

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

For the quarterly period ended: March 31, 1998

Commission file No. 0-23336

ELECTRIC FUEL CORPORATION

Exact name of registrant as specified in its charter

Delaware

95-4302784

(State or other jurisdiction  
incorporation or organization)

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

885 Third Avenue, New York, New York 10022 - Suite 2900

(Address of principal executive offices)  
(Zip Code)

(212) 230-2172

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the 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.

Yes X

No

APPLICABLE ONLY TO CORPORATE ISSUERS:

The number of shares outstanding of the issuer's common stock  
as at May 13, 1998 was 14,229,003.

ELECTRIC FUEL CORPORATION

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ELECTRIC FUEL CORPORATION  
CONSOLIDATION BALANCE SHEETS

<TABLE>  
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DECEMBER 31,  
1997

MARCH 31,  
1998

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ASSETS

<C>

(Audited)

<C>

(Unaudited)

## CURRENT ASSETS:

Cash and cash equivalents	\$11,771,816	\$ 5,413,030
Marketable debt securities	3,101,846	3,704,211
Accounts receivable:		
Trade	801,927	687,424
Other	1,711,037	722,216
Inventories	538,682	471,621
	-----	-----
TOTAL CURRENT ASSETS	17,925,308	10,998,502
	-----	-----
MARKETABLE DEBT SECURITIES	1,843,326	6,232,583
	-----	-----
FIXED ASSETS:		
Cost	7,058,716	7,144,886
Less - accumulated depreciation and amortization	2,304,327	2,534,058
	-----	-----
	4,754,389	4,610,828
	-----	-----
OTHER ASSETS net of accumulated amortization	49,182	46,675
	-----	-----
	\$24,572,205	\$21,888,588
	=====	=====

&lt;/TABLE&gt;

ELECTRIC FUEL CORPORATION  
CONSOLIDATED BALANCE SHEETS<TABLE>  
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	DECEMBER 31, 1997	MARCH 31, 1998
	(Audited)	(Unaudited)
<S>	<C>	<C>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable and accruals:		
Trade	\$ 1,169,371	\$ 816,052
Other	1,786,163	1,411,947
Advances from Customers	1,014,948	1,140,533
	-----	-----
TOTAL CURRENT LIABILITIES	3,970,482	3,368,532
LIABILITY FOR EMPLOYEE RIGHTS UPON RETIREMENT net of amount funded	1,842,749	1,853,572
	-----	-----
TOTAL LIABILITIES	5,813,231	5,222,104
	-----	-----
STOCKHOLDERS' EQUITY:		
Common stock -- \$0.01 par value; authorized -- 28,000,000 shares; issued and outstanding - 14,218,161 shares as of December 31, 1997 and 14,229,003 shares as of March 31, 1998:	142,182	142,290
Preferred stock - \$0.01 par value; authorized - 1,000,000 shares, no shares outstanding		
Additional paid-in capital	57,077,708	57,124,907
Accumulated deficit	(36,020,457)	(38,125,472)
Unrealized gain on available-for-sale securities	436	4,071
Notes receivable from stockholders	(2,440,895)	(2,479,312)
	-----	-----
TOTAL STOCKHOLDERS' EQUITY	18,758,974	16,666,484
	-----	-----
	\$ 24,572,205	\$ 21,888,588
	=====	=====

&lt;/TABLE&gt;

## ELECTRIC FUEL CORPORATION

## CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

<TABLE>  
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	THREE MONTHS ENDED MARCH 31,	
	1997	1998
<S>	<C>	<C>
REVENUES	\$ 1,023,972	\$ 1,268,587

RESEARCH AND DEVELOPMENT EXPENSES AND COST OF REVENUES		
Expenses incurred	2,746,918	2,638,736
Less - royalty-bearing grants		
	2,746,918	2,638,736
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	927,008	814,731
	3,673,926	3,453,467
OPERATING LOSS	(2,649,954)	(2,184,880)
FINANCIAL INCOME - NET	197,004	98,847
LOSS BEFORE TAXES ON INCOME	(2,452,950)	(2,086,033)
TAXES ON INCOME		18,982
LOSS FOR THE PERIOD	(2,452,950)	(2,105,015)
LOSS PER SHARE	\$ (0.20)	\$ (0.17)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	12,472,359	12,525,943

</TABLE>

ELECTRIC FUEL CORPORATION

<TABLE>

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CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

(unaudited)

COMMON STOCK

	COMMON STOCK		ADDITIONAL PAID-IN	
	SHARES	AMOUNT	CAPITAL	ACCUMULATED DEFICIT
<S>	<C>	<C>	<C>	<C>
BALANCE AT JANUARY 1, 1998	14,218,161	\$142,182	\$57,077,708	\$(36,020,457)
CHANGES DURING THE THREE MONTH PERIOD ENDED MARCH 31, 1998:				
Shares issued in connection with the exercise of option	10,842	\$ 108	\$ 8,782	
Accrued interest on notes receivable from stockholders			\$ 38,417	
Unrealized gain on available-for-sale securities				
Loss				\$(2,105,015)
BALANCE AT				
MARCH 31, 1998	14,229,003	\$142,290	\$57,124,907	\$(38,125,472)

<CAPTION>

	UNREALIZED GAIN ON AVAILABLE-FOR-SALE SECURITIES	NOTES RECEIVABLE FROM SHAREHOLDERS	TOTAL
	<S>	<C>	<C>
BALANCE AT JANUARY 1, 1998	\$ 436	\$ (2,440,895)	\$18,758,974
CHANGES DURING THE THREE MONTH PERIOD ENDED MARCH 31, 1998:			
Shares issued in connection with the exercise of option			\$ 8,890
Accrued interest on notes receivable from stockholders		\$ (38,417)	\$ 0
Unrealized gain on available-for-sale securities	\$3,635		\$ 3,635
Loss			\$(2,105,015)
BALANCE AT			
MARCH 31, 1998	\$4,071	\$ (2,479,312)	\$16,666,484

</TABLE>

ELECTRIC FUEL CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

<TABLE>

<CAPTION>

	THREE MONTHS ENDED MARCH 31,	
	1997	1998
<S>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Loss for the period	\$ (2,452,950)	\$ (2,105,015)
Adjustments required to reconcile loss to net cash used in operating activities:		
Depreciation and amortization	233,132	232,239
Amortization of net premium (discount) on marketable debt securities *	(44,476)	12,013
Liability for employee rights upon retirement -- net	222,920	10,823
Changes in operating asset and liability items:		
Decrease (increase) in accounts receivable	107,044	1,103,324
Decrease (increase) in inventories	174,616	67,061
Increase (decrease) in accounts payable and accruals	(159,081)	(727,535)
Increase (decrease) in advances from customers	175,059	125,585
NET CASH USED IN OPERATING ACTIVITIES	\$ (1,743,736)	\$ (1,281,505)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of fixed assets	(106,518)	(162,886)
Proceeds from disposal of fixed assets		76,715
Sale or redemption of (purchase of) marketable debt securities - net *	3,447,381	(5,000,000)
NET CASH PROVIDED BY INVESTING ACTIVITIES	\$ 3,340,863	\$ (5,086,171)
FORWARD	\$ 1,597,127	\$ (6,367,676)

\*Reclassified

</TABLE>

ELECTRIC FUEL CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

<TABLE>  
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	THREE MONTHS ENDED MARCH 31,	
	1997	1998
<S>	<C>	<C>
FORWARD	\$ 1,597,127	\$ (6,367,676)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from exercise of options	6,931	8,890
Net cash provided by financing activities	6,931	8,890
INCREASE IN CASH AND CASH EQUIVALENTS	1,604,058	(6,358,786)
BALANCE OF CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	12,662,776	11,771,816
BALANCE OF CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 14,266,834	\$ 5,413,030

</TABLE>

ELECTRIC FUEL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. The interim financial statements of Electric Fuel Corporation ("the Company") reflect all adjustments, consisting only of normal recurring accruals, which are, in the opinion of the Company's management, necessary for a fair statement of results for the periods presented. Operating revenue and expenses for any interim period are not necessarily indicative of results for a full year.

For the purpose of these interim financial statements, certain information and disclosures normally included in the financial statements have been

condensed or omitted. These unaudited statements should be read in conjunction with the audited financial statements and notes thereto for the year ended December 31, 1997.

## 2. EFFECTS OF RECENT PRONOUNCEMENTS

- a) In February 1997, the FASB issued Statement No. 128, "Earnings per share" ("Statement 128"), which is effective as from 1997. All earning per share amounts for all periods have been presented and where appropriate restated to conform to the Statement 128 requirements. Consequently, the loss per share for the quarter ended March 31, 1997 increased from \$0.18, as previously reported, to \$0.20 as reported in these financial statements.
- b) In June 1997, the FASB issued Statement No. 130 "Reporting Comprehensive Income" (Statement 130), which is effective for fiscal years beginning after December 15, 1997. Except for unrealized gains on available-for-sale securities in immaterial amounts, the provisions of Statement 130 require no additional reporting by the Company.

### ELECTRIC FUEL CORPORATION

#### Management's Discussion and Analysis of Financial Condition and Results of Operations

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The following discussion and analysis should be read in conjunction with the financial statements and notes thereto appearing elsewhere in this Quarterly Report. Amounts reported here have been rounded to the nearest thousand, unless such amounts are more than 1.0 million, in which event such amounts have been rounded to the nearest hundred thousand.

#### Forward Looking Statements

When used in this discussion, the words "believes", "anticipated" and similar expressions are intended to identify forward looking statements. Such statements are subject to certain risks and uncertainties which could cause actual results to differ materially from those projected. See "Important Factors Regarding Forward-Looking Statements" attached as Exhibit 99 to the Company's Annual Report for the year ended December 31, 1997 on Form 10-K and incorporated herein by reference. Readers are cautioned not to place undue reliance on these forward-looking statements which speak only as of the date hereof. The Company undertakes no obligation to publicly release the result of any revisions to these forward-looking statements which may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

#### GENERAL

From its inception, the Company has been engaged principally in the research, design, development and commercialization of an innovative, advanced zinc-air battery. To date, the main application for the Company's technology has been a system for powering zero emission electric vehicles. In part, because the market for electric vehicles has not demonstrated previously anticipated levels of growth in 1997, the Company began a strategic shift to actively expand its activities into additional applications for its zinc-air battery technology. In January 1998, the Company announced the creation of three market-related divisions to expand its zinc-air battery technology for wider applications. The three divisions are Electric Vehicle, Consumer Batteries, and Defense and Safety Products.

RESULTS OF OPERATIONS:  
THREE MONTHS ENDED MARCH 31, 1998 COMPARED TO THE THREE MONTHS ENDED MARCH 31, 1997.

#### REVENUES:

Revenues for the first quarter of 1998 totaled \$1.3 million compared with \$1.0 million in the comparable period in 1997, an increase of \$300,000. During the first quarter of 1998, the Deutsche Post and the Company agreed to extend the operations of the Field

Test through May, 1998, and revenues for the quarter were principally derived from activities relating to this extension. The balance of the revenues (reflecting coverage of expenses by the Deutsche Post) in connection with the Field Test extension is expected to be recognized during the second quarter of 1998. There can be no assurance that there will be any on-going relationship with the Deutsche Post following May 31, 1998. Additionally, the Company recognized revenues from the sale of additional batteries to the Deutsche Post as well as sales of Electric Vehicle batteries to Edison Termoelettrica, SpA ("Edison"). The Company also recognized revenues from the sale of Survivor Locator Lights. Revenues for the first quarter of 1997, were principally derived from activities relating to the Deutsche Post Field Test program. Additionally, in 1997, the Company continued to recognize revenues from Phase 2 of its agreement with STN Atlas Elektronik GmbH ("STN") to develop a high power zinc oxygen battery for torpedoes, and from the sale of batteries to Edison.

#### EXPENSES:

Research and development expenses and cost of revenues for the first quarter of 1998 were \$2.6 million compared with \$2.7 million for the first quarter of 1997. The Company believes that, given the Company's stage of development, it is not, at this time, meaningful to distinguish between R&D expenses and cost of revenues. The decrease in expenses of \$100,000 from the first quarter of 1997 is principally attributable to a reduction of expenses related to Electric Vehicle battery development. This overall reduction was partially offset by increases in the costs associated with Consumer Battery development, production of increased

quantities of Survivor Locator Lights in the Defense and Safety Division, as well as increased costs related to the operation of the Company's test facility in Bremen, Germany to support the Field Test extension. With regard to the Company's R&D program, since the Company's 1998 grant applications have not yet been approved by the Research Committee of the Office of the Chief Scientist of the Ministry of Industry and Trade, no royalty bearing grants have been recognized in the first quarter of 1998. During the first quarter of 1997, no royalty bearing grants were recognized, as the 1997 application was not approved until the second quarter of 1997. Expenses related to the Field Test are expected to continue to be incurred through the second quarter of 1998, although, direct Field Test expenses during 1998, in contrast to previous years, are being covered by the Deutsche Post. As the Field Test comes to its conclusion, the Company expects a reduction in its expenditures in connection with the engineering and commercialization of the Electric Vehicle battery, that may be partially offset by expenditures in connection with new Electric Vehicle demonstration programs. R&D expenses and cost of operations related to Consumer Battery and Defense and Safety applications are expected to increase significantly during 1998, as the Company intensifies its efforts in these new areas.

The provision for anticipated program losses previously recorded by the Company was eliminated during the fourth quarter of 1997 as the Company does not expect to incur losses during 1998 on the Field Test. Overall, the costs of the Field Test incurred by the Company have exceeded the related program budgeted amounts by more than 20% and during 1997, the Company, pursuant to the terms of the Field Test Partners Agreement, entered into discussions to obtain additional funding from the

Deutsche Post. To date, the Company has not obtained any such funding, and accordingly, the Company operated only a limited number of vehicles during 1997. In the fourth quarter of 1996, the Deutsche Post requested that the Company refund the sum of approximately DM 1.8 million (approximately \$1.0 million) representing milestone payments on account of Opel batteries, which are the subject of a dispute between the Deutsche Post and the Company. The advances were made in accordance with mutually agreed contractual milestones, previously acknowledged by the Deutsche Post as having been achieved, and therefore the Company does not believe that it is required to refund any of the payments. However, until the resolution of this issue, the Company has deferred recognizing this amount in revenues.

Selling, general and administrative expenses for the first quarter of 1998 were \$815,000 vs. \$927,000 in the first quarter of 1997. The decrease was primarily attributable to reduced salaries and professional fees during the first quarter of 1998. The Company expects further increases in selling, general and administrative expenses, particularly with respect to marketing expenses, as the Company expands the applications for its technology.

#### IMPACT OF YEAR 2000

The Company has instituted a program to analyze all computer software and hardware, as well as other operating equipment that are reliant on date related functions, to ensure year 2000 compliance. This program is expected to be completed prior to December 31, 1998. At the present time, the Company does not expect to incur material expenditures to resolve year 2000 issues.

#### LIQUIDITY AND CAPITAL RESOURCES

As of March 31, 1998, the Company had cash, cash equivalents and financial investments of approximately \$15.3 million compared with \$16.7 million as of December 31, 1997.

The Company used available funds during the first quarter of 1998 primarily for continued research and development expenditures, and other working capital needs. The Company increased its net investment in fixed assets by \$86,000 during the three months ended March 31, 1998 to \$7.1 million.

Under an existing line of credit with the First International Bank of Israel Ltd., the Company had outstanding issued letters of credit and bank guarantees totaling approximately \$487,000 as of March 31, 1998.

The Company has no long term debt outstanding and expects that its cash flow from operations, together with present cash reserves and amounts available under the Credit Facility, will be sufficient to fund the Company's projected activities through the second quarter of 1999. If there is no ongoing program with the Deutsche Post, the Company may decide to further scale back certain of its efforts in its Electric Vehicle division. However, additional strategic alliances may require the establishment or expansion of facilities in Israel or elsewhere. In addition, the Company may determine

that it should invest in certain programs, such as additional electric vehicle demonstration programs, which it believes will advance the development and commercialization of the Electric Fuel Electric Vehicle System. The Company is also using its resources to research and develop other applications exploiting its proprietary technology, including batteries for consumer electronic devices. Accordingly, the Company may be required to seek additional funding or pursue other options, such as joint ventures or other strategic relationships. The Company continues to consider financing alternatives when presented and, if financing becomes available on satisfactory terms, including prices, the Company may obtain additional funding, including through the issuance of equity securities.

#### PART II

##### ITEM 6.

1. No reports on Form 8-K were filed during the first quarter of 1998.

ELECTRIC FUEL CORPORATION

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SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ELECTRIC FUEL CORPORATION

(Registrant)

By:        /s/        Robert S. Ehrlich  
             -----

Name:      Robert S. Ehrlich

Title:     Chairman of the Board and  
             Chief Financial Officer

Dated:     May 13, 1998

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<FN>  
<F1> Total costs includes research and development expenses and cost of revenues. Because of the nature of the company's operations, management is of the opinion that it is not meaningful to segregate these costs.

</FN>

</TABLE>