

CIGNA CORP
Form 10-Q
May 06, 2016
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

R QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2016

OR

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

for the transition period from ____ to ____

Commission file number 1-08323

Cigna Corporation

(Exact name of registrant as specified in its charter)

Delaware

*(State or other jurisdiction of incorporation or
organization)*

900 Cottage Grove Road Bloomfield, Connecticut

06-1059331

(I.R.S. Employer Identification No.)

06002

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(Address of principal executive offices)

(Zip Code)

(860) 226-6000

Registrant's telephone number, including area code

(860) 226-6741

Registrant's facsimile number, including area code

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark		YES	NO
<ul style="list-style-type: none"> whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. 		R	O
<ul style="list-style-type: none"> whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). 		R	O
<ul style="list-style-type: none"> whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. 			
Large accelerated filer R	Accelerated filer O	Non-accelerated filer O	Smaller Reporting Company O
<ul style="list-style-type: none"> whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). 		O	R

As of April 15, 2016, 256,513,083 shares of the issuer's common stock were outstanding.

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Cigna Corporation

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As used herein, "Cigna" or the "Company" refers to one or more of Cigna Corporation and its consolidated subsidiaries.

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Part I. *FINANCIAL INFORMATION*

Item 1. *FINANCIAL STATEMENTS*

Cigna Corporation

Consolidated Statements of Income

	Unaudited	
	Three Months Ended	
	March 31,	
(In millions, except per share amounts)	2016	2015
Revenues		
Premiums	\$ 7,746	\$ 7,402
Fees and other revenues	1,201	1,138
Net investment income	272	276
Mail order pharmacy revenues	697	578
Realized investment gains (losses):		
Other than temporary impairments on debt securities	(27)	(5)
Other realized investment gains (losses), net	(5)	78
Net realized investment gains (losses)	(32)	73
Total revenues	9,884	9,467
Benefits and Expenses		
Global Health Care medical costs	4,761	4,604
Other benefit expenses	1,368	1,269
Mail order pharmacy costs	574	492

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Other operating expenses	2,321	2,204
Amortization of other acquired intangible assets, net	41	44
Total benefits and expenses	9,065	8,613
Income before Income Taxes	819	854
Income taxes:		
Current	294	308
Deferred	11	15
Total income taxes	305	323
Net Income	514	531
Less: Net (Loss) Attributable to Noncontrolling Interests	(5)	(2)
Shareholders' Net Income	\$ 519	\$ 533
Shareholders' Net Income Per Share:		
Basic	\$ 2.04	\$ 2.08
Diluted	\$ 2.00	\$ 2.04
Dividends Declared Per Share	\$ 0.04	\$ 0.04

The accompanying Notes to the Consolidated Financial Statements (unaudited) are an integral part of these statements.

Table of Contents**Cigna Corporation****Consolidated Statements of Comprehensive Income**

	Unaudited	
	Three Months Ended	
	March 31,	
<i>(In millions)</i>	2016	2015
Shareholders' net income	\$ 519	\$ 533
Shareholders' other comprehensive income (loss):		
Net unrealized appreciation, securities	173	88
Net unrealized appreciation (depreciation), derivatives	(3)	7
Net translation of foreign currencies	81	(104)
Postretirement benefits liability adjustment	11	11
Shareholders' other comprehensive income	262	2
Shareholders' comprehensive income	781	535
Comprehensive income (loss) attributable to noncontrolling interests:		
Net (loss) attributable to redeemable noncontrolling interests	(1)	-
Net (loss) attributable to other noncontrolling interests	(4)	(2)
Other comprehensive income (loss) attributable to redeemable noncontrolling interests	3	(9)
Total comprehensive income	\$ 779	\$ 524

The accompanying Notes to the Consolidated Financial Statements (unaudited) are an integral part of these statements.

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Cigna Corporation

Consolidated Balance Sheets

	Unaudited	
	As of March 31, 2016	As of December 31, 2015
<i>(In millions, except per share amounts)</i>		
Assets		
Investments:		
Fixed maturities, at fair value (amortized cost, \$18,684; \$18,456)	\$ 20,087	\$ 19,455
Equity securities, at fair value (cost, \$193; \$190)	194	190
Commercial mortgage loans	1,848	1,864
Policy loans	1,419	1,419
Other long-term investments	1,434	1,404
Short-term investments	465	381
Total investments	25,447	24,713
Cash and cash equivalents	2,401	1,968
Premiums, accounts and notes receivable, net	3,956	3,694
Reinsurance recoverables	6,725	6,813
Deferred policy acquisition costs	1,743	1,659
Property and equipment	1,534	1,534
Deferred tax assets, net	276	379
Goodwill	6,029	6,019
Other assets, including other intangibles	2,788	2,476
Separate account assets	7,985	7,833
Total assets	\$ 58,884	\$ 57,088
Liabilities		
Contractholder deposit funds	\$ 8,455	\$ 8,443
Future policy benefits	9,735	9,479
Unpaid claims and claim expenses	4,724	4,574
Global Health Care medical costs payable	2,646	2,355
Unearned premiums	646	629
Total insurance and contractholder liabilities	26,206	25,480
Accounts payable, accrued expenses and other liabilities	6,746	6,493
Short-term debt	399	149
Long-term debt	4,791	5,020
Separate account liabilities	7,985	7,833
Total liabilities	46,127	44,975
Contingencies Note 16		
Redeemable noncontrolling interests	73	69
Shareholders' Equity		
Common stock (par value per share, \$0.25; shares issued, 296; authorized, 600)	74	74
Additional paid-in capital	2,874	2,859
Accumulated other comprehensive loss	(988)	(1,250)
Retained earnings	12,541	12,121
Less treasury stock, at cost	(1,826)	(1,769)
Total shareholders' equity	12,675	12,035
Noncontrolling interests	9	9
Total equity	12,684	12,044
Total liabilities and equity	\$ 58,884	\$ 57,088

Shareholders	Equity Per Share	\$ 49.41	\$ 46.91
<i>The accompanying Notes to the Consolidated Financial Statements (unaudited) are an integral part of these statements.</i>			

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Cigna Corporation

Consolidated Statements of Changes in Total Equity

Unaudited For the three months ended March 31, 2016 (In millions)	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Treasury Stock	Shareholders Equity	Non- controlling Interests	Total Equity	Redeemable Non- controlling Interests
Balance at January 1, 2016	\$ 74	\$ 2,859	\$ (1,250)	\$ 12,121	\$ (1,769)	\$ 12,035	\$ 9	\$ 12,044	\$ 69
Effect of issuing stock for employee benefit plans		21		(89)	53	(15)		(15)	
Other comprehensive income			262			262		262	3
Net income (loss)				519		519	(4)	515	(1)
Common dividends declared (per share: \$0.04)				(10)		(10)		(10)	
Repurchase of common stock					(110)	(110)		(110)	
Other transactions impacting noncontrolling interests		(6)				(6)	4	(2)	2
Balance at March 31, 2016	\$ 74	\$ 2,874	\$ (988)	\$ 12,541	\$ (1,826)	\$ 12,675	\$ 9	\$ 12,684	\$ 73

For the three months ended March 31, 2015 (In millions)	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Treasury Stock	Shareholders Equity	Non- controlling Interests	Total Equity	Redeemable Non- controlling Interests
Balance at January 1, 2015	\$ 74	\$ 2,769	\$ (936)	\$ 10,289	\$ (1,422)	\$ 10,774	\$ 15	\$ 10,789	\$ 90
Effect of issuing stock for employee benefit plans		55		(177)	184	62		62	
Other comprehensive income (loss)			2			2		2	(9)
Net income (loss)				533		533	(2)	531	
Common dividends declared (per share: \$0.04)				(10)		(10)		(10)	
Repurchase of common stock					(418)	(418)		(418)	
Other transactions impacting noncontrolling interests		(1)				(1)	3	2	2
Balance at March 31, 2015	\$ 74	\$ 2,823	\$ (934)	\$ 10,635	\$ (1,656)	\$ 10,942	\$ 16	\$ 10,958	\$ 83

The accompanying Notes to the Consolidated Financial Statements (unaudited) are an integral part of these statements.

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Cigna Corporation

Consolidated Statements of Cash Flows

<i>(In millions)</i>	Unaudited Three Months Ended March 31,	
	2016	2015
Cash Flows from Operating Activities		
Net income	\$ 514	\$ 531
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	158	151
Realized investment (gains) losses	32	(73)
Deferred income taxes	11	15
Net changes in assets and liabilities, net of non-operating effects:		
Premiums, accounts and notes receivable	(237)	(549)
Reinsurance recoverables	24	(11)
Deferred policy acquisition costs	(62)	(76)
Other assets	(57)	(101)
Insurance liabilities	507	455
Accounts payable, accrued expenses and other liabilities	(263)	157
Current income taxes	262	221
Other, net (1)	5	17
Net cash provided by operating activities (1)	894	737
Cash Flows from Investing Activities		
Proceeds from investments sold:		
Fixed maturities and equity securities	361	393
Investment maturities and repayments:		
Fixed maturities and equity securities	255	284
Commercial mortgage loans	18	166
Other sales, maturities and repayments (primarily short-term and other long-term investments)	102	488
Investments purchased or originated:		
Fixed maturities and equity securities	(758)	(648)
Commercial mortgage loans	(1)	(90)
Other (primarily short-term and other long-term investments)	(198)	(420)
Property and equipment purchases	(112)	(115)
Acquisitions, net of cash acquired	-	(107)
Net cash used in investing activities	(333)	(49)
Cash Flows from Financing Activities		
Deposits and interest credited to contractholder deposit funds	383	386
Withdrawals and benefit payments from contractholder deposit funds	(343)	(361)
Net change in short-term debt	(6)	(5)
Net proceeds on issuance of long-term debt	-	894
Repurchase of common stock	(139)	(413)
Issuance of common stock	10	99
Other, net (1)	(51)	(70)
Net cash provided by (used in) financing activities (1)	(146)	530
Effect of foreign currency rate changes on cash and cash equivalents	18	(18)
Net increase in cash and cash equivalents	433	1,200
Cash and cash equivalents, January 1,	1,968	1,420
Cash and cash equivalents, March 31,	\$ 2,401	\$ 2,620
Supplemental Disclosure of Cash Information:		
Income taxes paid, net of refunds	\$ 37	\$ 49
Interest paid	\$ 69	\$ 69

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(1) As required by the adoption of ASU 2016-09, the Company retrospectively reclassified \$73 million of cash payments from operating to financing activities for the three months ended March 31, 2015. These payments were related to employee tax obligations associated with stock compensation. The comparable amount reported in financing activities for the three months ended March 31, 2016 was \$67 million. See Note 2 for further discussion.

The accompanying Notes to the Consolidated Financial Statements (unaudited) are an integral part of these statements.

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CIGNA CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1 Basis of Presentation and Significant Events

Basis of Presentation

Cigna Corporation, together with its subsidiaries (either individually or collectively referred to as Cigna, the Company, we, our or us) is a health services organization dedicated to a mission of helping individuals improve their health, well-being and sense of security. To execute on our mission, Cigna's strategy is to Go Deep, Go Global and Go Individual with a differentiated set of medical, dental, disability, life and accident insurance and related products and services offered by our insurance and other subsidiaries. The majority of these products are offered through employers and other groups (e.g. governmental and non-governmental organizations, unions and associations). Cigna also offers commercial health and dental insurance, Medicare and Medicaid products and health, life and accident insurance coverages to individuals in the U.S. and selected international markets. In addition to its ongoing operations described above, Cigna also has certain run-off operations.

The Consolidated Financial Statements include the accounts of Cigna Corporation and its subsidiaries. Intercompany transactions and accounts have been eliminated in consolidation. These Consolidated Financial Statements were prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). Amounts recorded in the Consolidated Financial Statements necessarily reflect management's estimates and assumptions about medical costs, investment valuation, interest rates and other factors. Significant estimates are discussed throughout these Notes; however, actual results could differ from those estimates. The impact of a change in estimate is generally included in earnings in the period of adjustment. Certain reclassifications have been made to prior year amounts to conform to the current presentation. See Note 2 for further discussion.

These interim Consolidated Financial Statements are unaudited but include all adjustments (including normal recurring adjustments) necessary, in the opinion of management, for a fair statement of financial position and results of operations for the periods reported. The interim Consolidated Financial Statements and notes should be read in conjunction with the Consolidated Financial Statements and Notes included in the Company's 2015 Form 10-K. The preparation of interim Consolidated Financial Statements necessarily relies heavily on estimates. This and certain other factors, including the seasonal nature of portions of the health care and related benefits business as well as competitive and other market conditions, call for caution in estimating full year results based on interim results of operations.

Note 2 Recent Accounting Changes

The Company's 2015 Form 10-K includes discussion of significant recent accounting changes that either have impacted or may impact our financial statements in the future. The following issuances of, and changes in, accounting pronouncements that apply to the Company have occurred since the Company filed its 2015 Form 10-K.

Recently Adopted Accounting Guidance

Amendments to the Consolidation Analysis (Accounting Standards Update (ASU) 2015-02). The Company adopted this new consolidation guidance effective January 1, 2016 with no material effect on its financial statements. Among other provisions, the guidance defines limited partnerships as VIEs unless substantive kick-out rights or participating rights exist. See Note 10 for additional disclosures about various real estate and security limited partnerships that are newly identified as variable interest entities for which the Company is not the primary beneficiary.

Improvements to Employee Share-Based Payment Accounting (ASU 2016-09). In March 2016, the Financial Accounting Standards Board (FASB) issued new guidance that changes the accounting for certain aspects of share-based payments to employees. The new guidance requires excess tax benefits and tax deficiencies to be recorded in the income statement when the awards vest or are settled, requires cash flows related to the excess tax benefits to be classified as an operating activity in the statement of cash flows, permits repurchasing more of an employee's shares for tax withholding purposes without triggering liability accounting, clarifies that all cash payments made on an employee's behalf for withheld shares are to be presented as a financing activity in the statement of cash flows, and provides an accounting policy election to account for forfeitures as they occur. In addition, the new guidance changes the calculation of common stock equivalents for earnings per share purposes. The new standard is required to be adopted as of January 1, 2017.

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As permitted, the Company elected to early adopt the new guidance effective January 1, 2016. Adopting this new guidance resulted in \$23 million of tax benefits recorded in net income in the first quarter of 2016 in Corporate that previously would have been reported in additional paid-in capital. The change in the calculation of common stock equivalents added approximately one million weighted average shares for the diluted earnings per share calculations. The Company applied these provisions prospectively.

The Company applied the provisions of the new guidance related to the presentation of employee taxes paid for withheld shares retrospectively that resulted in reclassifying \$73 million of tax withholding from operating to financing activities in its Consolidated Statement of Cash Flows for the three months ended March 31, 2015. For the three months ended March 31, 2016, the Company reflected \$67 million of tax withholding in financing activities. The ability under the new guidance to repurchase more employee shares for tax withholding purposes had no impact on the Company's financial statements. The Company elected to continue to estimate forfeitures expected to occur to determine the amount of compensation cost to be recognized in each period.

Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent) (ASU 2015-07). This amendment removed the requirement to categorize all investments for which fair value is measured using the practical expedient of net asset value (NAV) per share within the fair value hierarchy. The Company adopted this new guidance effective January 1, 2016. Upon adoption, the Company began to separately disclose certain Separate Account investments and provided comparable prior period disclosure. See Note 7 for this separate disclosure information.

Recently Issued Accounting Guidance Not Yet Adopted

Revenue from Contracts with Customers (ASU 2014-09). During 2016, the Financial Accounting Standards Board (FASB) has issued two new ASUs further clarifying the broader revenue guidance: 1) Revenue from Contracts with Customers: Principal versus Agent Considerations (Reporting Revenue Gross versus Net) (ASU 2016-08) that clarifies the definition of principals and agents and 2) Revenue from Contracts with Customers: Identifying Performance Obligations and Licensing (ASU 2016-10) that clarifies guidance and adds examples to help companies properly identify performance obligations. This ASU also illustrates when a license provides a customer with a right to use (point in time) versus a right to access (over time) benefit.

These clarifications, together with the broader revenue recognition guidance within ASU 2014-09, are required to be adopted beginning January 1, 2018. The Company continues to monitor developing implementation guidance and evaluate these new requirements for its non-insurance customer contracts to determine its method and timing of implementation and any resulting estimated effects on its financial statements.

Note 3 Mergers and Acquisitions

Proposed Merger

On July 23, 2015, the Company entered into a merger agreement with Anthem, Inc. ("Anthem") and Anthem Merger Sub Corp. ("Merger Sub"), a direct wholly-owned subsidiary of Anthem. The merger agreement provides (a) for the merger of the Company and Merger Sub, with the Company continuing as the surviving corporation and (b) if certain tax opinions are delivered, immediately following the completion of the initial merger, for the surviving corporation to be merged with and into Anthem, with Anthem continuing as the surviving corporation (collectively, the "merger"). Subject to certain terms, conditions, and customary operating covenants, each share of Cigna common stock issued and outstanding immediately prior to the effective time of the merger will be converted into the right to receive (a) \$103.40 in cash, without interest, and (b) 0.5152 of a share of Anthem common stock. The closing price of Anthem common stock on May 5, 2016 was \$137.07.

At special shareholders' meetings held in December 2015, Cigna shareholders approved the merger and Anthem shareholders approved the issuance of shares of Anthem common stock in connection with the merger. Completing the merger remains subject to certain customary conditions, including the receipt of certain necessary governmental and regulatory approvals and the absence of a legal restraint prohibiting the merger. Completing the merger is not subject to a financing condition.

If the merger agreement is terminated under certain circumstances, Anthem will be required to pay Cigna a termination fee of \$1.85 billion. Anthem's obligation to pay the termination fee arises if the merger agreement is terminated because: (1) a governmental entity, such as the Department of Justice or a state Department of Insurance, has prevented the merger for regulatory reasons and that decision is final and non-appealable; or (2) the merger has not closed by January 31, 2017 (subject to extension to April 30, 2017 under certain circumstances) only because all necessary regulatory approvals have not been received.

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The merger agreement contains customary covenants, including covenants that Cigna conduct its business in the ordinary course during the period between entering into the merger agreement and closing. In addition, Cigna's ability to take certain actions prior to closing without Anthem's consent is subject to certain limitations. These limitations relate to, among other matters, the payment of dividends, capital expenditures, the payment or retirement of indebtedness or the incurrence of new indebtedness, settlement of material claims or proceedings, mergers or acquisitions, and certain employment-related matters.

While the Company continues to work toward achieving regulatory approval as quickly as possible and to target a closing date in the second half of 2016, the closing will ultimately be subject to the approval and timing of the regulators. In light of the complexity of the regulatory process and the dynamic environment, it is possible that such approvals may not be obtained in 2016.

During the three months ended March 31, 2016, the Company incurred \$40 million pre-tax (\$36 million after-tax) in costs directly related to the proposed merger. These costs primarily consisted of fees for legal, advisory and other professional services.

Note 4 Earnings Per Share (EPS)

Basic and diluted earnings per share were computed as follows:

<i>(Shares in thousands, dollars in millions, except per share amounts)</i>	Basic	Effect of Dilution	Diluted
Three Months Ended March 31, 2016			
Shareholders' net income	\$ 519		\$ 519
Shares:			
Weighted average	254,822		254,822
Common stock equivalents		4,625	4,625
Total shares	254,822	4,625	259,447
EPS	\$ 2.04	\$ (0.04)	\$ 2.00
	\$ 18,941,000		

See accompanying notes to consolidated financial statements.

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	YEARS ENDED		PERIOD FROM
	DECEMBER 31,		FEBRUARY 12, 1999
	2003	2002	(INCEPTION OF
			DEVELOPMENT
			STAGE) TO
			DECEMBER 31,
			2003
REVENUES			
Development contracts and prototype sales	\$ 229,000	\$ 121,000	\$ 350,000
COSTS AND EXPENSES			
Engineering, research and development	4,383,000	2,683,000	13,511,000
General and administrative	3,665,000	2,077,000	9,058,000
Depreciation and amortization	1,489,000	653,000	8,230,000
Intangibles expensed		3,700,000	3,700,000
Loss (gain) on sale of assets	7,000	43,000	50,000
	9,544,000	9,156,000	34,549,000
OTHER INCOME (EXPENSE)			
Foreign government subsidies	885,000	1,112,000	2,407,000
Interest expense, net of interest income	(1,761,000)	(1,261,000)	(5,587,000)
	(876,000)	(149,000)	(3,180,000)
NET LOSS	\$ (10,191,000)	\$ (9,184,000)	\$ (37,379,000)
OTHER COMPREHENSIVE INCOME (LOSS)			
Currency translation adjustments	(4,794,000)	(3,250,000)	(6,383,000)
COMPREHENSIVE LOSS	\$ (14,985,000)	\$ (12,434,000)	\$ (43,762,000)
Weighted average number of common shares outstanding:	9,978,797	6,642,773	
Basic and diluted net loss per share:	\$ (1.02)	\$ (1.38)	

See accompanying notes to consolidated financial statements.

Table of Contents**LITHIUM TECHNOLOGY CORPORATION AND SUBSIDIARIES****(DEVELOPMENT STAGE COMPANIES)****CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY (DEFICIT)****For the period from February 12, 1999 (inception of development stage) to December 31, 2003**

	Convertible Preferred Stock *		Common Stock *		Additional Paid-in	Cumulative Translations	Accumulated	Deficit
	Shares	Amount	Shares	Amount	Capital *	Adjustments	Deficit	Accumulated During 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)
Balances at December 31, 2003	1,000	\$	4,411,459	\$ 44,000	\$ 10,678,000	\$ (6,383,000)	\$ (200,000)	\$ (37,379,000)

* Amounts have been adjusted to account for amendment to terms of the Series A Preferred Stock and the reverse stock split as described in Note 14.

See accompanying notes to consolidated financial statements.

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	YEARS ENDED DECEMBER 31,		PERIOD FROM FEBRUARY 12, 1999 (INCEPTION OF DEVELOPMENT STAGE) TO DECEMBER 31, 2003
	2003	2002	
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss	\$ (10,191,000)	\$ (9,184,000)	\$ (37,379,000)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	1,489,000	653,000	8,230,000
In-process research and development expensed		3,700,000	3,700,000
Loss on sale of assets	7,000	43,000	50,000
Non cash interest expense	1,595,000	1,106,000	4,038,000
Change in operating assets and liabilities, net of business acquisitions:			
Accounts receivable	3,000	(17,000)	(14,000)
Inventories	29,000	(30,000)	(82,000)
Prepaid expenses and other current assets	64,000	198,000	(164,000)
Accounts payable and accrued expenses	1,162,000	512,000	2,358,000
Net cash used in operating activities	(5,842,000)	(3,019,000)	(19,263,000)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property and equipment	(578,000)	(1,031,000)	(3,679,000)
Investment in intangibles	(23,000)	(42,000)	(131,000)
Cash received in connection with Share Exchanges		20,000	20,000
Deposit on equipment	(100,000)	(100,000)	(200,000)
Proceeds from sale of assets	89,000	44,000	133,000
Net cash used in investing activities	(612,000)	(1,109,000)	(3,857,000)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayments of loans from financial institutions	(69,000)	(63,000)	(1,720,000)
Proceeds (repayments) of silent partnership loans		(63,000)	102,000
Proceeds (repayments) from related party loans	(363,000)	2,964,000	16,908,000
Proceeds received from Non-convertible Promissory Notes from related party	6,872,000	1,088,000	7,960,000
Net cash provided by financing activities	6,440,000	3,926,000	23,250,000
Effect of exchange rate changes on cash	(24,000)	35,000	(6,000)
Net increase (decrease) in cash and cash equivalents	(38,000)	(167,000)	124,000

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Cash and cash equivalents, beginning of period	165,000	332,000	3,000
Cash and cash equivalents, end of period	\$ 127,000	\$ 165,000	\$ 127,000

SUPPLEMENTAL CASH FLOW INFORMATION

Cash paid for interest	\$ 166,000	\$ 153,000	\$ 486,000
Conversion of convertible debt into common stock		\$ 1,915,000	\$ 1,915,000
Capital contribution by affiliate of Arch Hill in lieu of debt payment		\$ 1,585,000	\$ 1,734,000

See accompanying notes to consolidated financial statements.

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LITHIUM TECHNOLOGY CORPORATION

AND SUBSIDIARIES

(DEVELOPMENT STAGE COMPANIES)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 ORGANIZATION, BUSINESS OF THE COMPANY AND RECENT DEVELOPMENTS

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

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

GAIA Holding, a private limited liability company incorporated under the laws of the Netherlands, is the 100% beneficial owner of GAIA Akkumulatorenwerke GmbH (GAIA). GAIA Holding (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 2).

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 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 14). On May 9, 2003, the Company reduced the outstanding and authorized Series A Preferred Stock from 100,000 to 1,000 shares (See Note 14). 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.

NOTE 2 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 Notes 1 and 4). 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.

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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 net, 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

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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.

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

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independent valuation, in connection with the allocation of the purchase price resulting from the Share Exchanges (see Note 4). 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.

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 LTC / GAIA share exchanges (see Note 4), 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 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. The Company made such determination because: 1) Arch Hill Capital, which controls the Company, has the ability to authorize the necessary shares for conversion; 2) the preferred shares have no significant preferential rights above the common shares; and 3) the preferred shares will automatically convert at a later date upon proper share authorization. As a result, weighted average shares outstanding included in the

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calculation of basic and diluted net loss per common share for the years ended December 31, 2003 and 2002 was as follows:

	<u>2003</u>	<u>2002</u>
Series A Preferred Stock	5,567,027	5,567,027
Common Stock	4,411,770	1,075,746
Total	<u>9,978,797</u>	<u>6,642,773</u>

Due to net losses in the years ended December 31, 2003 and 2002, the effect of the potential common shares resulting from convertible promissory notes payable, stock options and warrants in those years were excluded, as the effect would have been anti-dilutive.

	<u>2003</u>	<u>2002</u>
Convertible promissory notes	1,955,188	
Stock options		
Contingently issuable shares under promissory notes	2,462,786	39,964
Warrants		
Total	<u>4,417,974</u>	<u>39,964</u>

Total stock options and warrants outstanding were 1,152,174 and 1,153,072 as of December 31, 2003 and 2002, respectively. These options and warrants to purchase shares of common stock are at prices ranging from \$2.20 to \$9.60 per share and therefore were not included in the computation of diluted earnings per share because the exercise price of the options exceeds the average market price and would have been anti-dilutive.

RECENT ACCOUNTING PRONOUNCEMENTS

In July 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 143, Accounting for Asset Retirement Obligations (SFAS 143) which is effective for fiscal years beginning after June 15, 2002. SFAS 143 requires, among other things, that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are then capitalized as part of the carrying amount of the long-lived asset. The Company has adopted SFAS 143 effective January 1, 2003. SFAS 143 did not have any impact on the Company's consolidated financial statements.

In April 2002, the FASB issued SFAS No. 145, Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB statement No.13, and Technical Corrections (SFAS 145). This statement eliminates the current requirement that gains and losses on debt extinguishment must be classified as extraordinary items in the income statement. Instead, such gains and losses will be classified as extraordinary items only if they are deemed to be unusual and infrequent, in accordance with the current GAAP criteria for extraordinary classification. In addition, SFAS 145 eliminates an inconsistency in lease accounting by requiring that modifications of capital leases that result in reclassification as operating leases be accounted for consistent with sale-leaseback accounting rules. SFAS 145 is effective for fiscal years beginning after May 15, 2002 and was

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adopted effective January 1, 2003. The adoption of SFAS 145 did not have any impact on the Company's consolidated financial statements.

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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 November 2002, the FASB issued FASB Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others. This interpretation expands the disclosures to be made by a guarantor about its obligations under certain guarantees and requires that, at the inception of a guarantee, a guarantor recognize a liability for the fair value of the obligation undertaken in issuing the guarantee. The disclosure requirements are effective immediately. The initial recognition and measurement provisions of this interpretation are effective for guarantees issued or modified after December 31, 2002. The adoption of the initial recognition and measurement provisions of this interpretation 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.

NOTE 3 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. 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 15). 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

In the past, the Company has worked closely with selected portable electronics Original Equipment Manufacturers (OEMs) exploring various notebook computer, personal digital assistant and wireless handset applications. 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 our lithium-ion rechargeable batteries in the national security, transportation and stationary power markets.

The Company 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.

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Although Arch Hill Capital has been providing funding to the Company under a Bridge Financing Agreement since December 2001, (see Note 10), 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.

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 to \$12 million in an equity financing, it would have sufficient funds to meet its needs for at least

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twelve months. However, no assurance can be given that it will be successful in completing any financing. If the Company is unsuccessful in completing any financing, it will not be able to fund its current expenses or pursue its business strategy.

If a third party debt or equity financing is not consummated, 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.

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 June 30, 2004. Salary reduction deferrals of \$177,000 have 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.

NOTE 4 REVERSE ACQUISITION MERGER OF LITHIUM TECHNOLOGY CORPORATION AND GAIA HOLDING

On October 4, 2002, LTC closed a share exchange (the First Share Exchange) in which LTC acquired a 60% interest in GAIA Holding from Arch Hill Ventures in exchange for LTC's issuance to Arch Hill Ventures of 600 shares of LTC's Series A Preferred Stock convertible into 3,340,216 shares of LTC's common stock. On December 13, 2002, LTC closed a second share exchange (the Second Share Exchange) in which Arch Hill Ventures transferred to LTC its remaining 40% of the outstanding shares of GAIA Holding, and LTC issued to Arch Hill Ventures 400 shares of its Series A Preferred Stock convertible into 2,226,811 shares of its common stock. GAIA Holding, a private limited liability company incorporated under the laws of the Netherlands, is the 100% beneficial owner of GAIA.

Subsequent to the Share Exchanges, Arch Hill Capital controls LTC. As a result, the Share Exchanges are 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.

The Share Exchange was consummated pursuant to the terms of the Share Exchange Agreement that LTC entered into on June 7, 2002 with Hill Gate Capital N. V. (Hill Gate), which subsequently changed its name to Arch Hill Real Estate N. V. (Arch Hill Real Estate). On September 6, 2002, all of the outstanding shares of GAIA Holding and all of the rights and obligations of Arch Hill Real Estate under the Share Exchange Agreement were transferred to Arch Hill Ventures. Arch Hill Capital controls Arch Hill Ventures and also is now the controlling stockholder of LTC.

The Share Exchanges between LTC and GAIA Holding have been accounted for as a reverse acquisition. The purchase price has been determined as a step acquisition, based on the fair market value of LTC's outstanding shares at the dates of the share exchanges, with 84% of the outstanding shares deemed acquired in the First Exchange and 16% in the Second Exchange. There were 3,215,166 shares outstanding prior to the Share Exchanges. The First Exchange was based on the LTC closing price (\$2.20) as of October 4, 2002. The October 4, 2002 date was used because there were significant modifications made to the agreement through the date of closing on October 4, 2002. The value of the shares for the Second Exchange (\$1.80) was based on the LTC closing price on December 5, 2002, the date upon which final terms to the Second Exchange were agreed to and announced.

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The total purchase price of the Share Exchanges has been determined and allocated based upon independent valuation as follows:

Purchase Price:	
First Exchange, 84% of 3,214,855 shares at \$2.20 per share	\$ 5,942,000
Second Exchange, 16% of 3,214,855 shares at \$1.80 per share	926,000
Fair value of LTC options and warrants	133,000
Transaction costs incurred by GAIA Holding	52,000
<hr/>	
Total Purchase Price	\$ 7,053,000
<hr/>	
Assets acquired:	
Cash	\$ 20,000
Prepaid and other current assets	137,000
Property and equipment	315,000
Intangible assets Patents	9,965,000
In-Process R&D (expensed)	3,700,000
Other assets	21,000
Liabilities assumed:	
Accounts payable	475,000
Accrued salaries	201,000
Notes payable	65,000
Promissory notes converted	1,915,000
Convertible securities	4,449,000
<hr/>	
Net assets acquired	\$ 7,053,000
<hr/>	

In-process research and development (IPR&D) costs acquired in the acquisition include projects associated with LTC's automotive battery market of \$3,300,000 and projects associated with LTC's defense, medical, industrial and aerospace projects of \$400,000. The Company has determined that the technological feasibility of this in-process technology has not yet been established and that the technology has no alternative future use and as such, the amounts have been expensed.

Also at closing of the share exchanges, Arch Hill converted \$1,915,000 of promissory notes into 1,196,604 shares of LTC common stock under original terms of the promissory notes.

The following unaudited pro forma combined results of operations is provided for illustrative purposes only and assumes that the Share Exchanges had occurred as of the beginning of the year ended December 31, 2002. The following unaudited pro forma information should not be relied upon as necessarily being indicative of the historical results that would have been obtained if this acquisition had actually occurred during that period, nor of the results that the Company may experience in the future. Pro forma 2002 includes \$18,714,000 of additional interest expense for a beneficial conversion change.

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	Year ended
	<u>December 31, 2002</u>
Proforma operating revenues	\$ 204,000
Proforma net (loss)	\$ (33,543,000)
Proforma (loss) per share	\$ (3.36)

NOTE 5 COMMON CONTROL MERGER

On June 6, 2002 the Company acquired a 100% interest in Lithiontech B.V. from a related party Lithiontech Holding B.V., which is controlled by Arch Hill Capital. Lithiontech B.V. has a 100% interest in Lithion Licensing B.V. and Dilo Trading AG. The financial statements of the Company report the results of operations of Lithiontech B.V. for all periods presented as if transfer of net assets had occurred at the beginning of the periods presented. Results of operations for all periods thus comprise those of the previously separate entities combined from the beginning of the periods to the date the transfer was completed and those of the consolidated operations from that date forward.

NOTE 6 RECEIVABLE FROM RELATED PARTY

The Company has a receivable from Tamarcho GmbH (Tamarcho), a 100% owned subsidiary of Arch Hill Capital, of \$2,349,000 in principal. The receivable bears interest at 7% per annum. Tamarcho used the proceeds for investing in a silent partnership participation in GAIA for an equal amount (refer to Note 11) under identical terms. The receivable at December 31, 2003 includes accrued interest of \$854,000. Under the existing agreement, the principal including accumulated interest is due on December 31, 2008.

NOTE 7 PROPERTY AND EQUIPMENT

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

Land and buildings	\$ 2,779,000
Technical and laboratory equipment	4,889,000
Asset under construction and equipment deposit	301,000
Office equipment and other	513,000
	<u>8,482,000</u>
Less: Accumulated depreciation and amortization	(2,847,000)
	<u>\$ 5,635,000</u>

Assets under construction at December 31, 2003 included equipment being constructed that was not yet placed into service.

Table of Contents**NOTE 8 INTANGIBLES**

Intangibles at December 31, 2003 are summarized as follows:

Patents	\$ 10,133,000
Less: Accumulated amortization	(1,049,000)
	<hr/>
Total	\$ 9,084,000
	<hr/>

Intangibles consist primarily of amounts relating to the core patented technology of LTC, as determined by an independent valuation, in connection with the allocation of the excess purchase price resulting from the Share Exchanges (see Note 1 and Note 4). Intangibles also include patents held by GAIA Holding.

Estimated future amortization expense on intangible assets for the next five years at December 31, 2003 is approximately \$840,000 per year.

NOTE 9 NOTES PAYABLE

As of December 31, 2003, the Company has outstanding a note payable, the proceeds of which were used for research and development funding. The principal balance remaining under the note is \$63,000. The note is secured by the Company's accounts receivable, equipment and inventory.

NOTE 10 CONVERTIBLE DEBT SECURITIES

Convertible debt securities are comprised of promissory notes held by Arch Hill Capital.

\$3,949,000 of these promissory notes are convertible into 1,974,500 shares of LTC common stock and were acquired by Arch Hill Capital from a third party. The terms of the securities are such they have no stated interest rate, no repayment terms and are not intended to be repaid by the Company in cash. Upon conversion, there may be a charge related to the beneficial conversion of these notes if the share price at the time of conversion is in excess of \$2.00 per share.

The remaining promissory notes were issued under a Bridge Financing Agreement, as amended, between LTC and Arch Hill Capital. Under the Bridge Financing Agreement, as amended, \$1,588,000 of the promissory notes issued by LTC from July 29, 2002 to December 31, 2002 are convertible into equity securities based on the price per share of any new equity financing of the Company entered into after the closing of the First Share Exchange.

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Under the Bridge Financing Agreement, as amended, the principal balance and all other sums due and payable under any promissory note issued on or after January 1, 2003 bear interest at 6% per annum and are payable upon twelve months written demand by Arch Hill Capital. Notwithstanding the foregoing, at the option of Arch Hill Capital, the principal balance and all other sums due and payable under any promissory note issued on or after January 1, 2003 may be applied against the purchase price of equity securities being sold by the Company in any equity financing after the date of such note. During the period January 1, 2003 to December 31, 2003 Arch Hill Capital advanced \$6,872,000 to the Company under the Bridge Financing Agreement. Accrued interest on the notes of \$200,000 as of December 31, 2003 is included in the convertible debt securities on the balance.

The Bridge Financing Agreement, as amended, does not contain a maximum of the amount of funding that may be advanced under such Agreement. The amount of any additional notes provided will be related to the working capital advances made by Arch Hill Capital to the Company.

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Long-term debt at December 31, 2003 is summarized as follows:

Loans from financial institutions	\$ 2,300,000
Subordinated loans from related party	27,625,000
Silent partnership loans-related party	3,203,000
Silent partnership loans	2,598,000
	<u> </u>
	\$ 35,726,000
Less: Current maturities	(659,000)
	<u> </u>
	\$ 35,067,000
	<u> </u>

Long-term debt at December 31, 2003 is payable as follows:

2004	\$ 659,000
2005	\$ 251,000
2006	\$ 256,000
2007	\$ 260,000
2008	\$ 6,066,000

LOANS FROM FINANCIAL INSTITUTIONS

The Company has two loans from financial institutions that are collateralized by (i) land and buildings in an amount up to \$1,192,000 and (ii) machinery, equipment and patents in an amount of \$2,547,000 as collateral for the mortgage loan. The loans bear interest between 5.75% and 6.75% per annum and are scheduled to be repaid by December 31, 2014.

SUBORDINATED LOANS FROM RELATED PARTY

GAIA has received subordinated loans from Arch Hill Ventures, a related party. The loans bear cumulative interest at 6% per annum. Under the contract terms, the loans can be called when GAIA does not have negative stockholders' equity. The loans are subordinated to all other creditors of GAIA. A portion of these loans were converted to shares subsequent to December 31, 2003 (Note 15).

SILENT PARTNERSHIP LOANS RELATED PARTY

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Tamarchco GmbH (Tamarchco), a 100% owned subsidiary of Arch Hill Ventures, has provided three silent partnership loans to GAIA. The partnership loans consist of a \$1,935,000 loan bearing interest at 7% per annum under the First Tamarchco Partnership Agreement, a \$188,000 loan bearing interest at 6% per annum under the Second Tamarchco Partnership Agreement and a \$226,000 loan bearing interest at 6% under the Third Tamarchco Partnership Agreement. GAIA is not required to pay the interest under the Second and Third Tamarchco Partnership Agreements until GAIA has generated an accumulated profit amounting to \$4,837,000. The total amount payable to Tamarchco under the three Tamarchco Partnership Agreements at December 31, 2003 is \$3,203,000 including accrued interest of \$854,000.

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. The 12% share in profits under the Second and Third Tamarchco Agreements are not payable until GAIA has generated an accumulated profit amounting to \$4,837,000.

Each Tamarchco Partnership Agreement terminates in December 2008, unless terminated prior to such time for good cause as defined in the applicable Tamarchco Partnership Agreement. The principal, accrued and unpaid interest, and unpaid profits are due on the termination of the Tamarchco Partnership Agreements.

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SILENT PARTNERSHIP LOANS-NON-RELATED PARTIES

Two other parties have provided silent partnership loans to GAIA which remain outstanding at December 31, 2003. Frankendael Participatiemaatschappij N.V. (Frankendael) has provided a partnership loan of \$504,000, which bears interest at 6% per annum. Technologie-Beteiligungs-Gesellschaft GmbH der Deutschen Ausgleichsbank (TBG) has provided a partnership loan of \$1,935,000, which bears interest at 6% per annum. GAIA is not required to pay the interest under the Frankendael Partnership Agreement until GAIA has generated an accumulated profit amounting to \$4,837,000. The total amount payable to Frankendael and TBG under the Partnership Agreements at December 31, 2003 is \$2,598,000, including \$159,000 in accrued interest.

Frankendael and TBG are entitled to receive an annual 12% share in profits related to its contributions under the Frankendael Partnership Agreement and the TBG Partnership Agreement. The 12% share in profits under the Frankendael Partnership

Agreement is not payable until GAIA has generated an accumulated profit amounting to \$4,837,000. The TBG Partnership Agreement provides that should GAIA receive additional injections of capital in the course of further financing rounds, TBG shall adjust its profit sharing to the capital ratio applicable at such time. Management believes that based upon subsequent equity received by GAIA that the present profit sharing that TBG is entitled to under the Agreement is approximately 4.4%. Management further believes that it is unlikely that Frankendael or TBG will receive any profit sharing under the Partnership Agreement at any time in the near future.

From March 8, 2005 under the TBG Partnership Agreement, TBG is entitled to demand a non-recurrent remuneration of 30% of the amount invested plus 6% of the amount invested at the end of the period of participation for each year after the expiration of the fifth full year of participation under certain circumstances relating to the economic condition of GAIA.

The Frankendael Partnership Agreement and the TBG Partnership Agreement each terminates in December 2008, unless terminated prior to such time for good cause as defined in the applicable partnership agreement.

The principal, accrued and unpaid interest, and unpaid profits are due on the termination of the Frankendael Partnership Agreement and the TBG Partnership Agreement.

NOTE 12 INCOME TAXES

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

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

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Deferred income taxes reflect the net effects of temporary differences between the amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The breakdown of the deferred tax asset as of December 31, 2003 is as follows:

	<u>Foreign</u>	<u>Domestic</u>	<u>Total</u>
Tax loss carry forwards	\$ 11,364,702	\$ 13,197,132	\$ 24,561,834
Net difference between tax base and US GAAP book values	708,977	(3,394,845)	(2,685,868)
	<u>12,073,679</u>	<u>9,802,287</u>	<u>21,875,966</u>
Less valuation allowance	(12,073,679)	(9,802,287)	(21,875,966)
	<u>\$</u>	<u>\$</u>	<u>\$</u>

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

Valuation allowance, December 31, 2002	\$ (17,742,000)
Addition	(4,133,966)
	<u>\$ (21,875,966)</u>

At December 31, 2003, the Company had net operating loss carryforwards for United States Federal income tax purposes of approximately \$32,000,000 expiring in the years 2007 through 2019 and net operating loss carryforwards of approximately \$27,000,000 for Pennsylvania state income tax purposes, expiring in the years 2006 through 2013.

Current tax law limits the use of net operating loss carryforwards after there has been a substantial change in ownership, as defined in Internal Revenue Code Section 382, during a three year period. Due to changes in ownership between 1993 and 1997, and the conversion of Senior Secured Convertible Notes in January 1999, and the Share Exchanges (see Note 4), there exists substantial risk that the Company's use of net operating losses for United States and Pennsylvania tax purposes may be severely limited under the Internal Revenue Code.

NOTE 13 COMMITMENTS AND CONTINGENCIES

BUILDING LEASE The Company leases a 12,400 square foot research facility and corporate headquarters in a freestanding building at 5115 Campus Drive in Plymouth Meeting, Pennsylvania pursuant to a Lease Agreement dated July 22, 1994, as amended, between PMP Whitemarsh Associates and the Company. The Company is currently leasing the facility under a one-year lease extension that ends on March 31, 2005. The annual rent under the lease is \$146,000 from April 2, 2004 to March 31, 2005.

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CAR AND OTHER LEASES The Company leases cars and other assets under operating leases. The monthly payments amount to \$8,000 for an average remaining period of 2 years.

LITIGATION The Company is involved in various disputes or claims arising in the normal course of business. In the opinion of management, an unfavorable outcome of the disputes will not have a material effect on the financial position, results of operation or cash flows of the Company. Management intends to defend claims vigorously.

EMPLOYMENT AGREEMENTS The Company has entered into an Employment Agreement with David J. Cade, for a period of three years commencing January 1, 2002 pursuant to which Mr. Cade served as the Company's Chairman and Chief Executive Officer at a salary of \$207,500 per year and effective with the closing of the Share Exchange on October 4, 2002 at \$250,000 per year, subject to increase at the discretion of the Board of Directors. The Agreement provides that during each fiscal year, Mr. Cade will be eligible to receive a target bonus of up to 40% of his annual salary for such fiscal year with the exact amount of such bonus to be determined at the discretion of the Board of Directors or the applicable committee of the Board of Directors in accordance with performance thresholds for such fiscal year to be agreed upon

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prior to March 1 of the fiscal year to which the bonus and the performance thresholds relate. Mr. Cade's Employment Agreement provides for certain severance payment benefits in the event his employment is terminated by the Company other than for cause and includes certain confidentiality, non-solicitation and non-competition provisions.

Dr. Franz Kruger was appointed President and Chief Operating Officer of the Company on November 26, 2002. From September 1, 2002 to April 1, 2003, the Company paid Dr. Kruger a monthly consulting fee of \$6,136. On April 14, 2003, the Company entered into a three year Employment Agreement with Dr. Kruger which provides for a salary of \$97,308 per year. The Agreement also provides that during each fiscal year, Dr. Kruger will be eligible to receive a target bonus of up to 40% of his annual salary. GAIA entered into a Consultancy Agreement with InnoventisConsulting GmbH (Innoventis) with respect to the services of Dr. Franz Kruger as the Chairman of Management of GAIA. Innoventis represent Dr. Kruger. The Consultancy Agreement has a four-year term from September 1, 2002 to August 31, 2006. Innoventis charges a monthly fee of EUR 23,000 for Dr. Kruger's services. The agreement requires that Innoventis and Dr. Kruger maintain secrecy as to the confidential information of GAIA.

Mr. Ralf Tolksdorf was appointed Chief Financial Officer of the Company on November 18, 2002. From September 1, 2002 to April 1, 2003, the Company paid Mr. Tolksdorf a monthly consulting fee of \$10,500. On April 14, 2003, the Company entered into a three year Employment Agreement with Mr. Tolksdorf which provides for a salary of \$97,308 per year. The Agreement also provides that during each fiscal year, Mr. Tolksdorf will be eligible to receive a target bonus of up to 30% of his annual salary. GAIA has entered into a Consultancy Agreement with Strategische Management und Risikoberatungs GmbH (SMR) with respect to the services of Ralf Tolksdorf as the Managing Director of Finances, Organization etc. of GAIA. SMR represents Mr. Tolksdorf. The Consultancy Agreement has a four-year term from September 1, 2002 to August 31, 2006. SMR charges a fee of EUR 14,500 for Mr. Tolksdorf services. The agreement requires that SMR and Mr. Tolksdorf maintain secrecy as to the confidential information of GAIA.

Effective July 1, 2003, Ralf Tolksdorf and SMR terminated their relationship and the Consultancy Agreement between SMR and GAIA was terminated as of July 1, 2003.

Effective July 31, 2003, GAIA entered into a Consultancy Agreement with Ralf Tolksdorf Unternehmensberatung GmbH (RTU) with respect to the services of Ralf Tolksdorf as the Managing Director of Finances, organization and related matters of GAIA. RTU represents Mr. Tolksdorf. The Consultancy Agreement has a three-year term from July 31, 2003 to August 31, 2006. RTU charges a fee of EUR 18,800 for Mr. Tolksdorf's services. The agreement requires that RTU and Mr. Tolksdorf maintain secrecy as to the confidential information of GAIA and replaces the SMR agreement.

The Company has entered into an Employment Agreement with Andrew J. Manning, for a period of three years commencing January 1, 2002, pursuant to which Dr. Manning serves as the Company's Executive Vice President and Chief Technical Officer at a salary of \$150,000 and effective with the closing of the Share Exchange on October 4, 2002 at \$175,000 per year, subject to increase at the discretion of the Board of Directors. The Agreement provides that during each fiscal year, Dr. Manning will be eligible to receive a target bonus of up to 30% of his annual salary for such fiscal year with the exact amount of such bonus to be determined at the discretion of the Board of Directors or the applicable committee of the Board of Directors in accordance with performance thresholds for such fiscal year to be agreed upon prior to March 1 of the fiscal year to which the bonus and the performance thresholds relate. Dr. Manning's employment agreement provides for certain severance payment benefits in the event his employment is terminated by the Company other than for cause and includes certain confidentiality, non-solicitation and non-competition provisions.

NOTE 14 STOCKHOLDERS' EQUITY

COMMON STOCK

Effective July 28, 2003, the Company implemented a one-for-twenty reverse stock split. The reverse stock split was previously approved on May 1, 2003, by the Board of Directors and holders of a majority of the Company's voting stock.

As a result of the reverse stock split becoming effective, every twenty shares of Company common stock outstanding on July 28, 2003 were combined into one share of Company common stock. The certificates representing the outstanding pre-reverse stock split shares of common stock are not required to be exchanged for new certificates representing post-reverse stock split shares. Existing certificates are deemed automatically to constitute and represent the correct number of post-split shares without further action by Company stockholders. Proportionate adjustments based on the reverse stock split ratio have also been made to the per share exercise price and number of shares issuable upon the exercise of all outstanding convertible securities, as a result of the reverse stock split becoming effective.

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The symbol for the Company's common stock was changed to LTHU.OB as a result of the reverse stock split and continues to trade on the OTC Bulletin Board.

PREFERRED STOCK

LTC is authorized to issue up to 100,000 shares of preferred stock.

On October 4, 2002 and December 13, 2002, LTC issued a total of 100,000 shares of Series A Preferred Stock to Arch Hill Ventures in connection with the Share Exchange. Effective May 9, 2003, the Company and Arch Hill Ventures amended the terms of the Series A Preferred Stock outstanding and reduced the number of authorized shares of Series A Preferred Stock from 100,000 to 1,000 shares with each share convertible into 111,340.524 shares of common stock and holding 111,340,524 votes per share. As a result of the amendment, Arch Hill Ventures held 1,000 shares of Series A Preferred Stock with the right to an aggregate of 111,340,524 votes, convertible into 111,340,524 shares of common stock, the same number of votes and conversion shares held prior to the amendment. As a result of the Company's one-for-twenty reverse common stock split in July 2003, the 1,000 shares of Series A Preferred Stock have the right to an aggregate 5,567,027 votes and are convertible into 5,567,027 shares of common stock.

Each outstanding share of the Series A Preferred Stock is convertible at the option of the holder thereof into shares of LTC common stock at any time following the authorization and reservation of a sufficient number of shares of LTC common stock by all requisite action, including action by LTC's Board of Directors and LTC's shareholders, to provide for the conversion of all the outstanding shares of Series A Preferred Stock into shares of LTC common stock.

Each share of the Series A Preferred Stock is automatically convertible into shares of LTC common stock one year following the authorization and reservation of a sufficient number of shares of LTC common stock to provide for the conversion of all outstanding shares of LTC common stock.

The shares of Series A Preferred Stock are entitled to vote together with the common stock on all matters submitted to a vote of the holders of the common stock. On all matters as to which shares of common stock or shares of Series A Preferred Stock are entitled to vote or consent, each share of Series A Preferred Stock is entitled to the number of votes (rounded up to the nearest whole number) that the common stock into which it is convertible would have if such Series A Preferred Stock had been so converted into common stock as of the record date established for determining holders entitled to vote, or if no such record date is established, as of the time of any vote on such matters.

In addition to the voting rights provided above, as long as any shares of Series A Preferred Stock are outstanding, the affirmative vote or consent of the holders of two-thirds of the then outstanding shares of Series A Preferred Stock, voting as a separate class, will be required in order for LTC to:

(i) amend, alter or repeal, whether by merger, consolidation or otherwise, the terms of the Series A Preferred Stock or any other provision of LTC's Charter or Bylaws, in any way that adversely affects any of the powers, designations, preferences and relative, participating, optional and other special rights of the Series A Preferred Stock;

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(ii) issue any shares of capital ranking prior or superior to, or on parity with, the Series A Preferred Stock; or

(iii) subdivide or otherwise change shares of Series A Preferred Stock into a different number of shares whether in a merger, consolidation, combination, recapitalization, reorganization or otherwise.

The Series A Preferred Stock ranks on a parity with the common stock as to any dividends, distributions or upon liquidation, dissolution or winding up, in an amount per share equal to the amount per share that the shares of common stock into which such Series A Preferred Stock are convertible would have been entitled to receive if such Series A Preferred Stock had been so converted into common stock prior to such distribution.

1994 STOCK INCENTIVE PLAN

LTC's Board of Directors adopted the 1994 Stock Incentive Plan (the "1994 Stock Plan") in February 1994. The 1994 Stock Plan was terminated as of December 31, 2002.

All options outstanding under the 1994 Stock Plan were 100% vested in February 2000. Vested options are exercisable for up to sixty months upon termination of the Grantees employment or association with LTC.

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Table of Contents**DIRECTORS STOCK OPTION PLAN**

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

1998 STOCK INCENTIVE PLAN

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

2002 STOCK INCENTIVE PLAN

LTC's Board of Directors adopted the 2002 Stock Incentive Plan (the 2002 Plan) in January 2002. The 2002 Plan terminates in 2012. A total of 350,000 shares of common stock are reserved and available for grant. A total of 41,250 options have been granted as of December 31, 2003. The exercise price of an option granted under the 2002 Plan will not be less than the fair market value of LTC's Common Stock on the date of grant; however, for any non-qualified Stock Option the option price per share of Common Stock, may alternatively be fixed at any price deemed to be fair and reasonable, as of the date of the grant. Options granted that are not vested will be cancelled immediately upon termination of the grantee's employment or association with LTC, except in certain situations such as retirement, death or disability. Vested options are exercisable for up to sixty months upon termination of the Grantee's employment or association with LTC.

Options under the 1994 Stock Plan, the Directors Plan, the 1998 Plan and the 2002 Plan as of December 31 as summarized as follows:

	2003	
	Weighted	
	Average	
	Exercise	
	Options	Price
Outstanding, upon acquisition of GAIA Holding	158,765	\$ 5.00
Granted		
Exercised		
Cancelled		
Outstanding, December 31, 2002	158,765	\$ 5.00

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Granted		
Exercised		
Cancelled	898	
Outstanding, December 31, 2003	157,867	\$ 5.00
Options exercisable, December 31, 2002	158,765	\$ 5.00
Options exercisable, December 31, 2003	157,867	\$ 5.00

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The following table summarizes information about stock options outstanding at December 31, 2003:

Range of Exercise Prices	Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Options Exercisable	Weighted Average Exercise Price
\$2.20	750	\$2.20	4.5 years	750	\$2.20
\$2.30	2,000	\$2.30	5 years	2,000	\$2.30
\$2.80	1,000	\$2.80	8.5 years	1,000	\$2.80
\$4.00	37,500	\$4.00	8 years	37,500	\$4.00
\$4.40	730	\$4.40	5 years	730	\$4.40
\$5.00	667	\$5.00	5 years	667	\$5.00
\$5.20	86,318	\$5.20	2 years	86,318	\$5.20
\$5.60	25,652	\$5.60	5 years	25,652	\$5.60
\$9.60	3,250	\$9.60	5 years	3,250	\$9.60

In addition to the stock options under plans of LTC, in 2001, the principal shareholder of GAIA Holding granted two executives the right to purchase 5% and 4.7%, respectively, interests in GAIA Holding. Such purchase options were provided at the current fair value of GAIA Holding and no compensation expense was recognized. As a result of the share exchange (see Note 4) the purchase right is now a right to purchase equivalent percentages of Arch Hill Ventures' preferred stock holdings in LTC (50 and 47 shares (respectively)), or the common stock equivalent as converted, when converted. The purchase price for the shares is 76,200 and 71,268, respectively, plus 6% interest on such amount from March 1, 2001.

WARRANTS

Warrants as of December 31 are summarized as follows:

	2003	
	Warrants	Weighted Average Exercise Price
Outstanding, upon acquisition of GAIA Holding	994,307	\$ 3.10
Issued		
Exercised		
Expired		
Outstanding, December 31, 2002	994,307	\$ 3.10
Issued		
Exercised		

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Expired

Outstanding, December 31, 2003	994,307	\$ 3.10
Exercisable December 31, 2002	994,307	\$ 3.10
Exercisable December 31, 2003	994,307	\$ 3.10

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As compensation for services to GAIA in connection with the Share Exchange, on October 4, 2002, and December 13, 2002, the Company issued in a private transaction warrants to purchase 150,000 shares of LTC common stock at an exercise price of \$3.70 per share. The warrants are immediately exercisable and have a five year term. The warrants had a value of \$52,000 and were included in the purchase price (see Note 4).

The following table summarizes information about warrants outstanding at December 31, 2003:

Range of Exercise Price	Warrants Outstanding	Weighted	Weighted	Warrants Exercisable	Weighted
		Average	Average		Average
		Exercise Price	Remaining Contractual Life		Exercise Price
\$2.20	10,000	\$2.20	3 years	10,000	\$2.20
\$3.00	834,307	\$3.00	1 month	834,307	\$3.00
\$3.70	150,000	\$3.70	4 years	150,000	\$3.70

NOTE 15 SUBSEQUENT EVENTS

During the period January 1, 2004 to April 8, 2004, Arch Hill Capital advanced \$918,159 to LTC under the Bridge Financing Agreement.

On January 20, 2004, LTC entered into a securities purchase agreement with an investment group to purchase \$2,000,000 of LTC's 10% Convertible Debentures Due 2006 with attached warrants to purchase up to 1,000,000 shares of LTC common stock. On January 22, 2004 LTC closed the convertible debenture financing. There may be beneficial conversion charges associated with this debt.

LTC paid a finder fee in cash at the closing of the January 2004 debenture financing in the amount of 7% of the total proceeds of the financing. The finder is also entitled to receive from LTC warrants to purchase such number of shares of the common stock equal to 10% of the aggregate number of fully diluted and/or converted shares of common stock as are purchased by the January 2004 debenture holders (after giving effect to any increase in shares under a ratchet or similar provision pursuant to which the number of shares initially purchased is subsequently increased). The warrants will be exercisable until January 20, 2009 and will have an exercise price per share equal to 110% of the effective per share price paid by the January 2004 debenture holders for the securities purchased by such debenture holders.

Effective February 6, 2004, the LTC Board of Directors appointed Dr. Franz Kruger Chief Executive Officer of LTC, based on Dr. Kruger's worldwide experience and background. Mr. David J. Cade, who had held the Chief Executive Officer position will continue as the Chairman of the Board of LTC in a full-time capacity. Mr. Cade's responsibilities as Chairman will include corporate governance, shareholder and investor relations and SEC and other public reporting requirements.

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On February 25, 2004, Arch Hill Ventures converted the 1,000 shares of Series A Preferred Stock that it held into 5,567,027 shares of LTC common stock and Arch Hill Capital converted a \$3,949,000 convertible promissory note issued by LTC into 1,974,500 shares of LTC common stock. A beneficial conversion charge will be recorded in connection with the conversion of the promissory note.

On April 13, 2004, pursuant to a Debt Exchange Agreement between LTC, GAIA Holding, GAIA, Arch Hill Capital and Arch Hill Ventures, LTC exchanged debt owed to Arch Hill Capital and Arch Hill Ventures for LTC debentures and equity securities. \$1,587,375 of bridge notes held by Arch Hill Capital and issued in 2002 were exchanged for \$1,587,375 of LTC 10% Convertible Debentures Due 2006 and warrants to purchase up to 793,688 shares of LTC common stock exercisable at \$2.00 per share. \$1,412,625 of bridge notes held by Arch Hill Capital and issued in 2003 were exchanged for \$1,412,625 of LTC 10% Convertible Debentures Due 2006 and warrants to purchase up to 706,312 shares of LTC common stock exercisable at \$2.00 per share. \$5,459,502 of bridge notes issued in 2003 and \$918,159 of bridge notes issued from January 1, 2004 through April 13, 2004 and \$323,284 of interest on the bridge notes issued in 2003 and 2004 were exchanged for (i) 6,069,697 shares of LTC common stock and (ii) warrants to purchase up to 10,500,000 shares of LTC common stock exercisable at \$2.40 per share. \$23,185,604 of debt owed to Arch Hill Ventures as of April 13, 2004 was exchanged for 21,001,453 shares of LTC common stock.

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Table of Contents**LITHIUM TECHNOLOGY CORPORATION AND SUBSIDIARIES****(DEVELOPMENT STAGE COMPANIES)****CONDENSED CONSOLIDATED BALANCE SHEETS**

	March 31, 2004	December 31, 2003
	<u>2004</u>	<u>2003</u>
ASSETS	(UNAUDITED)	
CURRENT ASSETS:		
Cash and cash equivalents	\$ 146,000	\$ 127,000
Accounts receivable	20,000	16,000
Inventories	106,000	105,000
Related party receivable	119,000	124,000
Prepaid expenses and other current assets	544,000	627,000
	<u>935,000</u>	<u>999,000</u>
Total current assets	935,000	999,000
Due from related parties	3,177,000	3,203,000
Property and equipment, net	5,315,000	5,635,000
Intangibles, net	8,870,000	9,084,000
Other assets	304,000	20,000
	<u>18,601,000</u>	<u>18,941,000</u>
Total assets	\$ 18,601,000	\$ 18,941,000
	<u>18,601,000</u>	<u>18,941,000</u>
LIABILITIES AND STOCKHOLDERS DEFICIT		
CURRENT LIABILITIES:		
Accounts payable	\$ 2,184,000	\$ 1,381,000
Accrued salaries	486,000	509,000
Notes payable	618,000	63,000
Current portion of long term debt	618,000	659,000
Payable to related party	490,000	1,453,000
Other current liabilities and accrued expenses	930,000	440,000
	<u>4,708,000</u>	<u>4,505,000</u>
Total current liabilities	4,708,000	4,505,000
LONG-TERM LIABILITIES, LESS CURRENT PORTION	34,324,000	35,067,000
CONVERTIBLE DEBT SECURITIES	10,220,000	12,609,000
	<u>49,252,000</u>	<u>52,181,000</u>
Total liabilities	49,252,000	52,181,000
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS DEFICIT		
Preferred stock, par value \$.01 per share, Authorized 100,000 shares; Issued and outstanding: none and 1,000 shares Series A Convertible Preferred Stock		
Common stock, par value \$.01 per share, Authorized 125,000,000 shares; Issued and outstanding: 11,989,130 and 4,411,459 shares	120,000	44,000
Additional paid-in capital	16,637,000	10,678,000
Cumulative translation adjustments	(5,600,000)	(6,383,000)
Accumulated deficit	(200,000)	(200,000)
Deficit accumulated during development stage	(41,608,000)	(37,379,000)
	<u>(30,651,000)</u>	<u>(33,240,000)</u>
Total stockholders deficit	(30,651,000)	(33,240,000)
	<u>(30,651,000)</u>	<u>(33,240,000)</u>

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Total liabilities and stockholders' deficit	\$ 18,601,000	\$ 18,941,000
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See accompanying notes to consolidated financial statements.

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Table of Contents**LITHIUM TECHNOLOGY CORPORATION AND SUBSIDIARIES****(DEVELOPMENT STAGE COMPANIES)****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS****(UNAUDITED)**

	THREE MONTHS ENDED		PERIOD FROM
	MARCH 31,		FEBRUARY 12, 1999
			(INCEPTION OF
			DEVELOPMENT
			STAGE) TO
			MARCH 31,
	2004	2003	2004
REVENUES			
Development contracts and prototype sales	\$ 87,000	\$ 112,000	\$ 437,000
COSTS AND EXPENSES			
Engineering, research and development	1,211,000	1,054,000	14,722,000
General and administrative	1,009,000	938,000	10,067,000
Depreciation and amortization	408,000	311,000	8,638,000
Intangibles expensed			3,700,000
Loss (gain) on sale of assets			50,000
	2,628,000	2,303,000	37,177,000
OTHER INCOME (EXPENSE)			
Foreign government subsidies	141,000	1,000	2,548,000
Interest expense, net of interest income	(1,829,000)	(421,000)	(7,416,000)
	(1,688,000)	(420,000)	(4,868,000)
NET LOSS	\$ (4,229,000)	\$ (2,611,000)	\$ (41,608,000)
OTHER COMPREHENSIVE INCOME (LOSS)			
Currency translation adjustments	783,000	(922,000)	(5,600,000)
COMPREHENSIVE LOSS	\$ (3,446,000)	\$ (3,533,000)	\$ (47,208,000)
Weighted average number of common shares outstanding:	11,989,130	9,978,797	
Basic and diluted net loss per share:	\$ (0.35)	\$ (0.26)	

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See accompanying notes to consolidated financial statements.

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Table of Contents**LITHIUM TECHNOLOGY CORPORATION AND SUBSIDIARIES****(DEVELOPMENT STAGE COMPANIES)****CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY (DEFICIT)****(UNAUDITED)**

	Convertible						Deficit	
	Preferred Stock		Common Stock		Additional	Cumulative	Accumulated	
					Paid-in	Translations	Accumulated	
	Shares	Amount	Shares	Amount	Capital	Adjustments	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			1,974,500	20,000	3,930,000			
Issuance of convertible debt with beneficial conversion future					2,000,000			
Stock issued for services			36,144		85,000			
Foreign currency translation adjustments						783,000		
Net loss								(4,229,000)
Balances at March 31, 2004		\$	11,989,130	\$ 120,000	\$ 16,637,000	\$ (5,600,000)	\$ (200,000)	\$ (41,608,000)

See accompanying notes to consolidated financial statements.

Table of Contents**LITHIUM TECHNOLOGY CORPORATION AND SUBSIDIARIES****(DEVELOPMENT STAGE COMPANIES)****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(UNAUDITED)**

	THREE MONTHS ENDED		PERIOD FROM
	MARCH 31,		FEBRUARY 12, 1999
			(INCEPTION OF
			DEVELOPMENT
			STAGE) TO
	2004	2003	MARCH 31, 2004
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss	\$ (4,229,000)	\$ (2,611,000)	\$ (41,608,000)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	408,000	311,000	8,638,000
In-process research and development expensed			3,700,000
Loss on sale of assets	(1,000)		49,000
Non cash interest expense	1,755,000	318,000	5,794,000
Change in operating assets and liabilities, net of business acquisitions:			
Accounts receivable	(4,000)	(2,000)	(20,000)
Inventories	(5,000)	34,000	(88,000)
Prepaid expenses and other current assets	47,000	315,000	(117,000)
Accounts payable and accrued expenses	46,000	76,000	2,786,000
Net cash used in operating activities	(1,983,000)	(1,559,000)	(20,865,000)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property and equipment	(26,000)	(47,000)	(3,705,000)
Investment in intangibles		(17,000)	(131,000)
Cash received in connection with Share Exchanges			20,000
Deposits on equipment		(50,000)	(200,000)
Proceeds from sale of assets			133,000
Net cash used in investing activities	(26,000)	(114,000)	(3,883,000)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayments of loans from financial institutions	(63,000)	4,000	(1,863,000)
Proceeds (repayments) of silent partnership loans		(25,000)	102,000
Proceeds (repayments) from related party loans		59,000	16,908,000
Proceeds from 10% convertible debentures, net of costs	1,686,000		1,686,000
Proceeds received from non-convertible promissory notes from related party	409,000	1,497,000	8,067,000
Net cash provided by financing activities	2,032,000	1,535,000	24,900,000

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Effect of exchange rate changes on cash	(3,000)	4,000	(9,000)
Net increase (decrease) in cash and cash equivalents	19,000	(134,000)	143,000
Cash and cash equivalents, beginning of period	127,000	165,000	3,000
Cash and cash equivalents, end of period	\$ 146,000	\$ 31,000	\$ 146,000
SUPPLEMENTAL CASH FLOW INFORMATION			
Cash paid for interest	\$ 74,000	\$ 103,000	\$ 560,000
Conversion of convertible debt into common stock	\$ 3,949,000	\$	\$ 5,864,000
Capital contribution by affiliate of Arch Hill in lieu of debt payment	\$	\$	\$ 1,734,000

See accompanying notes to consolidated financial statements.

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LITHIUM TECHNOLOGY CORPORATION

AND SUBSIDIARIES

(DEVELOPMENT STAGE COMPANIES)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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 months ended March 31, 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 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.

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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.

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.

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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.

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.

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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.

STOCK OPTIONS

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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.

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Table of Contents**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 months ended March 31, 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. As a result, weighted average shares outstanding included in the calculation of basic and diluted net loss per common share for the three months ended March 31, 2004 and 2003 was as follows:

	<u>2004</u>	<u>2003</u>
Series A Preferred Stock		5,567,027
Common Stock	11,989,130	4,411,770
Total	<u>11,989,130</u>	<u>9,978,797</u>

Due to net losses in the three months ended March 31, 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 July 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 143, *Accounting for Asset Retirement Obligations* (SFAS 143) which is effective for fiscal years beginning after June 15, 2002. SFAS 143 requires, among other things, that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are then capitalized as part of the carrying amount of the long-lived asset. The Company has adopted SFAS 143 effective January 1, 2003. SFAS 143 did not have any impact on the Company's consolidated financial statements.

In April 2002, the FASB issued SFAS No. 145, *Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB statement No.13, and Technical Corrections* (SFAS 145). This statement eliminates the current requirement that gains and losses on debt extinguishment must be classified as extraordinary items in the income statement. Instead, such gains and losses will be classified as extraordinary items only if they are deemed to be unusual and infrequent, in accordance with the current GAAP criteria for extraordinary classification. In addition, SFAS 145 eliminates an inconsistency in lease accounting by requiring that modifications of capital leases that result in reclassification as operating leases be accounted for consistent with sale-leaseback accounting rules. SFAS 145 is effective for fiscal years beginning after May 15, 2002 and was adopted effective January 1, 2003. The adoption of SFAS 145 did not have any impact on the Company's consolidated financial statements.

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

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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 November 2002, the FASB issued FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." This interpretation

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expands the disclosures to be made by a guarantor about its obligations under certain guarantees and requires that, at the inception of a guarantee, a guarantor recognize a liability for the fair value of the obligation undertaken in issuing the guarantee. The disclosure requirements are effective immediately. The initial recognition and measurement provisions of this interpretation are effective for guarantees issued or modified after December 31, 2002. The adoption of the initial recognition and measurement provisions of this interpretation 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.

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. 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). 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 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 June 30, 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.

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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.

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. However, no assurance can be given that it will be successful in completing any financing. If the Company is unsuccessful in completing any financing, it will not be able to fund its current expenses or pursue its business strategy.

If a third party debt or equity financing is not consummated, 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.

NOTE 5 RECEIVABLE FROM RELATED PARTY

The Company has a receivable from Tamarchco GmbH (Tamarchco), a 100% owned subsidiary of Arch Hill Capital, of \$2,268,000 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 March 31, 2004 includes accrued interest of \$909,000. 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 March 31, 2004 and December 31, 2003 is summarized as follows:

	March 31	December 31
Land and buildings	\$ 2,492,000	\$ 2,779,000
Technical and laboratory equipment	4,924,000	4,889,000
Asset under construction and equipment deposit	298,000	301,000
Office equipment and other	519,000	513,000
	8,233,000	8,482,000
Less: Accumulated depreciation and amortization	(2,918,000)	(2,847,000)
	\$ 5,315,000	\$ 5,635,000

Assets under construction at March 31, 2004 included equipment being constructed that was not yet placed into service.

Table of Contents**NOTE 7 INTANGIBLES**

Intangibles at March 31, 2004 and December 31, 2003 are summarized as follows:

	March 31	December 31
Patents	10,129,000	\$ 10,133,000
Less: Accumulated amortization	(1,259,000)	(1,049,000)
Total	\$ 8,870,000	\$ 9,084,000

Intangibles consist primarily of amounts relating to the core patented technology of LTC, as determined by an independent valuation, in connection with the allocation of the excess purchase price resulting from the Share Exchanges (see Note 2). Intangibles also include patents held by GAIA Holding.

Estimated future amortization expense on intangible assets for the next five years at December 31, 2003 is approximately \$840,000 per year.

NOTE 8 NOTES PAYABLE

On February 23, 2004, the balance of a note payable of \$63,000 principal amount was paid in full. As of March 31, 2004, the Company has no notes payable.

NOTE 9 CONVERTIBLE DEBT SECURITIES**BRIDGE NOTES**

Convertible debt securities are comprised of promissory notes held by Arch Hill Capital and 10% Convertible Debentures Due 2006 held by an investment group.

The promissory notes were issued under a Bridge Financing Agreement, as amended, between LTC and Arch Hill Capital (the Bridge Financing Agreement). During the period January 1, 2004 to March 31, 2004 Arch Hill Capital advanced \$409,000 to the Company under the Bridge Financing Agreement. Accrued interest on the notes of \$307,000 as of March 31, 2004 is included in the convertible debt securities on the balance sheet. All amounts outstanding under the Bridge Financing Agreement through April 13, 2004 were converted to Company securities subsequent to March 31, 2004. (See Note 12)

The Bridge Financing Agreement, as amended, does not contain a maximum of the amount of funding that may be advanced under such Agreement. The amount of any additional notes provided will be related to the working capital advances made by Arch Hill Capital to the Company.

10% CONVERTIBLE DEBENTURES

On January 20, 2004, the Company entered into a securities purchase agreement with an investment group to purchase \$2,000,000 of the Company's 10% Convertible Debentures Due 2006 (the "January 2004 debentures") with attached warrants to purchase up to 1,000,000 shares of LTC common stock. On January 22, 2004 the Company closed the convertible debenture financing.

The January 2004 debentures have a maturity date of January 20, 2006. Interest payments on the January 2004 debentures are due and payable in cash, or at the option of the January 2004 debenture holder, in Company common stock at a price equal to the conversion price of Company common stock as described below. Interest is due quarterly commencing March 31, 2004. Any amount of principal or interest on the January 2004 debentures which is not paid when due bears interest at 15% per annum from the due date of such payment default.

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The January 2004 debentures are secured by security agreements under which the Company pledged substantially all of its assets, including its goods, fixtures, equipment, inventory, contract rights, receivables and intellectual property and certain equipment of GAIA.

The January 2004 debentures are convertible at any time at the option of the holder into shares of Company common stock. The conversion price of Company common stock used in calculating the number of shares issuable upon conversion, or in payment of interest on the 10% debentures, is the lesser of:

50% of the average of the lowest three trading prices of our common stock for the twenty trading days ending one trading day prior to the date the Company receives a conversion notice from a January 2004 debenture holder; and

a fixed conversion price of \$2.00.

The Company has the right to prepay all or a portion of the outstanding January 2004 debentures and accrued and unpaid interest upon prior written notice to the holders of the January 2004 debentures in an amount equal to 130% of principal and interest for prepayments occurring from January 20, 2004 through March 19, 2004, 140% for prepayments of principal and interest occurring from March 20, 2004 through April 18, 2004 or 150% for prepayment of principal and interest occurring after April 18, 2004. If the Company prepays all of the outstanding January 2004 debentures, the Company must issue an aggregate of 2.5% of the total issued and outstanding Company common stock to the January 2004 debenture holders on a pro rata basis.

The January 2004 debentures include warrants to purchase 1,000,000 shares of LTC common stock at an exercise price of \$2.00 per share. The warrants expire on January 20, 2009. The warrants are subject to exercise price adjustments upon the occurrence of certain events including stock dividends, stock splits, mergers, reclassifications of stock or the Company's recapitalization. The exercise price of the warrants is also subject to reduction if the Company issues any rights, options or warrants to purchase shares of common stock at a price less than the market price of Company shares as quoted on the OTC Bulletin Board, subject to certain exceptions. Also, if at any time, the Company declares a distribution or dividend to the holders of common stock in the form of cash, indebtedness, warrants, rights or other securities, the holders of the warrants are entitled to receive the distribution or dividend as if the warrant holders had exercised the warrants.

The above formula resulted in the debentures and warrants being issued with an imbedded beneficial conversion feature. Accordingly, pursuant to EITF Abstracts Issue No. 98-5, the Company has allocated \$2,000,000 of the proceeds received to additional paid in capital based on the intrinsic value of the warrants and the imbedded beneficial conversion feature. The intrinsic value was determined at the date of issuance using the Black-Scholes option pricing model. \$1,060,000 of the discount resulting from this allocation was recognized as interest expense as of January 20, 2004 (the date of issuance), which is the earliest date of conversion. The remainder of \$940,000 will be recognized as interest over the two year life of the debentures.

Table of Contents**NOTE 10 LONG-TERM DEBT**

	March 31, 2004	December 31, 2003
Long-term debt is summarized as follows:		
Loans from financial institutions	\$ 2,168,000	\$ 2,300,000
Subordinated loans from related party	27,104,000	27,625,000
Silent partnership loans-related party	3,177,000	3,203,000
Silent partnership loans unrelated parties	2,493,000	2,598,000
	<u>\$ 34,942,000</u>	<u>\$ 35,726,000</u>
Less: Current maturities	(618,000)	(659,000)
	<u>\$ 34,324,000</u>	<u>\$ 35,067,000</u>

LOANS FROM FINANCIAL INSTITUTIONS

The Company has two loans from financial institutions that are collateralized by (i) land and buildings in an amount up to \$1,151,000 and (ii) machinery, equipment and patents in an amount of \$2,459,000 as collateral for the mortgage loan. The loans bear interest between 5.75% and 6.75% per annum and are scheduled to be repaid by December 31, 2014.

SUBORDINATED LOANS FROM RELATED PARTY

GAIA has received subordinated loans from Arch Hill Ventures, a related party. The loans bear cumulative interest at 6% per annum. Under the subordinated loan agreement (the "Subordinated Loan Agreement") terms, the loans can be called when GAIA does not have negative stockholders' equity. The loans are subordinated to all other creditors of GAIA. A portion of the subordinated loans from Arch Hill Ventures (\$23,185,604), were converted to Company shares subsequent to March 31, 2004 (See Note 12).

SILENT PARTNERSHIP LOANS RELATED PARTY

Tamarchco GmbH ("Tamarchco"), a 100% owned subsidiary of Arch Hill Ventures, has provided three silent partnership loans to GAIA. The partnership loans consist of a \$1,868,000 loan bearing interest at 7% per annum under the First Tamarchco Partnership Agreement, a \$182,000 loan bearing interest at 6% per annum under the Second Tamarchco Partnership Agreement and a \$218,000 loan bearing interest at 6% under the Third Tamarchco Partnership Agreement. GAIA is not required to pay the interest under the Second and Third Tamarchco Partnership Agreements until GAIA has generated an accumulated profit amounting to \$4,670,000. The total amount payable to Tamarchco under the three Tamarchco Partnership Agreements at March 31, 2004 is \$3,177,000 including accrued interest of \$909,000.

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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. The 12% share in profits under the Second and Third Tamarchco Agreements are not payable until GAIA has generated an accumulated profit amounting to \$4,670,000.

Each Tamarchco Partnership Agreement terminates in December 2008, unless terminated prior to such time for good cause as defined in the applicable Tamarchco Partnership Agreement. The principal, accrued and unpaid interest, and unpaid profits are due on the termination of the Tamarchco Partnership Agreements.

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SILENT PARTNERSHIP LOANS-NON-RELATED PARTIES

Two other parties have provided silent partnership loans to GAIA which remain outstanding at March 31, 2004. Frankendael Participatiemaatschappij N.V. (Frankendael) has provided a partnership loan of \$486,000, which bears interest at 6% per annum. Technologie-Beteiligungs-Gesellschaft GmbH der Deutschen Ausgleichsbank (TBG) has provided a partnership loan of \$1,868,000, which bears interest at 6% per annum. GAIA is not required to pay the interest under the Frankendael Partnership Agreement until GAIA has generated an accumulated profit amounting to \$4,670,000. The total amount payable to Frankendael and TBG under the Partnership Agreements at March 31, 2004 is \$2,493,000, including \$139,000 in accrued interest.

Frankendael and TBG are entitled to receive an annual 12% share in profits related to its contributions under the Frankendael Partnership Agreement and the TBG Partnership Agreement. The 12% share in profits under the Frankendael Partnership Agreement is not payable until GAIA has generated an accumulated profit amounting to \$4,670,000. The TBG Partnership Agreement provides that should GAIA receive additional injections of capital in the course of further financing rounds, TBG shall adjust its profit sharing to the capital ratio applicable at such time. Management believes that based upon subsequent equity received by GAIA that the present profit sharing that TBG is entitled to under the Agreement is approximately 4.4%. Management further believes that it is unlikely that Frankendael or TBG will receive any profit sharing under the Partnership Agreement at any time in the near future.

From March 8, 2005 under the TBG Partnership Agreement, TBG is entitled to demand a non-recurrent remuneration of 30% of the amount invested plus 6% of the amount invested at the end of the period of participation for each year after the expiration of the fifth full year of participation under certain circumstances relating to the economic condition of GAIA.

The Frankendael Partnership Agreement and the TBG Partnership Agreement each terminates in December 2008, unless terminated prior to such time for good cause as defined in the applicable partnership agreement.

The principal, accrued and unpaid interest, and unpaid profits, if any, are due on the termination of the Frankendael Partnership Agreement and the TBG Partnership Agreement.

NOTE 11 STOCKHOLDER S EQUITY

Effective July 28, 2003, the Company implemented a one-for-twenty reverse stock split. As a result of the reverse stock split becoming effective, every twenty shares of Company common stock outstanding on July 28, 2003 were combined into one share of Company common stock. Proportionate adjustments based on the reverse stock split ratio have also been made to the per share exercise price and number of shares issuable upon the exercise of all outstanding convertible securities, as a result of the reverse stock split becoming effective. The symbol for the Company s common stock was changed to LTHU.OB as a result of the reverse stock split.

On February 25, 2004, Arch Hill Capital converted \$3,949,000 of promissory notes that it held into 1,974,500 shares of Company common stock pursuant to the terms of such notes.

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On February 25, 2004, Arch Hill Ventures converted the 1,000 shares of Series A Preferred Stock that it held into 5,567,027 shares of Company common stock pursuant to the terms of the Series A Preferred Stock. The Company has no shares of preferred stock outstanding as of March 31, 2004.

NOTE 12 SUBSEQUENT EVENTS

During the period April 1, 2004 to April 13, 2004, Arch Hill Capital advanced \$509,000 to the Company under the Bridge Financing Agreement.

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On April 13, 2004, pursuant to a Debt Exchange Agreement between the Company, GAIA Holding, GAIA, Arch Hill Capital and Arch Hill Ventures, the Company exchanged debt owed to Arch Hill Capital by the Company and debt owed to Arch Hill Ventures by GAIA for Company debentures and equity securities. \$1,587,375 of bridge notes held by Arch Hill Capital and issued by the Company in 2002 were exchanged for \$1,587,375 of the Company 10% Convertible Debentures Due 2006 and warrants to purchase up to 793,688 shares of the Company common stock exercisable at \$2.00 per share. \$1,412,625 of bridge notes held by Arch Hill Capital and issued by the Company in 2003 were exchanged for \$1,412,625 of the Company 10% Convertible Debentures Due 2006 and warrants to purchase up to 706,312 shares of the Company common stock exercisable at \$2.00 per share. \$5,459,502 of bridge notes issued in 2003 and \$918,159 of bridge notes issued by the Company from January 1, 2004 through April 13, 2004 and \$323,284 of interest on the bridge notes issued in 2003 and 2004 were exchanged for 6,069,697 shares of the Company common stock and warrants to purchase up to 10,500,000 shares of the Company common stock exercisable at \$2.40 per share. \$23,185,604 of debt owed to Arch Hill Ventures by GAIA as of April 13, 2004 was exchanged for 21,001,453 shares of the Company common stock.

Subsequent to the debt exchange (during the period April 14, 2004 to May 20, 2004), Arch Hill Capital advanced \$1,101,000 to the Company under the Bridge Financing Agreement.

On May 5, 2004, the Company issued to the finder and affiliated persons in the January 2004 debenture financing warrants to purchase 200,000 shares of Company common stock, subject to adjustment, at an exercise price of \$2.20 per share, subject to adjustment. The warrants entitle the holders to purchase, in the aggregate, such number of shares of the common stock equal to 10% of the aggregate number of fully diluted and/or converted shares of common stock as are purchased by the January 2004 debenture holders (after giving effect to any increase in shares under a ratchet or similar provision pursuant to which the number of shares initially purchased is subsequently increased). The exercise price per share of the warrants is equal to 110% of the effective per share price paid by the January 2004 debenture holders for the securities purchased by such debenture holders. The warrants are exercisable until January 20, 2009.

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LITHIUM TECHNOLOGY

CORPORATION

68,709,282 Shares of Common Stock

PROSPECTUS

July 9, 2004

We have not authorized any dealer, salesperson or other person to give you written information other than this prospectus or to make representations as to matters not stated in this prospectus. You must not rely on unauthorized information. This prospectus is not an offer to sell these securities or our solicitation of your offer to buy the securities in any jurisdiction where that would not be permitted or legal. Neither the delivery of this prospectus nor any of the sales made hereunder after the date of this prospectus shall create an implication that the information contained herein or our affairs have not changed since the date of this prospectus.

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PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 24. INDEMNIFICATION OF DIRECTORS AND OFFICERS

As permitted by Section 145 of the Delaware General Corporation Law (the "DGCL"), Article V of LTC's By-laws provides for the indemnification of an authorized representative of LTC (a) against expenses, judgments, fines and amounts paid in settlement actually and reasonably incurred by such person, by reason of the fact that such person was or is an authorized representative of LTC, in connection with a threatened, pending or completed third party proceeding, whether civil or criminal, administrative or investigative, if such individual acted in good faith and in a manner such person reasonably believed to be in, or not opposed to, the best interests of LTC, and, if the action was a criminal proceeding, if such person had no reasonable cause to believe that such person's conduct was unlawful; and (b) against expenses actually and reasonably incurred by such person in connection with the defense or settlement of a threatened, pending or completed corporate proceeding, by reason of the fact such person was or is an authorized representative of LTC, if such person acted under the standards set forth in section (a) above and if such person was not found liable to LTC (or if found liable, if a proper court found such person to be fairly and reasonably entitled to indemnification). LTC's By-laws further provide for mandatory indemnification of authorized representatives of LTC who have been successful in defense of any third party or corporate proceeding or in defense of any claim, issue or matter therein, against expenses actually and reasonably incurred in connection with such defense. An authorized representative of LTC includes a director, employee or agent of LTC, or a person serving at the request of LTC as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise.

In addition, Article Ninth of LTC's Certificate of Incorporation provides that, to the full extent that the DGCL permits the limitation or elimination of the liability of directors or officers of a corporation, directors of LTC shall not be personally liable to LTC or its stockholders for monetary damages. As a result of this provision, LTC and its stockholders may be unable to obtain monetary damages from a director for breach of his duty of care. Although stockholders may continue to seek injunctive or other equitable relief for an alleged breach of fiduciary duty by a director, stockholders may not have any effective remedy against the challenged conduct if equitable remedies are unavailable.

LTC carries directors' and officers' liability insurance covering losses up to \$5,000,000 (subject to certain deductible amounts).

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Item 25. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION¹

Registration Fee - Securities and Exchange Commission	\$ 18,920
Printing of Registration Statement, Prospectus, etc. ²	\$ 5,000
Blue Sky Fee and Expenses ²	\$ 2,500
Accounting Services ²	\$ 15,000
Legal Fees ²	\$ 25,000
Miscellaneous ²	\$ 5,000
Total	\$ 71,420

(1) No portion of these expenses will be borne by selling stockholders.

(2) Estimated.

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<u>Date of Sale</u>	<u>Title</u>	<u>Principal</u>	<u>Price per</u>	<u>Nature of</u>	<u>Exemption</u>
		<u>Amount</u> <u>or Shares</u>			
			<u>Share</u>	<u>Transaction</u>	<u>Claimed⁽¹⁾</u>
May 5, 2004	Warrants	200,000 (subject to adjustment)	N/A	Warrants issued to investment bankers for services rendered. Warrants are exercisable at \$2.20 (subject to adjustment) and expire on January 20, 2009.	§4(2) of the Securities Act
April 13, 2004	10% Convertible Debentures with 1,500,000 attached Warrants	\$3,000,000	N/A	Convertible Debentures and Warrants issued to accredited investor in exchange for debt forgiveness. Warrants are exercisable at \$2.00 and expire on April 13, 2009.	§4(2) of the Securities Act
April 13, 2004	Common Stock	6,069,697	N/A	Shares issued to accredited investor in exchange for debt forgiveness	§4(2) of the Securities Act
April 13, 2004	Warrants	10,500,000	N/A	Warrants issued to accredited investor in exchange for debt forgiveness. Warrants are exercisable at \$2.40 per share and expire on April 13, 2009.	§4(2) of the Securities Act
April 13, 2004	Common Stock	21,001,453	N/A	Shares issued to accredited investor in exchange for debt forgiveness	§4(2) of the Securities Act
March 15, 2004	Common Stock	36,144	N/A	Shares issued to consultant for services rendered	§4(2) of the Securities Act
January 22, 2004	10% Convertible Debentures with 1,000,000 attached Warrants	\$2,000,000	N/A	Private Placement. Warrants are exercisable at \$2.00 and expire on January 22, 2009.	§4(2) of the Securities Act

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December 20, 2002	Warrants	10,000	N/A	Warrants issued to consultant for services rendered. Warrants are exercisable at \$0.11 and expire on February 20, 2007.	§4(2) of the Securities Act
December 13, 2002	Warrants	60,000	N/A	Warrants issued to investment bankers for services rendered. Warrants are exercisable at \$0.185 and expire on December 13, 2007.	§4(2) of the Securities Act
December 13, 2002	Series A Preferred Stock	40,000	N/A	Shares issued to accredited investor in exchange for 40% ownership of GAIA Holding, B.V.	§4(2) of the Securities Act
October 4, 2002	Series A Preferred Stock	60,000	N/A	Shares issued to accredited investor in exchange for 60% ownership of GAIA Holding, B.V.	§4(2) of the Securities Act
October 4, 2002	Warrants	90,000	N/A	Warrants issued to investment bankers for services rendered. Warrants are exercisable at \$0.185 and expire on October 4, 2007.	§4(2) of the Securities Act
January 10, 2002	Warrants	625,000	N/A	Warrants issued to accredited investor in connection with bridge financing. Warrants are exercisable at \$0.15 and expire on January 10, 2004.	§4(2) of the Securities Act
December 31, 2001-July 29, 2002	Convertible Notes	\$1,914,567	N/A	Convertible notes issued to accredited investor	§4(2) of the Securities Act
November 29, 1999 December 31, 2001	Convertible Notes	\$5,249,000	N/A	Convertible notes issued to accredited investor	§4(2) of the Securities Act

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- (1) All transactions described in Item 26 were, in the opinion of LTC, exempt from registration under the Securities Act by reason of Section 4(2) thereof, since the sale of such securities did not involve any public offering. Each person who purchased such securities represented that such shares were purchased for investment and not with a view to any distribution thereof. The purchasers of these securities were officers or directors of LTC or persons who were sophisticated in financial matters and had access to information about LTC and an opportunity to ask questions of the directors and officers of LTC.

Item 27. EXHIBITS

Exhibit Number	Description of Document
3.1	Restated Certificate of Incorporation (11)
3.2	By-Laws, as amended (11)
3.3	Amended Certificate of Designation (13)
3.4	Certificate of Amendment to Restated Certificate of Incorporation (14)
4.1	10% Convertible Debenture Due 2006 (12)
4.2	Form of Convertible Debenture dated as of April 13, 2004 between Lithium Technology Corporation and Arch Hill Capital N.V. (15)
5.0	Legal Opinion of Gallagher, Briody & Butler +
10.1	1994 Stock Incentive Plan, as amended (1)
10.2	Directors Stock Option Plan (1)
10.3	1998 Stock Incentive Plan (2)
10.4	2002 Stock Incentive Plan (3)
10.5	Form of Stock Option Agreement relating to LTC s 1994 Stock Incentive Plan, as amended (4)
10.6	Form of Stock Option Agreement relating to LTC s Directors Stock Option Plan (1)
10.7	Form of Stock Option Agreement relating to LTC s 1998 Stock Incentive Plan (2)
10.8	Form of Incentive Stock Option Agreement relating to LTC s 2002 Stock Incentive Plan (3)
10.9	Form of Non-Qualified Incentive Stock Option Agreement relating to LTC s 2002 Stock Incentive Plan [For Employees] (3)
10.10	Form of Non-Qualified Incentive Stock Option Agreement relating to LTC s 2002 Stock Incentive Plan [For Consultants and Non-Employee Directors] (3)
10.11	Lease Agreement, dated July 22, 1994, between PMP Whitmarsh Associates and LTC and Addendum dated July 22, 1994 (4)
10.12	First Amendment to Lease, dated March 19, 2001, between PMP Whitmarsh Associates and LTC (5)
10.13	Second Amendment to Lease, dated March 21, 2003, between PMP Whitmarsh Associates and LTC (11)

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10.14	Third Amendment to Lease, dated March, 2004, between PMP Whitmarsh Associates and LTC (15)
10.15	Form of Third Warrant Amendment Agreement (3)
10.16	Employment Agreement, dated January 1, 2002, between David Cade and LTC (3)
10.17	Employment Agreement, dated January 1, 2002, between Andrew J. Manning and LTC (3)
10.18	Termination Agreement, dated as of December 31, 2001, between LTC and Ilion [Schedules and Exhibits omitted] (11)
10.19	Warrant Amendment Agreement, dated as of December 31, 2001, between LTC and Ilion (6)
10.20	License Agreement, dated as of December 31, 2001, from LTC to Ilion [Schedules omitted] (6)
10.21	License Agreement, dated as of December 31, 2001, from Ilion to LTC [Schedules omitted] (6)
10.22	Note Purchase and Sale Agreement, dated as of December 31, 2001, among Ilion, Arch Hill Capital and LTC [Schedules omitted] (6)
10.23	Bridge Financing Agreement, dated as of December 31, 2001, between LTC and Arch Hill Capital [Schedules and Exhibits omitted] (6)
10.24	Form of Convertible Promissory Note to be issued under the Bridge Financing Agreement between LTC and Arch Hill Capital (6)
10.25	Bridge Financing Amendment Agreement, dated as of March 20, 2002, between LTC and Arch Hill Capital (3)
10.26	Bridge Financing Amendment Agreement No. 2, dated as of May 30, 2002, between LTC and Arch Hill Capital (7)
10.27	Share Exchange Agreement, dated as of June 7, 2002, by and between LTC and Hill Gate Capital N.V. and Exhibits [Schedules Omitted] (7)
10.28	Bridge Financing Amendment Agreement No. 3, dated as of July 29, 2002, between LTC and Arch Hill Capital (8)
10.29	Agreement, dated October 4, 2002, by and between GAIA Holding B.V., Arch Hill Ventures, N.V., Arch Hill Real Estate, N.V., Stichting Administratiekantoor GAIA and Lithium Technology Corporation (9)
10.30	Bridge Financing Amendment Agreement No. 4, dated as of October 4, 2002, between Lithium Technology Corporation and Arch Hill Capital N.V. (9)
10.31	Strategic Alliance Agreement, dated as of October 4, 2002, by and between Lithium Technology Corporation and GAIA Akkumulatorenwerke GmbH (9)
10.32	Form of Warrant, dated October 4, 2002, issued to principals of Colebrooke Capital, Inc. (9)
10.33	Share Exchange Agreement, dated as of November 25, 2002, by and between LTC and Arch Hill Ventures, N.V. (10)
10.34	Form of Warrant, dated December 13, 2002, issued to principals of Colebrooke Capital, Inc. (9)
10.35	Consultancy Agreement, dated August 19, 2002, between GAIA Akkumulatorenwerke GmbH and InnoventisConsulting GmbH with respect to services of Dr. Franz Kruger (11)
10.36	Consultancy Agreement, dated August 19, 2002, between GAIA Akkumulatorenwerke GmbH and SMR Strategische Management und Risikoberatungs GmbH with respect to services of R. Tolksdorf (11)

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10.37	Federal Ministry of Education and Research (Germany), Grant Notification to GAIA, dated September 11, 2000, for the project Collaborative project: Energy supply platform for autonomous microsystems microsolar; subproject: battery technology (11)
10.38	Federal Ministry of Economics and Technology (Germany), Grant Notification to GAIA, dated September 10, 2001, for the project Future investment programme ZIP 2001; lithium-ionic-polymeric batteries for hybrid vehicles with an extremely low fuel consumption (11)
10.39	Federal Ministry of Economics and Technology (Germany), Grant Notification to GAIA, dated July 31, 2002, for the project Development of the lithium-ion polymeric accumulator design (11)
10.40	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 (11)
10.41	Loan with initial fixed-rate interest, dated July 22, 1998, between GAIA and Kreissparkasse Nordhausen (Direct Savings Bank) (11)
10.42	Loan Contract and Agreement on Subordination, dated [illegible] between GAIA and Arch Hill Ventures N.V. (11)
10.43	Partnership Agreement, dated [illegible], between GAIA and Frankendael Participatiemaatschappij N.V. (11)
10.44	Partnership Agreement, dated March 4, 1999, between GAIA and Tamarchco GmbH (11)
10.45	Partnership Agreement, dated [illegible], between GAIA and Tamarchco GmbH (11)
10.46	Partnership Agreement, dated [illegible], between GAIA and Tamarchco GmbH (11)
10.47	Employment Agreement, dated April 15, 2003, between LTC and Franz Kruger (11)
10.48	Employment Agreement, dated April 15, 2003, between LTC and Ralf Tolksdorf (11)
10.49	Bridge Financing Amendment Agreement No. 5, dated as of April 14, 2003 between LTC and Arch Hill Capital (11)
10.50	Amendment to Consultancy Agreement, dated April 14, 2003, between GAIA Akkumulatorenwerke GmbH and SMR Strategische Management und Riskoberatungs GmbH with respect to services of Ralf Tolksdorf (13)
10.51	Partnership Agreement dated August 21, 1998 between GAIA Akkumulatorenwerke GmbH and Technologie-Beteiligungs-Gesellschaft GmbH der Deutschen Ausgleichsbank (13)
10.52	Consultancy Agreement, dated July 31, 2003, between GAIA Akkumulatorenwerke GmbH and Ralf Tolksdorf Unternehmensberatung GmbH (14)
10.53	Form of Securities Purchase Agreement, dated as of January 20, 2004 between Lithium Technology Corporation and the Investors [Schedules and Exhibits omitted] (12)
10.54	Form of Secured Convertible Debenture dated as of January 20, 2004 between Lithium Technology Corporation and the Investors (12)
10.55	Form of Stock Purchase Warrant dated as of January 20, 2004 between Lithium Technology Corporation and the Investors (12)

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10.56	Form of Registration Rights Agreement dated as of January 20, 2004 between Lithium Technology Corporation and the Investors (12)
10.57	Form of Security Agreement dated as of January 20, 2004 between Lithium Technology Corporation and the Investors (12)
10.58	Form of Intellectual Property Security Agreement dated as of January 20, 2004 between Lithium Technology Corporation and the Investors [Schedules and Exhibits omitted] (12)
10.59	Form of Lien Agreement dated as of January 20, 2004 between GAIA Akkumulatorenwerke GmbH and the Investors (12)
10.60	Form of Debt Exchange Agreement, dated as of April 13, 2004 between Lithium Technology Corporation, GAIA Holding N.V., GAIA Akkumulatorenwerke GmbH, Arch Hill Capital N.V. and Arch Hill Ventures N.V. (15)
10.61	Form of \$2.00 Stock Purchase Warrant dated as of April 13, 2004, issued to Arch Hill Capital N.V. (15)
10.62	Form of \$2.40 Stock Purchase Warrant dated as of April 13, 2004, issued to Arch Hill Capital N.V. (15)
10.63	Form of Stock Purchase Warrant dated as of May 5, 2004, issued to finders in January 10% Convertible Debenture Financing (16)
21.1	List of Subsidiaries (11)
23.1	Consent of PricewaterhouseCoopers LLP +
23.2	Consent of Gallagher, Briody & Butler (included in Exhibit 5.0) +

(1)	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
(2)	Incorporated herein by reference to LTC's Annual Report on Form 10-KSB for the fiscal year ended December 31, 1998.
(3)	Incorporated herein by reference to LTC's Annual Report on Form 10-KSB for the fiscal year ended December 31, 2001.
(4)	Incorporated herein by reference to LTC's Annual Report on Form 10-KSB for the fiscal year ended December 31, 1995.
(5)	Incorporated herein by reference to LTC's Annual Report on Form 10-KSB for the fiscal year ended December 31, 2000.
(6)	Incorporated herein by reference to LTC's Current Report on Form 8-K, dated January 23, 2002.
(7)	Incorporated herein by reference to LTC's Current Report on Form 8-K, dated June 7, 2002.
(8)	Incorporated herein by reference to LTC's Quarterly Report on Form 10-QSB for the quarter ended June 30, 2002.
(9)	Incorporated herein by reference to LTC's Current Report on Form 8-K, dated October 4, 2002.
(10)	Incorporated herein by reference to LTC's Current Report on Form 8-K A, dated November 25, 2002.
(11)	Incorporated herein by reference to LTC's Annual Report on Form 10-KSB for the fiscal year ended December 31, 2002.
(12)	Incorporated herein by reference to LTC's Current Report on Form 8-K, dated January 26, 2004.

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- (13) Incorporated herein by reference to LTC's Quarterly Report on Form 10-QSB for the quarter ended March 31, 2003.
 - (14) Incorporated herein by reference to LTC's Quarterly Report on Form 10-QSB for the quarter ended June 30, 2003.
 - (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.
- + Exhibit filed herewith in this Amendment No. 1 to Registration Statement.

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Item 28. UNDERTAKINGS

The undersigned registrant will:

(a)(1) File, during any period in which it offers or sells securities, a post-effective amendment to this registration statement to:

- (i) Include any prospectus required by Section 10(a)(3) of the Securities Act;
- (ii) Reflect in the prospectus any facts or events which, individually or together, represent a fundamental change in the information in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in the volume and price represent no more than a 20% change in the maximum aggregate offering price set forth in the Calculation of Registration Fee table in the effective registration statement;
- (iii) Include any addition or changed material on the plan of distribution.

(2) For determining liability under the Securities Act, treat each post-effective amendment as a new registration statement of the securities offered, and the offering of the securities at that time to be the initial *bona fide* offering.

(3) File a post-effective amendment to remove from registration any of the securities that remain unsold at the end of the offering.

(e) Insofar as indemnification for liabilities arising under the Securities Act of 1933 (the "Act") may be permitted to directors, officers and controlling persons of LTC pursuant to the foregoing provisions, or otherwise, LTC has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable.

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SIGNATURES

In accordance with the requirements of the Securities Act of 1933, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form SB-2 and authorized this amendment to registration statement to be signed on its behalf by the undersigned, in the City of Nordhausen, Germany, on July 7, 2004.

LITHIUM TECHNOLOGY CORPORATION

By: /s/ Franz J. Kruger
Franz J. Kruger

Chief Executive Officer (Principal Executive
Officer)

By: /s/ John J. McGovern
John J. McGovern

Chief Financial Officer (Principal Financial
and Accounting Officer)

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Pursuant to the requirements of the Securities Act of 1933, this registration statement has been signed below on the 7th day of July, 2004 by the following persons in the capacities indicated.

<u>Signature</u>	<u>Title</u>
/s/ Franz J. Kruger	Chief Executive Officer and Director
Franz J. Kruger	(Principal Executive Officer)
/s/ Ralf Tolksdorf	Director
Ralf Tolksdorf	
*	Director
David J. Cade	
*	Director
Stephen F. Hope	
*	Director
Ralph D. Ketchum	
*	Director
Arif Maskatia	
*	Director
Hendrickus Harold van Andel	
*	Director
Marnix A. Snijder	
*By: /s/ Franz J. Kruger Attorney-in-Fact	