LITHIUM TECHNOLOGY CORP
Form 10QSB/A
June 14, 2005
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-QSB/A

(Mark One)

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

For the Quarterly Period ended September 30, 2004

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

5115 CAMPUS DRIVE, PLYMOUTH MEETING, PENNSYLVANIA 19462

(Address of Principal Executive Offices) (Zip Code)

(610) 940-6090

(Issuer s Telephone Number, Including Area Code)

APPLICABLE ONLY TO 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 ISSUERS

State the number of shares outstanding of each of the issuer s classes of common equity, as of the latest practicable date: As of November 19, 2004, 40,840,340 shares of common stock.

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

Table of Contents

EXPLANATORY NOTE

The purpose of this Quarterly Report on Form 10-QSB/A is to restate our consolidated financial statements for the quarter ended September 30, 2004 and to modify the related disclosures. The restatements were necessary to conform with accounting principles generally accepted in the United States of America (GAAP) and reflect the correction of the accounting for the variable conversion feature on the Company s 10% Convertible Debentures. The conversion feature on the 10% Convertible Debentures has been determined to be an embedded derivative under SFAS 133, which is required to be reflected as a liability at fair value. The 10% Convertible Debentures were previously reflected as containing a beneficial conversion feature under EITF 98-5. The adjustments relate solely to the accounting treatment of these transactions and do not affect the Company s historical cash flow.

This Quarterly Report on Form 10-QSB/A for the quarter ended September 30, 2004, reflects corrections and restatements of the following financial statements: (a) condensed consolidated statements of operations and comprehensive loss for the quarter ended September 30, 2004; and (b) condensed consolidated statements of cash flows for the quarter ended September 30, 2004. For a more detailed description of the restatements and reclassifications, see Note 3 - Restatement of September 30, 2004 Quarterly Results to the accompanying notes to the condensed consolidated financial statements contained in this Report on Form 10-QSB/A. This Quarterly Report on Form 10-QSB/A restates certain financial information for the applicable periods set forth in Item 1 Financial Statements and Item 2 Management s Discussion and Analysis of Financial Condition and Results of Operations .

This Quarterly Report on Form 10-QSB/A does not attempt to modify or update any other disclosures set forth in the original Form 10-QSB, except as required to reflect the effects of the restatement as described in Note 3 - Restatement of September 30, 2004 Quarterly Results to the accompanying notes to the condensed consolidated financial statements contained in this Quarterly Report on Form 10-QSB/A. Additionally, this Quarterly Report on Form 10-QSB/A, except for the restatement information, speaks as of the filing date of the original Form 10-QSB and does not update or discuss any other Company developments after the date of the original filing. All information contained in this Quarterly Report on Form 10-QSB/A and the original Form 10-QSB is subject to update and supplementing as provided in the periodic reports that the Company has filed and will file after the original filing date with the Securities and Exchange Commission.

Table of Contents

LITHIUM TECHNOLOGY CORPORATION AND SUBSIDIARIES

FORM 10-QSB

FOR THE QUARTER ENDED SEPTEMBER 30, 2004

INDEX

Table of Contents

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

LITHIUM TECHNOLOGY CORPORATION AND SUBSIDIARIES

(DEVELOPMENT STAGE COMPANIES)

CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2004	December 31, 2003
	(Unaudited)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 63,000	$ 127,000
Accounts receivable	54,000	16,000
Inventories	83,000	105,000
Related party receivable	143,000	124,000
Prepaid expenses and other current assets	694,000	627,000
Total current assets	1,037,000	999,000
Due from related parties	3,323,000	3,203,000
Property and equipment, net	6,018,000	5,635,000
Intangibles, net	8,490,000	9,084,000
Other assets	225,000	20,000
Total assets	$ 19,093,000	$ 18,941,000
LIABILITIES AND STOCKHOLDERS DEFICIT		
CURRENT LIABILITIES:		
Accounts payable	$ 3,393,000	1,381,000
Accrued salaries	626,000	509,000
Notes payable		63,000
Current portion of long term debt	636,000	659,000
Payable to related party	808,000	1,453,000
Other current liabilities and accrued expenses	1,316,000	440,000
Total current liabilities	6,779,000	4,505,000
LONG-TERM LIABILITIES, LESS CURRENT PORTION		
Subordinated loans from related party	4,890,000	27,625,000
Other long-term liabilities, less current portion	12,023,000	7,442,000
Convertible debt securities	1,360,000	12,609,000
Total long-term liabilities	18,273,000	47,676,000
Total liabilities	25,052,000	52,181,000
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS DEFICIT		

Preferred stock, par value $.01 per share, Authorized 100,000 shares; Issued and outstanding none and 1000 shares Series A Convertible Preferred Stock		
Preferred stock A, par value $1.00 per share, Authorized, issued and outstanding: none	2,137,000	
Preferred stock B, par value $1.00 per share, Authorized, issued and outstanding: none	1,840,000	
Common stock, par value $.01 per share, Authorized 125,000,000 shares; Issued and outstanding 39,840,340 and 4,411,770 shares	398,000	44,000
Additional paid-in capital	45,389,000	10,678,000
Cumulative translation adjustments	(5,947,000)	(6,383,000)
Accumulated Deficit	(200,000)	(200,000)
Deficit accumulated during development stage	(49,576,000)	(37,379,000)
Total stockholders deficit	(5,959,000)	(33,240,000)
Total liabilities and stockholders deficit	$ 19,093,000	$ 18,941,000

See accompanying notes to consolidated financial statements.

Table of Contents

LITHIUM TECHNOLOGY CORPORATION AND SUBSIDIARIES

(DEVELOPMENT STAGE COMPANIES)

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

(UNAUDITED)

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,		PERIOD FROM FEBRUARY 12, 1999 (INCEPTION OF DEVELOPMENT STAGE) TO SEPTEMBER 30
	2004	**2003**	**2004**	**2003**	**2004**
REVENUES					
Development contracts and prototype sales	$ 93,000	$ 126,000	$ 424,000	$ 285,000	$ 775,000
COSTS AND EXPENSES					
Engineering, research and development	1,300,000	1,182,000	4,208,000	3,326,000	17,719,000
General and administrative	1,024,000	845,000	3,124,000	2,689,000	12,183,000
Depreciation and amortization	442,000	369,000	1,383,000	1,123,000	9,613,000
Intangibles expensed					3,700,000
Loss (gain) on sale of assets		11,000	(4,000)	(5,000)	46,000
	2,766,000	2,407,000	8,711,000	7,133,000	43,261,000
OTHER INCOME (EXPENSE)					
Foreign government subsidies	95,000	239,000	430,000	645,000	2,837,000
Interest expense, net of interest income	(1,163,000)	(388,000)	(2,144,000)	(1,272,000)	(7,731,000)
Interest expense related to amortization of discount on convertible debt	(765,000)		(1,640,000)		(1,640,000)
	(1,833,000)	(149,000)	(3,354,000)	(627,000)	(6,534,000)
NET LOSS	$ (4,506,000)	$ (2,430,000)	$ (11,641,000)	$ (7,475,000)	$ (49,020,000)
Charge for embedded derivatives and warrants - preferred shares	(556,000)		(556,000)		(556,000)
NET LOSS TO COMMON SHAREHOLDERS	$ (5,062,000)	$ (2,430,000)	$ (12,197,000)	$ (7,475,000)	$ (49,576,000)
OTHER COMPREHENSIVE INCOME (LOSS)					
Currency translation adjustments	(733,000)	(337,000)	436,000	(2,579,000)	(5,947,000)
COMPREHENSIVE LOSS	$ (5,795,000)	$ (2,767,000)	$ (11,761,000)	$ (10,054,000)	$ (55,523,000)

Weighted average number of common shares outstanding:	39,430,742	9,978,797	28,496,047	9,978,797
Basic and diluted net loss per share:	$ (0.13)	$ (0.24)	$ (0.43)	$ (0.75)

See accompanying notes to consolidated financial statements.

Table of Contents

LITHIUM TECHNOLOGY CORPORATION AND SUBSIDIARIES

(DEVELOPMENT STAGE COMPANIES)

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY (DEFICIT)

(UNAUDITED)

	Convertible Preferred Stock		Common Stock					Deficit Accumulated
	Shares	Amount	Shares	Amount	Additional Paid-in Capital	Cumulative Translations Adjustments	Accumulated Deficit	During Development
Balances at December 31, 2003	1,000	$	4,411,459	$ 44,000	$ 10,678,000	($ 6,383,000)	($ 200,000)	($ 37,379,000)
Common stock issued upon conversion of preferred stock	(1,000)		5,567,027	56,000	(56,000)			
Stock issued upon conversion of convertible notes			29,045,650	291,000	33,546,000			
Stock issued for services			54,216		105,000			
Stock issued upon conversion of 10% convertible debentures			761,988	7,000	560,000			
Issuance of convertible preferred stock	3,977,000	3,977,000						
Charge for embedded derivative					556,000			(556,000)
Foreign currency translation adjustments						436,000		
Net loss								(11,641,000)
Balances at September 30, 2004	3,977,000	$ 3,977,000	39,840,340	$ 398,000	$ 45,389,000	($ 5,947,000)	($ 200,000)	(49,576,000)

See accompanying notes to consolidated financial statements.

6

Table of Contents

LITHIUM TECHNOLOGY CORPORATION AND SUBSIDIARIES

(DEVELOPMENT STAGE COMPANIES)

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	NINE MONTHS ENDED SEPTEMBER 30,		PERIOD FROM FEBRUARY 12, 1999 (INCEPTION OF DEVELOPMENT STAGE) TO
	2004	2003	SEPTEMBER 30, 2004
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss	$ (11,641,000)	$ (7,475,000)	$ (49,020,000)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	1,383,000	1,123,000	9,613,000
In-process research and development expensed			3,700,000
Loss on sale of assets	(4,000)	(5,000)	46,000
Non cash interest expense	3,592,000	1,104,000	7,630,000
Change in operating assets and liabilities, net of business acquisitions:			
Accounts receivable	(39,000)	2,000	(53,000)
Inventories	19,000	36,000	(64,000)
Prepaid expenses and other current assets	(126,000)	51,000	(290,000)
Accounts payable and accrued expenses	1,586,000	526,000	3,944,000
Net cash used in operating activities	(5,230,000)	(4,638,000)	(24,494,000)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property and equipment	(812,000)	(269,000)	(4,491,000)
Investment in intangibles	(36,000)	(22,000)	(167,000)
Cash received in connection with Share Exchanges			20,000
Deposit on equipment		(100,000)	(200,000)
Proceeds from sale of assets	4,000	61,000	137,000
Net cash used in investing activities	(844,000)	(330,000)	(4,701,000)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayments of loans from financial institutions	(328,000)	(6,000)	(2,047,000)
Proceeds (repayments) of silent partnership loans			102,000
Proceeds from related party loans			16,908,000
Proceeds from 10% convertible debentures, net of cost of issue	1,686,000		1,686,000
Proceeds from series A & B units, net of cost of issue	432,000		432,000
Proceeds received from Non-convertible Promissory Notes from related party	4,223,000	4,830,000	12,183,000
Net cash provided by financing activities	6,013,000	4,824,000	29,264,000

Effect of exchange rate changes on cash	(3,000)	10,000	(9,000)
Net increase (decrease) in cash and cash equivalents	(64,000)	(134,000)	60,000
Cash and cash equivalents, beginning of period	127,000	165,000	3,000
Cash and cash equivalents, end of period	$ 63,000	$ 31,000	$ 63,000
SUPPLEMENTAL CASH FLOW INFORMATION			
Cash paid for interest	$ 192,000	$ 103,000	$ 678,000
Conversion of convertible debt into common stock	$ 33,546,000	$	$ 35,461,000
Conversion of convertible debt into preferred stock subject to rescission	$ 3,545,000	$	$ 3,545,000
Capital contribution by affiliate of Arch Hill in lieu of debt payment	$	$	$ 1,734,000

See accompanying notes to consolidated financial statements.

Table of Contents

LITHIUM TECHNOLOGY CORPORATION

AND SUBSIDIARIES

(DEVELOPMENT STAGE COMPANIES)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and rules and regulations of the Securities and Exchange Commission (the SEC) applicable to interim periods. In the opinion of management, all adjustments (consisting only of normal recurring accruals) considered necessary for a fair presentation have been included. These financial statements should be read in conjunction with the Company s audited financial statements included in the Company s Annual Report on Form 10-KSB filed with the Securities and Exchange Commission for the year ended December 31, 2003. Operating results for three and nine months ended September 30, 2004 are not necessarily indicative of the results that may be expected for the year ending December 31, 2004 or any interim period.

NOTE 2 ORGANIZATION, BUSINESS OF THE COMPANY AND RECENT DEVELOPMENTS

On October 4, 2002, Lithium Technology Corporation (LTC or the Company) closed share exchanges in which LTC acquired ownership of 100% of GAIA Holding B.V. (GAIA Holding) from Arch Hill Ventures, N.V., a private company limited by shares, incorporated under the laws of the Netherlands (Arch Hill Ventures), which is controlled by Arch Hill Capital N.V. (Arch Hill Capital), a private company limited by shares, incorporated under the laws of the Netherlands (the Share Exchanges).

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

GAIA Holding, a private limited liability company incorporated under the laws of the Netherlands, is the 100% beneficial owner of GAIA Akkumulatorenwerke GmbH (GAIA). GAIA Holding (formerly known as Hill Gate Investments B. V.) was incorporated in 1990 and only had limited operations until the acquisition of GAIA on February 12, 1999 (inception of development stage). GAIA is a private limited liability company incorporated under the laws of Germany. GAIA Holding s ownership interest in GAIA is held through certain trust arrangements (see Note 3).

The date of inception of the Company s development stage is February 12, 1999. Prior to inception of development stage activities, the Company incurred accumulated losses of $200,000, and these losses have been segregated from the Company s deficit accumulated during the development stage in the accompanying consolidated financial statements.

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

Effective July 28, 2003, LTC implemented a one-for-twenty reverse stock split of the Company s common stock (See Note 11). On May 9, 2003, the Company reduced the outstanding and authorized Series A Preferred Stock from 100,000 to 1,000 shares. The reverse stock split and Preferred Stock reduction have been reflected retroactively in the consolidated financial statements and notes for all periods presented and all applicable references as to the number of common shares and per share information, preferred shares, stock option data and market prices have been restated to reflect the reverse stock split and Preferred Stock reduction. In addition, stockholders deficit has been restated retroactively for all periods presented for the par value of the number of shares that were eliminated.

8

Table of Contents

NOTE 3 SIGNIFICANT ACCOUNTING POLICIES

GAIA HOLDING DEEMED ACQUIRER OF LTC

The Share Exchanges in 2002 between LTC and GAIA Holding have been accounted for as a reverse acquisition (see Note 2). As a result, GAIA Holding is considered the acquiring company; hence, the historical consolidated financial statements of GAIA Holding became the historical financial statements of LTC and include the operating results of LTC only from the effective dates of the Share Exchanges.

BASIS OF CONSOLIDATION

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

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

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

ESTIMATES AND UNCERTAINTIES

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

FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value estimates, assumptions and methods used to estimate fair value of the Company s financial instruments are made in accordance with the requirements of SFAS No. 107, Disclosures about Fair Value of Financial Instruments. The Company has used available information to derive its estimates. However, because these estimates are made as of a specific point in time, they are not necessarily indicative of amounts the

Company could realize currently. The use of different assumptions or estimating methods may have a material effect on the estimated fair value amounts.

The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable, accrued expenses and short-term notes payable approximate fair value due to the short-term nature of the instruments.

Long-term liabilities are comprised of the loans from financial institutions, related party loans and other long-term loans. The Company s long-term loans from financial institutions and other long-term loans approximate fair value.

CASH AND CASH EQUIVALENTS

The Company considers all highly liquid investment instruments purchased with an initial remaining maturity of three months or less to be cash equivalents.

INVENTORIES

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

Table of Contents

PROPERTY AND EQUIPMENT

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

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

INTANGIBLES

Intangibles consist of amounts capitalized by GAIA for patents, which are recorded at cost and are amortized using the straight-line method over their estimated useful lives of 13 to 17 years commencing upon final approval by the foreign regulatory body. Intangibles also include amounts relating to the core patented technology of LTC, as determined by an independent valuation, in connection with the allocation of the purchase price resulting from the Share Exchanges. These intangibles are being amortized using the straight-line method over their estimated useful lives of 12 years commencing October 4, 2002.

LONG-LIVED ASSETS

The Company periodically evaluates the carrying value of long-lived assets when events and circumstances indicate the carrying amounts may not be recoverable. The carrying value of a long-lived asset is considered impaired when the anticipated undiscounted cash flows expected to result from the use and eventual disposition from such assets are less than the carrying value. If the sum of the expected cash flows (undiscounted and without finance charges) is less than the carrying amount of the asset, the Company recognizes an impairment loss on the asset. In that event, a loss is recognized for the amount by which the carrying value exceeds the fair value of the long-lived asset. Fair value is determined by quoted market prices in active markets, if available, or by using the anticipated cash flows discounted at a rate commensurate with the risks involved.

INCOME TAXES

Deferred tax assets and liabilities are computed for temporary differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the temporary differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

REVENUES

The Company performs certain research and development for other companies and sells 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 collectibility is reasonably assured.

OTHER INCOME

The Company receives subsidies from foreign governmental agencies to reimburse the Company for certain research and development expenditures. Subsidies are recorded as other income.

FOREIGN CURRENCY TRANSLATION

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

Table of Contents

STOCK OPTIONS

In accordance with Statement of Financial Accounting Standard (SFAS) No. 123, Accounting for Stock-based Compensation (SFAS No. 123), the Company has elected to account for stock option grants to employees using the intrinsic value based method prescribed by APB Opinion No. 25.

In connection with the Share Exchanges, the Company has stock options post acquisition. All such options were fully vested at the acquisition and valued as part of the purchase price. If the Company had applied the fair value recognition provisions of SFAS No. 123, there would be no material effect on net income and earnings per share.

NET LOSS PER COMMON SHARE

The Company has presented net loss per common share pursuant to SFAS No. 128, Earnings Per Share . Net loss per common share is based upon the weighted average number of outstanding common shares. The Company has determined that the as-if converted common shares related to the preferred shares should be included in the weighted average shares outstanding for purposes of calculating basic earnings per share for the three and nine months ended September 30, 2003. The Company made such determination because: 1) Arch Hill Capital, which controls the Company, had the ability to authorize the necessary shares for conversion; 2) the preferred shares had no significant preferential rights above the common shares; and 3) the preferred shares would automatically convert at a later date upon proper share authorization. The Preferred Stock was converted into 5,567,027 shares of LTC s common stock on February 25, 2004. As a result, weighted average shares outstanding included in the calculation of basic and diluted net loss per common share for the three and nine months ended September 30, 2004 and 2003 was as follows:

	Three Months Ended September 30, 2004	Three Months Ended September 30, 2003	Nine Months Ended September 30, 2004	Nine Months Ended September 30, 2003
Series A Preferred Stock		5,567,027	1,137,787	5,567,027
Common Stock	39,433,459	4,411,770	27,359,172	4,411,770
Total	39,433,459	9,978,797	28,496,959	9,978,797

Due to net losses in the three and nine months ended September 30, 2004 and 2003, the effect of the potential common shares resulting from convertible promissory notes payable, convertible debentures, stock options and warrants in those years was excluded, as the effect would have been anti-dilutive.

RECENT ACCOUNTING PRONOUNCEMENTS

In May 2003, the FASB issued SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity (SFAS 150). SFAS 150 requires certain financial instruments that embody obligations of the issuer and have characteristics of both liabilities and equity to be classified as liabilities. The provisions of SFAS 150 are effective for financial instruments entered into or modified after May

31, 2003 and to all other instruments that exist as of the beginning of the first interim financial reporting period beginning after June 15, 2003. The adoption of this statement did not have any impact on the Company s consolidated financial statements.

In January 2003, the FASB issued FASB Interpretation No. 46, Consolidation of Variable Interest Entities An Interpretation of Accounting Research Bulletin (ARB) No. 51 (FIN 46) and amended the Interpretation in December 2003. This interpretation clarifies how to identify variable interest entities and how a company should assess its interests in a variable interest entity to decide whether to consolidate the entity. The Company does not have any ownership in variable interest entities.

RESTATEMENT OF SEPTEMBER 30, 2004 QUARTERLY RESULTS

In connection with the audit of the Company s financial statements for the year ended December 31, 2004, the Company determined that Generally Accepted Accounting Principles were not correctly applied to certain complex financing transactions, and that adjustments to the Company s financial statements were required. The restatement relates to the accounting for the variable conversion feature on the Company s 10% Convertible Debentures and its Series A Convertible Preferred Stock. The conversion feature on the 10% Convertible Debentures and the Series A Convertible Preferred Stock has been determined to be an embedded derivative under SFAS 133, which is required to be reflected as a liability at fair value. The 10% Convertible Debentures were previously reflected as containing a beneficial conversion feature under EITF 98-5. The adjustments relate solely to the accounting treatment of these transactions and do not affect the Company s historical cash flow. The adjustments relate solely to the accounting treatment of these transactions and do not affect the Company s historical cash flow.

The following table sets forth the affect of the restatement on the three month period ended September 30, 2004:

Three months ended September 30, 2004	**As restated**	**As reported**
Net loss	(4,506,000)	(4,127,000)
Net loss to common shareholders	(5,062,000)	(4,127,000)
Basic and diluted net loss		
To common shareholders per share	(0.13)	(0.10)

This Quarterly Report on Form 10-QSB/A for the quarter ended September 30, 2004, reflects corrections and restatements of the following financial statements: (a) condensed consolidated balance sheets, (b) condensed consolidated statements of operations and comprehensive loss for the quarter ended September 30, 2004; and (c) condensed consolidated statements of cash flows for the quarter ended September 30, 2004.

Table of Contents

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

The accompanying consolidated financial statements of the Company 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 its inception, the Company has incurred substantial operating losses and expects to incur additional operating losses over the next several years. Operations have been financed primarily through the use of proceeds from equity financings, loans including loans from Arch Hill Capital and other related parties, loans from silent partners and bank borrowings secured by assets. Continuation of the Company s operations in 2004 is dependent upon obtaining further financing from either Arch Hill Capital or other related parties, continued bridge financing from Arch Hill Capital or a new debt or equity financing. These conditions raise substantial doubt about the Company s 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.

MANAGEMENT S PLANS

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

The Company s operating plan seeks to minimize the Company s capital requirements, but commercialization of the Company s battery technology will require additional capital. The Company expects that technology development and operating and production expenses will increase significantly as the Company continues to advance its battery technology and develop products for commercial applications.

Effective April 1, 2003, a 20% salary reduction was implemented for all employees of LTC at the GAIA USA unit. The reduced salaries are to be repaid by the Company if a third party debt or equity financing of at least $3,000,000 in gross proceeds is closed by the Company by December 31, 2004. Salary reduction deferrals of $177,000 had been accrued in the financial statements as of December 31, 2003. Upon the completion of the January 2004 debenture financing, the Company reinstated the base salary of each employee to 100% of the base salary in effect on March 31, 2003.

Although Arch Hill Capital has been providing funding to the Company under a Bridge Financing Agreement since December 2001, (see Note 9), there can be no assurance that funding will continue to be provided by Arch Hill Capital in the amounts necessary to meet all the Company s obligations until the closing of a third party debt or equity financing or that the Company will be able to consummate such a financing.

On January 22, 2004, the Company sold $2,000,000 of 10% Convertible Debentures Due 2006 with warrants to purchase up to 1,000,000 shares of LTC common stock. (See Note 9).

From August 30, 2004, through September 30, 2004, the Company issued $4,065,000 of securities in a private placement consisting of $520,000 of A Units for cash, $1,705,000 of A Units for debt and $1,840,000 of B Units for debt. Subsequent to September 30, 2004, the Company issued additional A Units for cash in the private placement. No assurance can be given that the Company will be successful in completing this or any other financing. See Notes 10, 12 and 13.

The Company is currently seeking sources of additional financing, in the form of equity financing, to provide the additional capital in order to fund its current operations, scale-up its production capabilities to take advantage of near-term market opportunities, expand its scope of operations and pursue its business strategy. The Company believes that if it raises approximately $10,000,000 to $12,000,000 in an equity financing, it would have sufficient funds to meet its operating and capital expenditure needs for at least twelve months. If the Company is unsuccessful in completing its current private placement or another financing, it will not be able to fund its current expenses or pursue its business strategy and the Company will assess all available alternatives including a sale of its assets or merger, a restructuring, the suspension of operations and possibly liquidation, auction, bankruptcy, or other measures.

Table of Contents

NOTE 5 RECEIVABLE FROM RELATED PARTY

The Company has a receivable from Tamarchco GmbH (Tamarchco), a 100% owned subsidiary of Arch Hill Capital, of $2,296,000 in principal. The receivable bears interest at 7% per annum. Tamarchco used the proceeds for investing in a silent partnership participation in GAIA for an equal amount (refer to Note 10) under identical terms. The receivable at September 30, 2004 includes accrued interest of $1,027,000. Under the existing agreement, the principal including accumulated interest is due on December 31, 2008. These amounts are included in due from related parties in the accompanying financial statements.

NOTE 6 PROPERTY AND EQUIPMENT

Property and equipment at September 30, 2004 and December 31, 2003 is summarized as follows:

	September 30	December 31
Land and buildings	$ 2,719,000	$ 2,779,000
Technical and laboratory equipment	6,170,000	4,889,000
Asset under construction and equipment deposit	11,000	301,000
Office equipment and other	554,000	513,000
	9,454,000	8,482,000
Less: Accumulated depreciation and amortization	(3,436,000)	(2,847,000)
	$ 6,018,000	$ 5,635,000

Assets under construction at September 30, 2004 included equipment being constructed that was not yet placed into service.

NOTE 7 INTANGIBLES

Intangibles at Sept