange		27,071,200	271,000	29,623,000			
Discount on Beneficial Conversion Feature of A Unit Private Placement				1,558,000			
Conversion of 2004 A Unit Private Placement		10,761,700	108,000	1,674,000			
Discount on Beneficial Conversion Feature of 2004 A Unit Arch Hill Debt Exchange				634,000			

Common shares issued in exchange for services			54,200	1,000	103,000			
Conversion of preferred stock and debt into common shares	(1,000)		7,541,500	75,000	3,875,000			
Foreign currency translation adjustments						607,000		
Net loss								(38,218,000)
Ending balance as of 12/31/04			53,352,000	534,000	51,409,000	(5,776,000)	(200,000)	(75,597,000)
Stock Issued upon conversion of January 2004 10% Debentures			41,828,400	418,000	1,057,000			
Conversion of April 2004 8% Debentures			40,000,000	400,000	2,600,000			
Common stock issued for interest on April 2004 8% Debentures			2,619,200	26,000	170,000			
Discount on Beneficial Conversion Feature of A Unit Private Placement					251,000			
Conversion of A units	1000	1,000,000	24,346,921	243,000	1,322,000			
Conversion of Interest Payable on A units			4,365,979	44,000	126,000			
Conversion of Arch Hill A Units			34,100,000	341,000	1,364,000			
Conversion of interest payable on Arch Hill A Units								
Discount on Beneficial Conversion Feature of B Unit Arch Hill Exchange					693,000			
B Unit Arch Hill Exchange			36,800,179	368,000	1,472,000			
Common Stock Issued for Interest on			2,710,000	27,000	167,000			

Series B units										
Discount on Beneficial Conversion Feature of B Unit Arch Hill Exchange							130,000			
Conversion of 8% Convertible Notes					5,020,000	50,000	201,000			
$1,350,000 Portfolio Lenders Debentures							540,000			
Discount on Beneficial Conversion Feature of $3,000,000 Cornell Capital Debentures							1,957,000			
Discount on Beneficial Conversion Feature and Warrants for October 2005 Debt Exchange							3,072,000			
October 2005 Debt Exchange with Arch Hill			100,000	1,000			4,302,000			
Common stock issued under the Standby Equity Distribution Agreement					21,193,300	212,000	544,000			
Foreign currency translation adjustments								1,149,000		
Net loss										(10,582,000)
Ending balance as of 12/31/05	1,000	1,000,000	100,000	1,000	266,335,979	2,663,000	71,377,000	(4,627,000)	(200,000)	(86,179,000)

LITHIUM TECHNOLOGY CORPORATION AND SUBSIDIARIES

(DEVELOPMENT STAGE COMPANIES)

CONSOLIDATED STATEMENTS OF CASH FLOWS

	December 31, 2005	December 31, 2004 (restated)	PERIOD FROM FEBRUARY 12, 1999 (INCEPTION OF DEVELOPMENT STAGE) TO DECEMBER 31, 2005
OPERATING			
Net loss	$ (10,582,000)	$ (38,218,000)	$ (86,179,000)
Adjustments			
Depreciation & amortization	799,000	9,773,000	18,802,000
In-process R&D			3,700,000
Loss on sale of property and equipment		57,000	107,000
Non cash interest expense	1,323,000	1,252,000	6,613,000
Warrant Expense	(7,842,000)	13,523,000	5,681,000
Interest expense beneficial conversion feature	6,667,000	3,204,000	9,871,000
Non Cash consulting expense		104,000	104,000
Changes in assets & liabilities			
Inventories	(469,000)	(25,000)	(576,000)
A/R	(119,000)	(100,000)	(233,000)
A/P & accrueds	214,000	1,911,000	4,483,000
Prepaids and other assets	484,000	(202,000)	118,000
Total operating	(9,525,000)	(8,721,000)	(37,509,000)
INVESTING			
Purchases of PP&E	(377,000)	(1,233,000)	(5,289,000)
Proceeds from sale of PP&E			133,000
Cash acquired in share exchange			20,000
Deposit on equipment			(200,000)
Investment in Intangibles		(143,000)	(274,000)
Total Investing	(377,000)	(1,376,000)	(5,610,000)
FINANCING			
Repayment of Debt	(1,317,000)	(468,000)	(1,683,000)
Proceeds from bankloans	8,108,000	9,377,000	15,765,000
Proceeds from related party loans	2,649,000	1,640,000	21,197,000
Deferred Financing Costs	(500,000)	(321,000)	(821,000)
Proceeds from Equity Issuance	757,000		757,000
Non-convertible promissory note			7,960,000
Total Financing	9,697,000	10,228,000	43,175,000
NET INCREASE (DECREASE) IN CASH	(205,000)	131,000	56,000
CURRENCY EFFECTS ON CASH	11,000	(18,000)	(13,000)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	240,000	127,000	3,000

CASH AND CASH EQUIVALENTS, END OF PERIOD	$	46,000