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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED June 30, 2003.

Commission file number: 0-23336

ELECTRIC FUEL CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	95-4302784
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

632 Broadway, Suite 1200, New York, New York	10012
(Address of principal executive offices)	(Zip Code)

(646) 654-2107

(Registrant's telephone number, including area code)

(Former address, if changed since last report)

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 of August 13, 2002 was 40,078,032.

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ELECTRIC FUEL CORPORATION

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PART I - FINANCIAL INFORMATION

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ELECTRIC FUEL CORPORATION
Item 1. INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

CONSOLIDATED BALANCE SHEETS (U.S. Dollars)

<TABLE>
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ASSETS	June 30, 2003 (Unaudited)	December 31, 2002 (Audited)
CURRENT ASSETS:		
Cash and cash equivalents	$ 2,502,955	$ 1,457,526
Certificates of deposit due within one year	48,305	633,339
Trade receivables, net of allowance for doubtful accounts in the amount of $41,394 and $40,636 as of June 30, 2003 and December 31, 2002, respectively	3,666,506	3,776,195
Other receivables	1,419,471	1,032,311
Inventories	2,097,089	1,711,479
Assets of discontinued operations	119,158	349,774
Total current assets	9,853,484	8,960,624
SEVERANCE PAY FUND	931,395	1,025,071
PROPERTY AND EQUIPMENT, NET	2,414,993	2,555,249
GOODWILL	5,037,594	4,954,981
OTHER INTANGIBLE ASSETS, NET	2,081,236	2,567,457
	$20,318,702	$20,063,382

</TABLE>

The accompanying notes are an integral part of the Financial Statements.

ELECTRIC FUEL CORPORATION
CONSOLIDATED BALANCE SHEETS (U.S. Dollars)

<TABLE>
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LIABILITIES AND SHAREHOLDERS' EQUITY	June 30, 2003 (Unaudited)	December 31, 2002 (Audited)
CURRENT LIABILITIES:		
Trade payables	$ 2,546,072	$ 2,900,117
Other accounts payable and accrued expenses	2,053,778	2,009,109
Current portion of promissory note due to purchase of a subsidiary	450,000	1,200,000
Short term loans	25,341	108,659

Liabilities of discontinued operations	433,684	1,053,799
Total current liabilities	5,508,875	7,271,684
LONG TERM LIABILITIES		
Accrued severance pay	2,892,169	2,994,233
Convertible debenture	988,572	--
Promissory note due to purchase of a subsidiary	477,827	516,793
Total long-term liabilities	4,358,568	3,511,026
MINORITY RIGHTS	95,078	243,172
SHAREHOLDERS' EQUITY:		
Share capital -		
Common stock - $0.01 par value each; Authorized: 100,000,000 shares as of June 30, 2003 and December 31, 2002; Issued: 40,233,365 shares as of June 30, 2003 and 35,701,594 shares as of December 31, 2002; Outstanding - 39,678,032 shares as of June 30, 2003 and 35,146,261 shares as of December 31, 2002	402,335	357,017
Preferred shares - $0.01 par value each; Authorized: 1,000,000 shares as of June 30, 2003 and December 31, 2002; No shares issued and outstanding as of June 30, 2003 and December 31, 2002	--	--
Additional paid-in capital	119,054,045	114,082,584
Deferred stock compensation	(12,000)	(12,000)
Accumulated deficit	(104,522,494)	(100,673,619)
Treasury stock, at cost (common stock - 555,333 shares as of June 30, 2003 and December 31, 2002)	(3,537,106)	(3,537,106)
Notes receivable from shareholders	(1,195,045)	(1,177,589)
Accumulated other comprehensive income (loss)	166,446	(1,786)
Total shareholders' equity	10,356,181	9,037,501
	$ 20,318,702	$ 20,063,382

</TABLE>

The accompanying notes are an integral part of the Financial Statements.

ELECTRIC FUEL CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited) (U.S. Dollars)

<TABLE>
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	Six months ended June 30,		Three months ended June 30,	
	2003	2002	2003	2002
<S>	<C>	<C>	<C>	<C>
Revenues	$ 7,526,588	$ 995,598	$ 3,493,135	$ 425,053
Cost of revenues	5,112,889	759,874	2,479,170	376,246
Gross profit	2,413,699	235,724	1,013,965	48,807
Research and development	510,544	218,647	152,505	118,147
Selling and marketing expenses	1,637,576	159,639	933,589	102,700
General and administrative expenses	2,473,507	2,386,833	1,460,752	1,116,511
Amortization of intangible assets	623,543	--	311,771	--

	5,245,170	2,765,119	2,858,617	1,337,358
Operating loss	(2,831,471)	(2,529,395)	(1,844,652)	(1,288,551)
Financial (expenses) income, net	(983,821)	116,719	(725,609)	52,556
Net loss before taxes	(3,815,292)	(2,412,676)	(2,570,261)	(1,235,995)
Tax expenses	(277,047)	(476)	(274,185)	(373)
Net loss before minority interest in profit of a subsidiary	(4,092,339)	(2,413,152)	(2,844,446)	(1,236,368)
Loss to minority	160,298	--	203,526	--
Net loss from continuing operations	$ (3,932,041)	$ (2,413,152)	$ (2,640,920)	$ (1,236,368)
Profit (loss) from discontinued operations	83,166	(3,560,881)	179,127	(1,423,456)
Net loss for the period	$ (3,848,875)	$ (5,974,033)	$ (2,461,793)	$ (2,659,824)
Basic and diluted net loss per share from continuing operations	$ (0.11)	$ (0.08)	$ (0.07)	$ (0.04)
Basic and diluted net loss per share from discontinued operations	$ 0.00	$ (0.12)	$ 0.00	$ (0.05)
Combined basic and diluted net loss per share	$ (0.11)	$ (0.20)	$ (0.07)	$ (0.09)
Weighted average number of shares used in computing basic and diluted net loss per share	35,678,067	30,570,107	36,209,872	30,963,919

</TABLE>

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The accompanying notes are an integral part of the Financial Statements.

ELECTRIC FUEL CORPORATION

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY (U.S. Dollars)

<TABLE>

<CAPTION>

	Common Stock Shares	Common Stock Amount	Additional paid-in capital	Deferred stock compensation	Accumulated deficit	Treasury stock
BALANCE AT JANUARY 1, 2003 -						
<S>	<C>	<C>	<C>	<C>	<C>	<C>
AUDITED.....................	35,701,594	$ 357,017	$114,082,584	$ (12,000)	$(100,673,619)	$ (3,537,106)
CHANGES DURING THE SIX-MONTH PERIOD ENDED JUNE 30, 2003						
Compensation related to issuance of warrants to holders of convertible debenture.................			1,290,000			
Compensation related to beneficial conversion feature of convertible debentures................			600,000			
Conversion of convertible debentures................	2,358,871	23,589	1,486,089			
Exercise of warrants issued to holders of convertible debentures and investors..	1,957,606	19,576	1,405,656			
Shares issued to consultants	215,294	2,153	152,178			
Compensation related to options issued to consultants...............			29,759			
Interest accrued on notes receivable from shareholders.............			7,779			
Other comprehensive loss - Foreign currency translation adjustment.....						
Net loss.....................					(3,848,875)	
Total comprehensive loss.....						
BALANCE AT JUNE 30, 2003 - UNAUDITED...................	40,233,365	$ 402,335	$119,054,045	$ (12,000)	$(104,522,494)	$ (3,537,106)

<CAPTION>

	Notes receivable from shareholders	Accumulated other comprehensive loss	Total comprehensive loss	Total
BALANCE AT JANUARY 1, 2003 -				
<S>	<C>	<C>		<C>
AUDITED.....................	$ (1,177,589)	$ (1,786)		$ 9,037,501
CHANGES DURING THE SIX-MONTH PERIOD ENDED JUNE 30, 2003				
Compensation related to issuance of warrants to holders of convertible debenture.................				$ 1,290,000
Compensation related to beneficial conversion feature of convertible debentures................				$ 600,000
Conversion of convertible debentures................	(9,667)			$ 1,500,000
Exercise of warrants issued to holders of convertible debentures and investors..				$ 1,425,232
Shares issued to consultants				$ 154,331
Compensation related to options issued to consultants...............				$ 29,759
Interest accrued on notes receivable from shareholders.............	(7,779)			-
Other comprehensive loss - Foreign currency translation adjustment.....		168,232	168,232	$ 168,332

Net loss....................			(3,848,875)	$ (3,848,875)
Total comprehensive loss.....			(3,680,643)	
BALANCE AT JUNE 30, 2003 - UNAUDITED..................	$ (1,195,045)	$ 166,446		$ 10,356,181

</TABLE>

The accompanying notes are an integral part of the Financial Statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited) (U.S. Dollars)

<TABLE>
<CAPTION>

	Six months ended June 30, 2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES:		
<S>	<C>	<C>
Net loss for the period	$(3,848,875)	$(5,974,033)
Net loss for the period from discontinued operations	(83,166)	3,560,881
Adjustments required to reconcile net loss to net cash used in operating activities:		
Depreciation	348,401	275,000
Amortization of intangible assets	623,543	--
Amortization of deferred financial expenses	1,036,072	--
Amortization of compensation related to options granted to consultants .	29,759	185,450
Stock-based compensation due to shares granted to consultants	154,331	--
Loss to minority	(160,298)	--
Write-off of inventory	26,000	--
Impairment of property and equipment	62,332	--
Interest (income) expenses accrued on promissory notes due to purchase of subsidiary	(38,966)	--
Capital gain from sale of property and equipment	(3,163)	(4,257)
Write-off of notes receivable from stockholders	--	505,816
Liability for employee rights upon retirement, net	(10,023)	234,744
Changes in operating asset and liability items:		
Decrease in trade receivables	242,923	121,536
Increase in other accounts receivable	(287,559)	(184,095)
Increase in capitalized research and development projects	(101,894)	--
Increase in inventories	(323,595)	(20,810)
Decrease in trade payables	(455,504)	(349,867)
Decrease in accounts payable and accruals	(72,676)	(230,355)
Net cash used in operating activities from continuing operations (reconciled from continuing operations)................................	(2,862,358)	(1,879,990)
Net cash used in operating activities from discontinued operations (reconciled from discontinued operations)	(391,388)	(3,335,379)
Net cash used in operating activities	(3,253,746)	(5,215,369)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Repayment of promissory note related to purchase of subsidiary	(750,000)	--
Purchase of property and equipment	(270,603)	(142,479)
Loans granted to stockholders	--	(4,528)
Proceeds from sale of property and equipment	7,586	4,257
Decrease in demo inventories, net	10,317	--
Decrease in certificates of deposit due within one year	585,034	--
Net cash used in discontinued operations	--	(237,429)
Net cash used in investing activities	(417,666)	(380,179)
FORWARD	$(3,671,412)	(5,595,548)

</TABLE>

The accompanying notes are an integral part of the Financial Statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited) (U.S. Dollars)

	Six months ended June 30, 2003	2002
FORWARD	$ (3,671,412)	$ (5,595,548)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Decrease in short-term credit from banks	(91,001)	--
Proceeds from issuance of share capital, net	--	3,230,000
Proceeds from exercise of options and warrants	1,325,837	103,410
Payment of interest and principal on notes receivable from shareholders	--	43,308
Convertible debenture received	3,500,000	--
Net cash provided by financing activities	4,734,836	3,376,718
DECREASE IN CASH AND CASH EQUIVALENTS	1,063,424	(2,218,830)
DECREASE IN CASH DUE TO EXCHANGE RATE DIFFERENCES	(17,995)	--
BALANCE OF CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	1,457,526	12,671,754
BALANCE OF CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	$ 2,502,955	$ 10,452,924
SUPPLEMENTARY INFORMATION ON NON-CASH TRANSACTIONS:		
Issuance of share capital (including additional paid-in capital) in respect of notes receivable	$ --	$ 85,055
Exercise of options and warrants against notes receivable	$ 99,394	$ 70,000
Conversion of convertible debenture against shares	$ 1,500,000	$ --
Compensation related to beneficial conversion feature of convertible debentures	$ 1,890,000	$ --

The accompanying notes are an integral part of the Financial Statements.

ELECTRIC FUEL CORPORATION

NOTE TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

General

The interim consolidated financial statements of Electric Fuel Corporation reflect all adjustments, consisting only of normal recurring accruals, which are, in the opinion of our management, necessary for a fair statement of results for the periods presented. Operating revenues and expenses for any interim period are not necessarily indicative of results for a full year.

For the purpose of these interim consolidated financial statements, certain information and disclosures normally included in financial statements have been condensed or omitted. These unaudited statements should be read in conjunction with our audited consolidated financial statements and notes thereto for the year ended December 31, 2002.

NOTE 1: BASIS OF PRESENTATION

a. Company:

Electric Fuel Corporation ("EFC," "Electric Fuel," or the "Company") and its subsidiaries are engaged in the design, development and commercialization of its proprietary zinc-air battery technology for defense and security products, military applications and electric vehicles. The Company is primarily operating through Electric Fuel Ltd. ("EFL") a wholly-owned subsidiary based in Beit Shemesh, Israel, through IES Interactive Training Systems, Inc., a wholly-owned subsidiary based in Littleton, Colorado, and through M.D.T. Protective Industries, Ltd., a majority-owned subsidiary based in Lod, Israel. The Company's production facilities are primarily located in Auburn, Alabama, and its research and development operations are primarily located in Israel.

b. Accounting:

The accompanying condensed interim consolidated financial statements have been prepared by Electric-Fuel Corporation in accordance with generally accepted accounting principles in the United States and the rules and regulations of the Securities and Exchange Commission, and include the accounts of Electric-Fuel Corporation and its subsidiaries. Certain information and footnote disclosures, normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States, have been condensed or omitted pursuant to such rules and regulations. In the opinion of the Company, the unaudited financial statements reflect all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the financial position at June 30, 2003 and the operating results and cash flows for the six months ended June 30, 2003 and 2002. These financial statements and notes should be read in conjunction with the Company's audited consolidated financial statements and notes thereto, included in the Company's annual report on Form 10-K, as amended, filed with the Securities and Exchange Commission.

The results of operations for the six months ended June 30, 2003 are not necessarily indicative of results that may be expected for any other interim period or for the full fiscal year ending December 31, 2003.

c. Accounting for stock-based compensation:

The Company has elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB No. 25") and FASB No. Interpretation No. 44,

"Accounting for Certain Transactions Involving Stock Compensation" ("FIN No. 44") in accounting for its employee stock option plans. Under APB No. 25, when the exercise price of the Company's stock options is less than the market price of the underlying shares on the date of grant, compensation expense is recognized.

Under Statement of Financial Accounting Standard No. 123 "Accounting for Stock-Based Compensation ("SFAS No. 123"), pro forma information regarding net income and net earnings per share is required, and has been determined as if the Company had accounted for its employee stock options under the fair value method of SFAS No. 123. The fair value for these options is amortized over their vesting period and estimated at the date of grant using a Black-Scholes Option Valuation Model with the following weighted-average assumptions for the three and six months ended June 30, 2003 and 2002:

<TABLE>
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	Six months ended June 30,		Three months ended June 30,	
	2003	2002	2003	2002
		(Unaudited)		
<S>	<C>	<C>	<C>	<C>
Risk free interest	1%	1.5%	1%	1.5%
Dividend yields	0%	0%	0%	0%
Volatility	0.538	0.643	0.538	0.643
Expected life	4	4	4	4

</TABLE>

Pro forma information under SFAS No. 123:

<TABLE>
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	Six months ended June 30,		Three months ended June 30,	
	2003	2002	2003	2002
			(Unaudited)	
<S>	<C>	<C>	<C>	<C>
Net loss as reported	(3,848,875)	$ (5,974,033)	$ (2,461,793)	$(2,659,824)

Add: Stock-based compensation expense determined under fair value method for all awards, net of related tax effects	$ (1,413,157)	$ (1,241,117)	$ (701,776)	$ (603,556)
Pro forma net loss	(5,262,032)	$ (7,215,150)	$ (3,163,569)	$(3,263,380)
Basic and diluted loss per share, as reported	$ (0.11)	$ (0.20)	$ (0.07)	$ (0.09)
Pro forma basic and diluted loss per share	$ (0.15)	$ (0.24)	$ (0.09)	$ (0.11)

</TABLE>

Note 2: INVENTORIES

Inventories are stated at the lower of cost or market value. Cost is determined using the average cost method. The Company periodically evaluates the quantities on hand relative to current and historical selling prices and historical and projected sales volume. Based on these evaluations, provisions are made in each period to write down inventory to its net realizable value. Inventories are composed of the following:

	June 30, 2003 (Unaudited)	December 31, 2002 (Audited)
Raw materials..................	$ 855,933	$ 893,666
Work-in-progress...............	535,207	296,692
Finished goods.................	705,949	521,121
	$ 2,097,089	$ 1,711,479

Note 3: IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

In June 2002, the FASB issued SFAS No. 146 "Accounting for Costs Associated with Exit or Disposal Activities" which addresses significant issues regarding the recognition, measurement, and reporting of costs associated with exit and disposal activities, including restructuring activities. SFAS No. 146 requires that costs associated with exit or disposal activities be recognized when they are incurred rather than at the date of a commitment to an exit or disposal plan. SFAS No. 146 is effective for all exit or disposal activities initiated after December 31, 2002. The adoption of SFAS No. 146 did not have a material impact on the Company's results of operations or financial position.

In November 2002, the EITF published Issue No. 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables," or EITF Issue No. 00-21, which addresses how to determine whether a revenue arrangement involving multiple deliverables contains more than one unit of accounting for the purposes of revenue recognition and how the revenue arrangement consideration should be measured and allocated to the separate units of accounting. EITF Issue No. 00-21 applies to all revenue arrangements that we enter into after June 30, 2003. The Company does not expect the adoption of EITF Issue No. 00-21 to have a material impact on the Company's financial condition or results of operations.

In January 2003, the Financial Accounting Standards Board, or FASB, issued FASB Interpretation No., or FIN, 46, "Consolidation of Variable Interest Entities, an interpretation of Accounting Research Bulletin, or ARB, No. 51." FIN 46 requires existing unconsolidated variable interest entities to be consolidated by their primary beneficiaries if the entities do not effectively disperse risks among parties involved. Variable interest entities that effectively disperse risk will not be consolidated unless a single party holds an interest or combination of interests that effectively recombines risks that were previously dispersed. FIN 46 also requires enhanced disclosure requirements related to variable interest entities. FIN 46 applies immediately to variable interest entities created after January 31, 2003, and to variable interest entities in which an enterprise obtains an interest after that date. It applies in the first fiscal year or interim period beginning after June 15, 2003 to variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003.

In April 2003, the FASB issued Statements of Financial Accounting Standards No. 149 ("SFAS No. 149"), an amendment to SFAS No. 133. SFAS No. 149 clarifies under what circumstances a contract with initial investments meets the characteristics of a derivative and when a derivative contains a financing component. This SFAS is effective for contracts entered into or modified after June 30, 2003. The Company does not expect the adoption of SFAS No. 149 to have a material impact on the Company's financial condition or results of operations.

On May 15, 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity." SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). SFAS 150 affects the issuer's accounting for three types of freestanding financial instruments:

- mandatorily redeemable shares, which the issuing company is obligated to buy back in exchange for cash or other assets;

- instruments that do or may require the issuer to buy back some of its shares in exchange for cash or other assets; includes put options and forward purchase contracts; and

- obligations that can be settled with shares, the monetary value of which is fixed, tied solely or predominately to a variable such as a market index or varies inversely with the value of the issuers' shares.

SFAS No. 150 does not apply to features embedded in a financial instrument that is not a derivative in its entirety. Most of the guidance in SFAS No. 150 is effective for all financial instruments entered into or modified after May 31, 2003 and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The Company does not expect the adoption of SFAS No. 150 to have a material impact on the Company's financial condition or results of operations.

NOTE 4: SEGMENTS INFORMATION

a. General:

The Company and its subsidiaries operate primarily in two business segments and follow the requirements of SFAS No. 131.

The Company previously managed its business in three reportable segments organized on the basis of differences in its related products and services. With the discontinuance of Consumer Batteries segment and acquiring two subsidiaries during 2002, two reportable segments remain: Electric Fuel Batteries, and Defense and Security Products. As a result the Company reclassified information previously reported in order to comply with new segment reporting.

The Company's reportable operating segments have been determined in accordance with the Company's internal management structure, which is organized based on operating activities. The accounting policies of the operating segments are the same as those of the Company. The Company evaluates performance based upon two primary factors, one is the segment's contribution to the Company's future strategic growth.

b. The following is information about reported segment gains, losses and assets for the six months ended June 30, 2003 and 2002:

<TABLE>
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Six Months Ended June 30,	Electric Fuel Batteries	Defense and Safety Products	Total
		(U.S. dollars)	
2003:			
Revenues from outside customers	$ 2,853,841	$ 4,672,747	$ 7,526,588
2002:			
Revenues from outside customers	$ 995,598	$ -	$ 995,598

</TABLE>

c. Revenues from major customers:

	June 30, 2003	June 30, 2002
	%	%
Electric Fuel Batteries:		
Customer A	30%	38%
Customer B	2%	31%
Defense and Security Products:		
Customer C	18%	-
Customer D	22%	-

Note 5: CONVERTIBLE DEBENTURES AND WARRANTS

a. Debentures:

Pursuant to the terms of a Securities Purchase Agreement (the "SPA") dated December 31, 2002, the Company issued and sold to a group of institutional investors 9% secured convertible debentures due June 30, 2005 ("Debentures") in an aggregate principal amount of $3.5 million. The Debentures were convertible at any time prior to June 30, 2005 at a conversion price of $0.75 per share. In April 2003, this conversion price was amended to $0.64 per share, and the Debentures became convertible into a maximum of 5,468,750 shares of common stock.

In June 2003, a total of $1,500,000 principal amount of debentures was converted at a conversion price of $0.64 per share.

In determining whether the Debentures include a beneficial conversion option in accordance with EITF 98-5, "Accounting for Convertible Securities with Beneficial Conversion Features or Continently Adjustable Conversion Ratios," and EITF 00-27, the total proceeds were allocated to the Debentures and the detachable warrants based on their related fair values. The fair value of these warrants was determined using Black-Scholes pricing model, assuming a risk-free interest rate of 3.5%, a volatility factor 64%, dividend yields of 0% and a contractual life of five years.

In connection with these Debentures, the Company recorded financial expenses of approximately $600,000 and in connection with the warrants, the Company recorded financial expenses of approximately $1,290,000. The total of $1,890,000 is amortized ratably over the life of the Debentures until June 30, 2005.

The Debentures are presented in the balance sheet as follows:

	June 30, 2003
	(Unaudited)
Original principle amount....................................	$ 3,500,000
Amount converted into shares................................	(1,500,000)
Compensation related to issuance of warrants and debenture...	(1,890,000)
Financial expenses related to amortization of compensation...	878,572
Total debentures, net.......................................	$ 988,572

b. Warrants:

As part of the SPA referred to above, the Company issued to the purchasers of its Debentures an aggregate of 3,500,100 warrants ("Warrants"), exercisable at prices ranging from $0.84 to $0.93. In April 2003, the Company amended the Warrants to adjust their exercise prices to $0.64.

In May and June 2003, warrants to purchase a total of 1,957,606 shares of common stock, having an aggregate exercise price of $1,425,232, were exercised. An aggregate of 1,000,029 of these warrant were Warrants issued in connection with the issuance of the Debentures, and were exercised at their exercise price of $0.64 per share. The remaining 957,577 of these warrants had originally been issued in May 2001 at an exercise price of $3.22 per share, but were repriced on June 30, 2003, immediately prior to exercise, to $0.82 per share. In connection with this repricing, the holders of these 957,577 warrants received an aggregate of 638,385 new five-year warrants to purchase shares at an exercise price of $1.45 per share and exercisable after December 31, 2003. As a result of this repricing, the Company will record a compensation expense in the amount of approximately $390,000 in the third quarter of 2003.

Note 6: CONTINGENCIES

The Company has received a letter from the Israel Investment Center alleging, without any specifics, that the Company has not abided by the terms of certain of the Company's grants from them. The Investment Center accordingly cancelled the Company's "approved enterprise" status in connection with a portion of the Company's existing facilities, but agreed that it would not seek return of any grants issued in the past.

While continuation of the Company's "approved enterprise" status would have given the Company certain tax benefits, inasmuch as the Company has a substantial loss carryforward, the Company does not believe that the cancellation of its "approved enterprise" status will have any material adverse effect on it.

Note 7: SUBSEQUENT EVENTS

a. Repricing and exercise of warrants:

In July 2003, the Company repriced an additional 400,000 warrants that it had issued in May 2001. These warrants had originally been issued in May 2001 at an exercise price of $3.22 per share, but were repriced in July 2003, immediately prior to exercise, to $0.82 per share. In connection with this repricing, the holders of these 400,000 warrants received an aggregate of 266,667 new warrants to purchase shares at an exercise price of $1.45 per share.

b. Establishment of new subsidiary:

In August 2003, the Company established a new subsidiary, Arcon Security Corporation, a Delaware corporation based in the United States, to provide homeland security consulting and other services.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements that involve inherent risks and uncertainties. When used in this discussion, the words "believes," "anticipated," "expects," "estimates" and similar expressions are intended to identify such forward-looking statements. Such statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those projected. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. We undertake no obligation to publicly release the result of any revisions to these forward-looking statements that may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors including, but not limited to, those set forth elsewhere in this report. Please see "Risk Factors," below, and in our other filings with the Securities and Exchange Commission.

Electric Fuel(R) is a registered trademark and Arotech(TM) is a trademark of Electric Fuel Corporation. All company and product names mentioned may be trademarks or registered trademarks of their respective holders. Unless the context requires otherwise, all references to us refer collectively to Electric Fuel Corporation (Arotech) and Arotech's wholly-owned Israeli subsidiary, Electric Fuel (E.F.L.) Limited (EFL), its majority-owned Israeli subsidiary, MDT Protective Industries Ltd., and its wholly-owned Delaware subsidiaries, Electric Fuel Transportation Corp. and IES Interactive Training, Inc.

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

General

We are a world leader in primary and refuelable Zinc-Air fuel cell technology, engaging directly and through our subsidiaries in the use of Zinc-Air battery technology for defense and security products and other military applications and for electric vehicles, in car armoring, and in interactive multimedia use-of-force simulators. We operate in two business units:

>> we develop, manufacture and market defense and security products, including advanced hi-tech multimedia and interactive digital solutions for training of military, law enforcement and security personnel and sophisticated lightweight materials and advanced engineering processes to armor vehicles; and

>> we pioneer advancements in Zinc-Air battery technology for defense and security products and other military applications and for electric vehicles.

We incurred significant operating losses for the years ended December 31, 2000, 2001 and 2002 and the first six months of 2003. While we expect to continue to derive revenues from the sale of defense and security products that we manufacture (directly and through our subsidiaries) and from components of the Electric Fuel Electric Vehicle System, there can be no assurance that we will ever derive such revenues or achieve profitability.

Background

We began work in 1990 on the research, development and commercialization of an advanced Zinc-Air battery system for powering electric vehicles, work that continues to this day. Beginning in 1998, we also began to apply our Zinc-Air fuel cell technology to the defense industry, by receiving and performing a series of contracts from the U.S. Army's Communications-Electronics Command (CECOM) to develop and evaluate advanced primary Zinc-Air fuel cell packs. This effort culminated in 2002 in our receipt of a National Stock Number, a Department of Defense catalog number assigned to products authorized for use by the U.S. military, and our subsequent receipt of $2.5 million and $1.6 million delivery orders for our newly designated BA-8180/U military batteries.

We further enhanced our capabilities in the defense industry through our purchase in the third quarter of 2002 of two new subsidiaries: IES Interactive Training, Inc., which provides specialized "use of force" training for police, homeland security personnel and the military, and MDT Protective Industries Ltd., which is engaged in the use of sophisticated lightweight materials and advanced engineering processes to armor vehicles.

Between 1998 and 2002, we were also engaged in the design, development and commercialization of our proprietary Zinc-Air fuel cell technology for portable consumer electronic devices such as cellular telephones, PDAs, digital cameras and camcorders. In October 2002, we discontinued retail sales of our consumer battery products because of the high costs associated with consumer marketing and low volume manufacturing.

We were incorporated in Delaware in 1990, and we have been doing business under the name "Arotech Corporation" since February 2003. We anticipate changing our corporate name to Arotech Corporation at our next annual shareholders' meeting in September 2003.

Defense and Security Products

Interactive Use-of-Force Training

Through our wholly-owned subsidiary, IES Interactive Training, Inc. (IES), we provide specialized "use of force" training for police, homeland security personnel and the military. We offer products and services that allow organizations to train their personnel in safe, productive, and realistic environments. We believe that our training systems offer more functionality, greater flexibility, unprecedented realism and a wider variety of user interface options than competing products. Our systems are sold to corporations, government agencies, military and law enforcement professionals around the world. The simulators are currently used by some of the worlds leading training academies, including (in the United States) the Secret Service, the Bureau of Alcohol, Tobacco and Firearms, the Houston Police Department, the Customs Service, the Border Patrol, the Bureau of Engraving and Printing, the Coast Guard, the Federal Law Enforcement

Training Centers, the California Department of Corrections, the Detroit Police Department, the Washington DC Metro Police and international users such as the Israeli Defense Forces, the German National Police, the Royal Thailand Army, the Hong Kong Police, the Russian Security Police, and over 400 other training departments worldwide.

Our interactive training systems range from the powerful Range 3000 use-of-force simulator system to the multi-faceted A2Z Classroom Training system. The Range 3000 line of simulators addresses the entire use of force training continuum in law enforcement, allowing the trainee to use posture, verbalization, soft hand skills, impact weapons, chemical spray, low-light electronic weapons and lethal force in a scenario based classroom environment. The A2Z Classroom Trainer provides the trainer with real time electronic feedback from every student through wireless handheld keypads. The combination of interactivity and instant response assures that learning takes place in less time with higher retention.

Vehicle Armoring

Through our majority-owned MDT Protective Industries Ltd. (MDT), we specialize in using state-of-the-art lightweight ceramic materials, special ballistic glass and advanced engineering processes to fully armor vans and cars. MDT is a leading supplier to the Israeli military, Israeli special forces and special services. MDT's products are proven in intensive battlefield situations and under actual terrorist attack conditions, and are designed to meet the demanding requirements of governmental and private sector customers worldwide.

Electric Fuel Batteries

We have been engaged in research and development in the field of Zinc-Air electrochemistry and battery design for over ten years, as a result of which we have developed our current technology and its applications. We have successfully applied our technology to our high-energy battery packs for military and security applications. We have also applied our technology to the development of a refuelable Zinc-Air fuel cell for powering zero-emission electric vehicles. Through these efforts, we have sought to position ourselves as a world leader in the application of Zinc-Air technology to innovative primary and refuelable power sources.

We believe that our Zinc-Air batteries provide the highest energy and power density combination available today in the defense market, making them particularly appropriate where long missions are required and low weight is important.

Military Batteries

Our line of existing battery products for the military and defense sectors includes Advanced Zinc-Air Power Packs (AZAPPs) utilizing our most advanced cells (which have specific energy of 400 watt-hours per kilogram), a line of super-lightweight AZAPPs that feature the same 400 Wh/kg cell technology in smaller cells, and our new, high-power Zinc-Air Power Packs (ZAPPs), which offer extended-use portable power using our commercial Zinc-Air cell technology. Our AZAPPs have received a National Stock Number (a Department of Defense catalog number assigned to products authorized for use by the U.S. military), making our AZAPPs available for purchase by all units of the U.S. Armed Forces.

Electric Vehicle

Our Electric Vehicle effort, conducted through our subsidiary Electric Fuel Transportation Corp., continues to focus on obtaining and implementing demonstration projects in the U.S. and Europe, and on building broad industry partnerships that can lead to eventual commercialization of the Zinc-Air energy system. This approach supports our long-term strategy of achieving widespread implementation of the Electric Fuel Zinc-Air energy system for electric vehicles in large commercial and mass transit vehicle fleets. Our all-electric bus, powered by our Zinc-Air fuel cell technology, has demonstrated a world-record 127-mile range under rigorous urban conditions, and we have successfully demonstrated our vehicle in "on-the-road" programs in Germany, Sweden, Italy, Israel and the United States, most recently in public tests in Las Vegas, Nevada in November 2001, and in Washington, D.C., on Capitol Hill, with the participation of certain members of the United States Senate, in March 2002. We intend to strengthen existing relationships and to develop new networks of strategic alliances with fleet operators, companies engaged in energy production and transportation, automobile manufacturers and others in order to establish the infrastructure necessary for further development and commercialization of the Electric Fuel Zinc-Air system.

Lifejacket Lights

We produce water-activated lifejacket lights for commercial aviation and marine applications based on our patented water-activated magnesium-cuprous chloride battery technology. We intend to continue to work with OEMs, distributors and end-user companies to expand our market share in the aviation and marine segments. We presently sell four products in the safety products group, two for use with marine life jackets and two for use with aviation life vests. All four products are certified under applicable international marine and aviation safety regulations.

Facilities

Our principal executive offices are located at 632 Broadway, New York, New York 10012, and our telephone number at our executive offices is (646) 654-2107. Our corporate website is www.arotech.com. Our periodic reports to the Securities Exchange Commission, as well as recent filings relating to transactions in our securities by our executive officers and directors, that have been filed with the Securities and Exchange Commission in EDGAR format are available through hyperlinks located on the investor relations page of our website, at http://www.arotech.com/compro/investor.html. Reference to our websites does not constitute incorporation of any of the information thereon or linked thereto into this quarterly report.

The offices and facilities of our two of our principal subsidiaries, EFL and MDT, are located in Israel (in Beit Shemesh and Lod, respectively, both of which are within Israel's pre-1967 borders). We conduct research and development activities through EFL, and most of our senior management is located at EFL's facilities. We also conduct development and production activities at IES's offices in Littleton, Colorado, and at our new production facility in Auburn, Alabama, which builds and tests advanced batteries for the defense market.

Functional Currency

We consider the United States dollar to be the currency of the primary economic environment in which we and our Israeli subsidiary Electric Fuel (E.F.L) Ltd. ("EFL") operate and, therefore, both we and EFL have adopted and are using the United States dollar as our functional currency. Transactions and balances originally denominated in U.S. dollars are presented at the original amounts. Gains and losses arising from non-dollar transactions and balances are included in net income.

The majority of financial transactions of MDT is in New Israel Shekels ("NIS") and a substantial portion of MDT's costs is incurred in NIS. Management believes that the NIS is the functional currency of MDT. Accordingly, the financial statements of MDT have been translated into U.S. dollars. All balance sheet accounts have been translated using the exchange rates in effect at the balance sheet date. Statement of operations amounts has been translated using the average exchange rate for the period. The resulting translation adjustments are reported as a component of accumulated other comprehensive loss in shareholders' equity.

Results of Operations

Preliminary Note

Results for the six months ended June 30, 2003 include the results of IES and MDT for such period as a result of our acquisitions of these companies early in the third quarter of 2002. The results of IES and MDT were not included in our operating results for the six months ended June 30, 2002. Accordingly, the following period-to-period comparisons should not necessarily be relied upon as indications of future performance.

In addition, results are net of the operations of the retail consumer battery products, which operations were discontinued in the third quarter of 2002.

Three months ended June 30, 2003, compared to the three months ended June 30, 2002.

Revenues. Revenues from continuing operations for the three months ended June 30, 2003 totaled $3.5 million, compared to $425,000 for the comparable period in 2002, an increase of $3.1 million, or 722%. This increase was primarily the result of the inclusion of IES and MDT in our results in 2003.

During the second quarter of 2003, we recognized revenues from two divisions: Defense and Security Products, and Electric Fuel Batteries. Our Defense and Security Products Division recognized revenues from the sale of interactive use-of-force training systems (through our IES subsidiary) and from providing armoring services under vehicle armoring contracts (through our MDT subsidiary). Our Electric Fuel Batteries Division recognized revenues under contracts with the U.S. Army's CECOM for deliveries of military batteries and for design and procurement of production tooling and equipment, and from the sale of lifejacket lights, as well as from subcontracting fees received in connection with the United States Department of Transportation (DOT) program.

In the second quarter of 2003, revenues were $1.5 million for the Defense and Security Products Division (compared to $0 in the second quarter of 2002, due to the inclusion of IES and MDT in our 2003 results, and $2.0 million for the Electric Fuel Batteries Division (compared to $425,000 in the second quarter of 2002, an increase of $1.6 million, or 376%), due primarily to an increase in revenues from CECOM batteries sold to the U.S. Army. Of the $1.5 million increase in Defense and Security Products revenues, $882,000 was attributable to the inclusion of IES in our results in the second quarter of 2003 and $586,000 was attributable to the inclusion of MDT in our results in the second quarter of 2003.

Cost of revenues and gross profit. Cost of revenues totaled $2.5 million during the second quarter of 2003, compared to $376,000 in the second quarter of 2002, an increase of $2.1 million, or 559%, due to the inclusion of IES and MDT in our 2003 results.

Direct expenses for our two divisions during the second quarter of 2003 were $2.1 million for the Defense and Security Products Division (compared to $0 in the second quarter of 2002, due to the inclusion of IES and MDT in our 2003 results), and $1.8 million for the Electric Fuel Batteries Division (compared to $523,000 in the second quarter of 2002, an increase of $1.2 million, or 238%), due primarily to an increase in sales and activities related to CECOM batteries.

Of the $2.1 million increase in Defense and Security Products direct expenses, $1.3 million was attributable to the inclusion of IES in our results in the second quarter of 2003 and $780,000 was attributable to the inclusion of MDT in our results in the second quarter of 2003.

Gross profit was $1.0 million during the second quarter of 2003, compared to $49,000 during the second quarter of 2002, an increase of $965,000, or 1,977%. This increase was the direct result of all factors presented above, most notably the inclusion of IES and MDT in our 2003 results. In the second quarter of 2003, IES contributed $406,000 to our gross profit, MDT contributed $21,000, and our other product lines contributed $587,000.

Research and development expenses. Research and development expenses for the second quarter of 2003 were $153,000, compared to $118,000 the second quarter of 2002, an increase of $34,000, or 29%. This increase was the result of the research and development activities that support the activities at our CECOM facility in Auburn, Alabama and the inclusion of IES and MDT in our 2003 results.

Sales and marketing expenses. Sales and marketing expenses for the second quarter of 2003 were $934,000, compared to $103,000 the second quarter of 2002, an increase of $831,000, or 809%. This increase was primarily attributable to the following factors:

>> We had sales and marketing expenses in the second quarter of 2003 related to IES of $296,000, which we did not have the second quarter of 2002; and

>> We incurred expenses in the amount of $536,000 in connection with start-up costs for our security consulting business ($300,000) and in connection with sales of our military batteries ($236,000).

General and administrative expenses. General and administrative expenses for the second quarter of 2003 were $1.5 million compared to $1.1 million the second quarter of 2002, an increase of $344,000, or 31%. This increase was primarily attributable to the inclusion of the expenses of IES ($216,000) and MDT ($126,000) in our 2003 results.

Financial (expenses) income, net. Financial (expenses) income, net of interest expenses and exchange differentials, totaled approximately $(726,000) in the second quarter of 2003 compared to $53,000 in the second quarter of 2002, an increase of $778,000. This increase in financial expenses was due primarily to $79,000 in interest expense on our debentures during the second quarter of 2003, and amortization of compensation related to the issuance of our debentures and the warrants that we issued in connection with our debentures in the amount of $690,000, which expenses had no equivalent during the second quarter of 2002.

Income taxes. We and certain of our subsidiaries incurred net operating losses during the second quarter of 2003 and 2002 and, accordingly, were not required to make any provision for income taxes. We have made provision for income taxes relating to MDT in the amount of $274,000 ($140,000 after deduction of minority interest).

Amortization of intangible assets. Amortization of intangible assets totaled $312,000 in the second quarter of 2003, compared to $0 the second quarter of 2002, due to amortization of intangibles assets related to our purchase of IES and MDT in 2002. Of this increase, $263,000 was attributable to amortization of intangibles assets related to our purchase of IES and $49,000 was attributable to amortization of intangibles assets related to our purchase of MDT.

Net loss from continuing operations. Due to the factors cited above, we reported a net loss from continuing operations of $2.6 million in the second quarter of 2003, compared to a net loss of $1.2 million the second quarter of 2002, an increase of $1.4 million, or 114%.

Profit (loss) from discontinued operations. In the third quarter of 2002, we decided to discontinue operations relating to the retail sales of our consumer battery products. Accordingly, all revenues and expenses related to this segment have been presented in our consolidated statements of operations for the three months ended June 30, 2003 in an item entitled "Profit (loss) from discontinued operations."

Profit from discontinued operations in the second quarter of 2003 was $179,000, compared to a loss from discontinued operations of $1.4 million the second quarter of 2002, a decrease in loss of $1.6 million, or 113%.

Net loss. Due to the factors cited above, we reported a net loss of $2.5 million in the second quarter of 2003, compared to a net loss of $2.7 million the second quarter of 2002, a decrease of $198,000, or 7%.

Six months ended June 30, 2003, compared to the six months ended June 30, 2002.

Revenues. Revenues from continuing operations for the six months ended June 30, 2003 totaled $7.5 million, compared to $996,000 for the comparable period in 2002, an increase of

$6.5 million, or 656%. This increase was primarily the result of the inclusion of IES and MDT in our results in 2003.

During the first six months of 2003, we recognized revenues from two divisions: Defense and Security Products, and Electric Fuel Batteries. Our Defense and Security Products Division recognized revenues from the sale of interactive use-of-force training systems (through our IES subsidiary) and from providing armoring services under vehicle armoring contracts (through our MDT subsidiary). Our Electric Fuel Batteries Division recognized revenues under contracts with the U.S. Army's CECOM for deliveries of military batteries and for design and procurement of production tooling and equipment, and from the sale of lifejacket lights, as well as from subcontracting fees received in connection with the United States Department of Transportation (DOT) program.

In the first six months of 2003, revenues were $4.7 million for the Defense and Security Products Division (compared to $0 in the first six months of 2002, due to the inclusion of IES and MDT in our 2003 results, and $2.9 million for the Electric Fuel Batteries Division (compared to $996,000 in the first six months of 2002, an increase of $1.9 million, or 187%), due primarily to an increase in revenues from CECOM batteries sold to the U.S. Army. Of the $4.7 million increase in Defense and Security Products revenues, $2.8 million was attributable to the inclusion of IES in our results in the first six months of 2003 and $1.8 million was attributable to the inclusion of MDT in our results in the first six months of 2003.

Cost of revenues and gross profit. Cost of revenues totaled $5.1 million during the first six months of 2003, compared to $760,000 in the first six months of 2002, an increase of $4.4 million, or 573%, due to the inclusion of IES and MDT in our 2003 results.

Direct expenses for our two divisions during the first six months of 2003 were $4.9 million for the Defense and Security Products Division (compared to $0 in the first six months of 2002, due to the inclusion of IES and MDT in our 2003 results), and $2.8 million for the Electric Fuel Batteries Division (compared to $1.0 million in the first six months of 2002, an increase of $1.8 million, or 173%), due primarily to an increase in sales and activities related to CECOM batteries.

Of the $4.9 million increase in Defense and Security Products direct expenses, $3.0 million was attributable to the inclusion of IES in our results in the first six months of 2003 and $1.9 million was attributable to the inclusion of MDT in our results in the first six months of 2003.

Gross profit was $2.4 million during the first six months of 2003, compared to $236,000 during the first six months of 2002, an increase of $2.2 million, or 924%. This increase was the direct result of all factors presented above, most notably the inclusion of IES and MDT in our 2003 results. In the first six months of 2003, IES contributed $1.4 million to our gross profit, MDT contributed $380,000, and our other product lines contributed $658,000.

Research and development expenses. Research and development expenses for the first six months of 2003 were $511,000, compared to $219,000 the first six months of 2002, an increase of $292,000, or 134%. This increase was the result of the research and development activities

that support the activities at our CECOM facility in Auburn, Alabama, which accounted for $367,000 of the increase, and the inclusion of IES and MDT, which accounted for $118,000 of the increase, in our 2003 results. These increases were offset to some extent by a decrease in expenses in other areas of the Electric Fuel Batteries Division.

Sales and marketing expenses. Sales and marketing expenses for the first six months of 2003 were $1.6 million, compared to $160,000 the first six months of 2002, an increase of $1.5 million, or 926%. This increase was primarily attributable to the following factors:

>> We had sales and marketing expenses in the first six months of 2003 related to IES of $801,000, which we did not have the first six months of 2002;

>> We had sales and marketing expenses in the first six months of 2003 related to MDT of $91,000, which we did not have the first six months of 2002; and

>> We incurred expenses in the amount of $591,000 in connection with start-up costs for our security consulting business ($300,000) and in connection with sales of our military batteries ($291,000).

General and administrative expenses. General and administrative expenses for the first six months of 2003 were $2.5 million compared to $2.4 million the first six months of 2002, an increase of $87,000, or 4%. This increase was primarily attributable to the inclusion of the expenses of IES ($396,000) and MDT ($233,000) in our 2003 results, which increase was offset by the write-down of notes receivable from stockholders and by expenses related to a 2002 grant of options to one of our investors.

Financial (expenses) income, net. Financial (expenses) income, net of interest expenses and exchange differentials, totaled approximately $(984,000) in the first six months of 2003 compared to $117,000 the first six months of 2002, an increase of $1.1 million. This increase in financial expenses was due primarily to $167,000 in interest expense on our debentures during the first six months of 2003, and amortization of compensation related to the issuance of our debentures and the warrants that we issued in connection with our debentures in the amount of $879,000, which expenses had no equivalent during the first six months of 2002.

Income taxes. We and certain of our subsidiaries incurred net operating losses during the first six months of 2003 and 2002 and, accordingly, were not required to make any provision for income taxes. We have made provision for income taxes relating to MDT in the amount of $274,000 ($140,000 after deduction of minority interest).

Amortization of intangible assets. Amortization of intangible assets totaled $624,000 in the first six months of 2003, compared to $0 the first six months of 2002, due to amortization of intangibles assets related to our purchase of IES and MDT in 2002. Of this increase, $526,000 was attributable to amortization of intangibles assets related to our purchase of IES and $98,000 was attributable to amortization of intangibles assets related to our purchase of MDT.

Net loss from continuing operations. Due to the factors cited above, we reported a net loss from continuing operations of $3.9 million in the first six months of 2003, compared to a net loss of $2.4 million in the first six months of 2002, an increase of $1.5 million, or 63%.

Profit (loss) from discontinued operations. In the third quarter of 2002, we decided to discontinue operations relating to the retail sales of our consumer battery products. Accordingly, all revenues and expenses related to this segment have been presented in our consolidated statements of operations for the six months ended June 30, 2003 in an item entitled "Loss from discontinued operations."

Profit from discontinued operations in the first six months of 2003 was $83,000, compared to a loss from discontinued operations of $3.6 million the first six months of 2002, a decrease in loss of $3.6 million, or 102%.

Net loss. Due to the factors cited above, we reported a net loss of $3.8 million in the first six months of 2003, compared to a net loss of $6.0 million the first six months of 2002, a decrease of $2.1 million, or 36%.

Liquidity and Capital Resources

As of June 30, 2003, we had cash and cash equivalents of approximately $2.5 million, compared to $1.5 million as of December 31, 2002, an increase of $1.0 million. The increase in cash was primarily the result of issuance of debentures and exercises of warrants.

We used available funds in the second quarter of 2003 primarily for sales and marketing, continued research and development expenditures, and other working capital needs. We increased our investment in fixed assets by $132,000 during the quarter ended June 30, 2003, primarily in the Electric Fuel Batteries Division. Our fixed assets amounted to $2.4 million at quarter end.

Based on our internal forecasts, we believe that our present cash position and cash flows from operations will be sufficient to satisfy our estimated cash requirements through the next year. This belief is based on certain assumptions that our management believes to be reasonable, some of which are subject to the risk factors detailed below. We may seek additional funding, including through the issuance of equity or debt securities. However, there can be no assurance that we would be able to obtain any such additional funding, and if such additional funding could not be secured, we would have to further modify, reduce, defer or eliminate certain of our anticipated future commitments and/or programs, in order to continue future operations.

RISK FACTORS

The following factors, among others, could cause actual results to differ materially from those contained in forward-looking statements made in this Report and presented elsewhere by management from time to time.

Business-Related Risks

We have had a history of losses and may incur future losses.

We were incorporated in 1990 and began our operations in 1991. We have funded our operations principally from funds raised in each of the initial public offering of our common stock in February 1994; through subsequent public and private offerings of our common stock and equity and debt securities convertible into shares of our common stock; research contracts and supply contracts; funds received under research and development grants from the Government of Israel; and sales of products that we and our subsidiaries manufacture. We incurred significant operating losses since our inception. Additionally, as of June 30, 2003, we had an accumulated deficit of approximately $104.5 million. There can be no assurance that we will ever achieve profitability or that our business will continue to exist. Additionally, because we do not presently meet the transaction requirements for filing registration statements for primary offerings of our securities on the simpler Form S-3 registration statement, raising capital through sales of our securities may be more difficult in the future than it has been in the past.

Our existing indebtedness may adversely affect our ability to obtain additional funds and may increase our vulnerability to economic or business downturns.

Our indebtedness, including the aggregate principal amount of the debentures sold by us in December 2002, aggregated approximately $2.9 million as of June 30, 2003. Accordingly, we are subject to the risks associated with indebtedness, including:

- we must dedicate a portion of our cash flows from operations to pay debt service costs and, as a result, we have less funds available for operations, future acquisitions of consumer receivable portfolios, and other purposes;

- it may be more difficult and expensive to obtain additional funds through financings, if available at all;

- we are more vulnerable to economic downturns and fluctuations in interest rates, less able to withstand competitive pressures and less flexible in reacting to changes in our industry and general economic conditions; and

- if we default under any of our existing debt instruments or if our creditors demand payment of a portion or all of our indebtedness, we may not have sufficient funds to make such payments.

The occurrence of any of these events could materially adversely affect our results of operations and financial condition and adversely affect our stock price.

The agreements governing the terms of our debentures contain numerous affirmative and negative covenants that limit the discretion of our management with respect to certain business matters and place restrictions on us, including obligations on our part to preserve and maintain our assets and restrictions on our ability to incur or guarantee debt, to merge with or sell our assets to another company, and to make significant capital expenditures without the consent of the debenture holders. Our ability to comply with these and other provisions of such agreements may be affected by changes in economic or business conditions or other events beyond our control.

Failure to comply with the terms of our debentures could result in a default that could have material adverse consequences for us.

A failure to comply with the obligations contained in our debenture agreements could result in an event of default under such agreements which could result in an acceleration of the debentures and the acceleration of debt under other instruments evidencing indebtedness that may contain cross-acceleration or cross-default provisions. If the indebtedness under the debentures or other indebtedness were to be accelerated, there can be no assurance that our assets would be sufficient to repay in full such indebtedness. The foregoing description of our agreement with our debenture holders is qualified in its entirety by reference to the agreements with our debenture holders filed as exhibits to our Current Report on Form 8-K that we filed with the SEC on January 6, 2003.

We have pledged a substantial portion of our assets to secure our borrowings.

The debentures are secured by a substantial portion of our assets. If we default under the indebtedness secured by our assets, those assets would be available to the secured creditor to satisfy our obligations to the secured creditor, which could materially adversely affect our results of operations and financial condition and adversely affect our stock price.

We need significant amounts of capital to operate and grow our business.

We require substantial funds to conduct the necessary research, development and testing of our products; to establish commercial scale manufacturing facilities; and to market our products. We continue to seek additional funding, including through the issuance of equity or debt securities. However, there can be no assurance that we will obtain any such additional financing in a timely manner or on acceptable terms. If additional funds are raised by issuing equity securities, stockholders may incur further dilution. If additional funding is not secured, we will have to modify, reduce, defer or eliminate parts of our anticipated future commitments and/or programs.

We may not be successful in operating a new business.

Prior to the IES and MDT acquisitions, our primary business was the marketing and sale of products based on primary and refuelable Zinc-Air fuel cell technology and advancements in battery technology for defense and security products and other military applications, electric vehicles and consumer electronics. As a result of the IES and MDT acquisitions, a substantial component of our business will be the marketing and sale of hi-tech multimedia and interactive digital solutions for training military, law enforcement and security personnel and sophisticated lightweight materials and advanced engineering processes used to armor vehicles. These are new businesses for us and our management group has limited experience operating these types of businesses. Although we have retained the management personnel at IES and MDT, we cannot assure that such personnel will continue to work for us or that we will be successful in managing this new business. If we are unable to successfully operate these new businesses, especially the business of IES, our business, financial condition and results of operations could be materially impaired.

There can be no assurance of market acceptance of our military Zinc-Air battery products and electric vehicle technology.

Our batteries for the defense industry and a signal light powered by water-activated batteries for use in life jackets and other rescue apparatus are the only commercial Zinc-Air battery products we currently have available for sale. Significant resources will be required to develop and produce additional consumer products utilizing this technology on a commercial scale. Additional development will be necessary in order to commercialize our technology and each of the components of the Electric Fuel System for electric vehicles and defense products. We cannot assure you that we will be able to successfully develop, engineer or commercialize our Zinc-Air energy system, or that we will be able to develop products for commercial sale or that, if developed, they can be produced in commercial quantities or at acceptable costs or be successfully marketed. The likelihood of our future success must be considered in light of the risks, expenses, difficulties and delays frequently encountered in connection with the operation and development of a relatively early stage business and with development activities generally.

We believe that public pressure and government initiatives are important factors in creating an electric vehicle market. However, there can be no assurance that there will be sufficient public pressure or that further legislation or other governmental initiatives will be enacted, or that current legislation will not be repealed, amended, or have its implementation delayed. In addition, we are subject to the risk that even if an electric fuel vehicle market develops, a different form of zero emission or low emission vehicle will dominate the market. In addition, we cannot assure you that other solutions to the problem of containing emissions created by internal combustion engines will not be invented, developed and produced. Any other solution could achieve greater market acceptance than electric vehicles. The failure of a significant market for electric vehicles to develop would have a material adverse effect on our ability to commercialize this aspect of our technology. Even if a significant market for electric vehicles develops, there can be no assurance that our technology will be commercially competitive within that market.

Our acquisition strategy involves various risks.

Part of our strategy is to grow through the acquisition of companies that will complement our existing operations or provide us with an entry into markets we do not currently serve. Growth through acquisitions involves substantial risks, including the risk of improper valuation of the acquired business and the risk of inadequate integration. There can be no assurance that suitable acquisition candidates will be available, that we will be able to acquire or manage profitably such additional companies or that future acquisitions will produce returns that justify our investments therein. In addition, we may compete for acquisition and expansion opportunities with companies that have significantly greater resources than we do. Furthermore, acquisitions could disrupt our ongoing business, distract the attention of our senior managers, make it difficult to maintain our operational standards, controls and procedures and subject us to contingent and latent risks that are different, in nature and magnitude, than the risks we currently face.

We may finance future acquisitions with cash from operations or additional debt or equity financings. There can be no assurance that we will be able to generate internal cash or obtain financing from external sources or that, if available, such financing will be on terms acceptable to us. The issuance of additional common stock to finance acquisitions may result in substantial dilution to our stockholders. Any debt financing may significantly increase our leverage and may involve restrictive covenants which limit our operations.

We may not successfully integrate our new acquisitions.

In light of our recent acquisitions of IES and MDT, our success will depend in part on our ability to manage the combined operations of these companies and to integrate the operations and personnel of these companies along with our other subsidiaries and divisions into a single organizational structure. There can be no assurance that we will be able to effectively integrate the operations of our subsidiaries and divisions and our newly-acquired businesses into a single organizational structure. Integration of these operations could also place additional pressures on our management as well as on our key technical resources. The failure to successfully manage this integration could have an adverse material effect on us.

If we are successful in acquiring additional businesses, we may experience a period of rapid growth that could place significant additional demands on, and require us to expand, our management, resources and management information systems. Our failure to manage any such rapid growth effectively could have a material adverse effect on our financial condition, results of operations and cash flows.

If we are unable to manage our growth, our operating results will be impaired.

We are currently experiencing a period of growth and development activity which could place a significant strain on our personnel and resources. Our activity has resulted in increased levels of responsibility for both existing and new management personnel. Many of our management personnel have had limited or no experience in managing growing companies. We have sought to manage our current and anticipated growth through the recruitment of additional management and technical personnel and the implementation of internal systems and controls. However, our failure to manage growth effectively could adversely affect our results of operations.

We will need to develop the experience to manufacture certain of our products in commercial quantities and at competitive prices.

We currently have limited experience in manufacturing in commercial quantities and have, to date, produced only limited quantities of military batteries and components of the batteries for electric vehicles. In order for us to be successful in the commercial market, these products must be manufactured to meet high quality standards in commercial quantities at competitive prices. The development of the necessary manufacturing technology and processes will require extensive lead times and the commitment of significant amounts of financial and engineering resources, which may not be available to us. We cannot assure you that we will successfully develop this technology or these processes. Moreover, we cannot assure you that we will be able to successfully implement the quality control measures necessary for commercial manufacturing.

Some of the components of our technology and our products pose potential safety risks which could create potential liability exposure for us.

Some of the components of our technology and our products contain elements that are known to pose potential safety risks. Also, because electric vehicle batteries contain large

amounts of electrical energy, they may cause injuries if not handled properly. In addition to these risks, and although we incorporate safety procedures in our research, development and manufacturing processes, there can be no assurance that accidents in our facilities will not occur. Any accident, whether occasioned by the use of all or any part of our products or technology or by our manufacturing operations, could adversely affect commercial acceptance of our products and could result in significant production delays or claims for damages resulting from injuries. Any of these occurrences would materially adversely affect our operations and financial condition.

We may face product liability claims.

To date, there have been no material claims or threatened claims against us by users of our products, including the products manufactured by MDT, based on a failure of our products to perform as specified. In the event that any claims for substantial amounts were to be asserted against us, they could have a materially adverse effect on our financial condition and results of operations. We maintain general product liability insurance. However, there is no assurance that the amount of our insurance will be sufficient to cover potential claims or that the present amount of insurance can be maintained at the present level of cost, or at all.

Some of our business is dependent on government contracts.

Most of IES's customers to date have been in the public sector of the U.S., including the federal, state and local governments, and in the public sectors of a number of other countries, and most of MDT's customers have been in the public sector in Israel, in particular the Ministry of Defense. A significant decrease in the overall level or allocation of defense spending or law enforcement in the U.S. or other countries could have a material adverse effect on our future results of operations and financial condition. MDT has already experienced a slowdown in orders from the Ministry of Defense due to budget constraints and a requirement of U.S. aid to Israel that a substantial proportion of such aid be spent in the U.S., where MDT does not yet have a factory in operation.

Sales to public sector customers are subject to a multiplicity of detailed regulatory requirements and public policies as well as to changes in training and purchasing priorities. Contracts with public sector customers may be conditioned upon the continuing availability of public funds, which in turn depends upon lengthy and complex budgetary procedures, and may be subject to certain pricing constraints. Moreover, U.S. government contracts and those of many international government customers may generally be terminated for a variety of factors when it is in the best interests of the government and contractors may be suspended or debarred for misconduct at the discretion of the government. There can be no assurance that these factors or others unique to government contracts or the loss or suspension of necessary regulatory licenses will not have a material adverse effect on our future results of operations and financial condition.

Our fields of business are highly competitive.

The competition to develop defense and security products and electric vehicle battery systems, and to obtain funding for the development of these products, is, and is expected to remain, intense.

Our defense and security products compete with other manufacturers of specialized training systems, including Firearms Training Systems, Inc., a producer of interactive simulation systems designed to provide training in the handling and use of small and supporting arms. In addition, we compete with manufacturers and developers of armor for cars and vans, including O'Gara-Hess & Eisenhardt, a division of Armor Holdings, Inc.

Our battery technology competes with other battery technologies, as well as other Zinc-Air technologies. The competition in this area of our business consists of development stage companies, major international companies and consortia of such companies, including battery manufacturers, automobile manufacturers, energy production and transportation companies, consumer goods companies and defense contractors. Many of our competitors have financial, technical, marketing, sales, manufacturing, distribution and other resources significantly greater than ours.

Various battery technologies are being considered for use in electric vehicles and defense and safety products by other manufacturers and developers, including the following: lead-acid, nickel-cadmium, nickel-iron, nickel-zinc, nickel-metal hydride, sodium-sulfur, sodium-nickel chloride, zinc-bromine, lithium-ion, lithium-polymer, lithium-iron sulfide, primary lithium, rechargeable alkaline and Zinc-Air.

If we are unable to compete successfully in each of our operating areas, especially in the defense and security products area of our business, our business and results of operations could be materially adversely affected.

Failure to receive required regulatory permits or to comply with various regulations to which we are subject could adversely affect our business.

Regulations in Europe, Israel, the United States and other countries impose various controls and requirements relating to various components of our business. While we believe that our current and contemplated operations conform to those regulations, we cannot assure you that we will not be found to be in non-compliance. We have applied for, and received, the necessary permits under the Israel Dangerous Substances Law, 5753-1993, required for the use of potassium hydroxide and zinc metal. However, there can be no assurance that changes in these regulations or the adoption of new regulations will not impose costly compliance requirements on us, subject us to future liabilities, or restrict our ability to operate our business.

Our business is dependent on patents and other proprietary rights that may be difficult to protect and could affect our ability to compete effectively.

Our ability to compete effectively will depend on our ability to maintain the proprietary nature of our technology and manufacturing processes through a combination of patent and trade secret protection, non-disclosure agreements and licensing arrangements. We hold patents, or patent applications, covering elements of our technology in the United States and in Europe. In addition, we have patent applications pending in the United States and in foreign countries, including the European Community, Israel and Japan. We intend to continue to file patent applications covering important features of our technology. We cannot assure you, however, that patents will issue from any of these pending applications or, if patents issue, that the claims allowed will

be sufficiently broad to protect our technology. In addition, we cannot assure you that any of our patents will not be challenged or invalidated, that any of our issued patents will afford protection against a competitor or that third parties will not make infringement claims against us.

Litigation, or participation in administrative proceedings, may be necessary to protect our proprietary rights. This type of litigation can be costly and time consuming and could divert company resources and management attention to defend our rights, and this could harm us even if we were to be successful in the litigation. The invalidation of patents owned by or licensed to us could have a material adverse effect on our business. In addition, patent applications filed in foreign countries are subject to laws, rules and procedures that differ from those of the United States. Therefore, there can be no assurance that foreign patent applications related to patents issued in the United States will be granted. Furthermore, even if these patent applications are granted, some foreign countries provide significantly less patent protection than the United States. In the absence of patent protection, and despite our reliance upon our proprietary confidential information, our competitors may be able to use innovations similar to those used by us to design and manufacture products directly competitive with our products. In addition, no assurance can be given that others will not obtain patents that we will need to license or design around. To the extent any of our products are covered by third-party patents, we could require a license under such patents to develop and market our patents.

Despite our efforts to safeguard and maintain our proprietary rights, we may not be successful in doing so. In addition, competition is intense, and there can be no assurance that our competitors will not independently develop or patent technologies that are substantially equivalent or superior to our technology. Moreover, in the event of patent litigation, we cannot assure you that a court would determine that we were the first creator of inventions covered by our issued patents or pending patent applications or that we were the first to file patent applications for those inventions. If existing or future third-party patents containing broad claims were upheld by the courts or if we were found to infringe third party patents, we may not be able to obtain the required licenses from the holders of such patents on acceptable terms, if at all. Failure to obtain these licenses could cause delays in the introduction of our products or necessitate costly attempts to design around such patents, or could foreclose the development, manufacture or sale of our products. We could also incur substantial costs in defending ourselves in patent infringement suits brought by others and in prosecuting patent infringement suits against infringers.

We also rely on trade secrets and proprietary know-how that we seek to protect, in part, through non-disclosure and confidentiality agreements with our customers, employees, consultants, strategic partners and potential strategic partners. We cannot assure you that these agreements will not be breached, that we would have adequate remedies for any breach or that our trade secrets will not otherwise become known or be independently developed by competitors.

We are dependent on key personnel and our business would suffer if we fail to retain them.

We are highly dependent on certain members of our management and engineering staff, and the loss of the services of one or more of these persons could adversely affect us. We are especially dependent on the services of our Chairman, President and Chief Executive Officer, Robert S. Ehrlich. The loss of Mr. Ehrlich could have a material adverse effect on us. We are party to an employment agreement with Mr. Ehrlich, which agreement expires at the end of 2005. We do not have key-man life insurance on Mr. Ehrlich.

There are risks involved with the international nature of our business.

A significant portion of our sales are made to customers located outside the U.S., primarily in Europe and Asia. In 2000, 2001 and 2002, without taking account of revenues derived from discontinued operations, 45%, 49%, and 56%, respectively, of our revenues, including the revenues of IES and MDT on a pro forma basis, were derived from sales to customers located outside the U.S. We expect that our international customers will continue to account for a substantial portion of our revenues in the near future. Sales to international customers may be subject to political and economic risks, including political instability, currency controls, exchange rate fluctuations, foreign taxes, longer payment cycles and changes in import/export regulations and tariff rates. In addition, various forms of protectionist trade legislation have been and in the future may be proposed in the U.S. and certain other countries. Any resulting changes in current tariff structures or other trade and monetary policies could adversely affect our sales to international customers.

We may be subject to increased United States taxation.

We believe that Electric Fuel and our wholly-owned Israeli subsidiary EFL will be treated as personal holding companies for purposes of the personal holding company (PHC) rules of the Internal Revenue Code of 1986. Under the PHC rules, a PHC is subject to a special 15% tax on its "undistributed PHC income," in addition to regular corporate income tax. We believe that Electric Fuel and EFL have not had any material undistributed PHC income. However, no assurance can be given that Electric Fuel and EFL will not have undistributed PHC income in the future.

Approximately 21.1% of the stock of EFL was deemed to be beneficially owned (directly or indirectly by application of certain attribution rules) as of June 30, 2002 by four United States citizens: Leon S. Gross, Austin W. Marxe and David M. Greenhouse, and Robert S. Ehrlich (information with respect to the stockholdings of Messrs. Marxe and Greenhouse is based on a Schedule 13G filed with the Securities and Exchange Commission on February 11, 2002, as amended on February 13, 2003). If more than 50% of either (i) the voting power of our stock, or (ii) the total value of our stock, is ever acquired or deemed to be acquired by five or fewer individuals (including, if applicable, those individuals who currently own an aggregate of 21.1% of our shares) who are United States citizens or residents, EFL would satisfy the foreign personal holding company (FPHC) stock ownership test under the Internal Revenue Code, and we could be subject to additional U.S. taxes (including PHC tax) on any "undistributed FPHC income" of EFL. We believe that EFL has not had any material undistributed FPHC income. However, no assurance can be given that EFL will not become a FPHC and have undistributed FPHC income in the future.

Investors should not purchase our common stock with the expectation of receiving cash dividends.

We currently intend to retain any future earnings for funding growth and, as a result, do not expect to pay any cash dividends in the foreseeable future.

Market-Related Risks

The price of our common stock is volatile.

The market price of our common stock has been volatile in the past and may change rapidly in the future. The following factors, among others, may cause significant volatility in our stock price:

- Announcements by us, our competitors or our customers;
- The introduction of new or enhanced products and services by us or our competitors;
- Changes in the perceived ability to commercialize our technology compared to that of our competitors;
- Rumors relating to our competitors or us;
- Actual or anticipated fluctuations in our operating results; and
- General market or economic conditions.

If our shares were to be delisted, our stock price might decline further and we might be unable to raise additional capital.

Our common stock trades on the Nasdaq National Market, which specifies certain requirements for the continued listing of common stock. One of these requirements, codified in Marketplace Rule 4450(a)(3), states that a Maintenance Standard 1 company, like us, must maintain stockholders' equity of at least $10 million. As of December 31, 2002, our stockholders' equity had fallen to $9.0 million, and as of March 31, 2003, our stockholders' equity stood at $9.6 million, neither of which met the National Market's continued listing requirements for Maintenance Standard 1. However, as a result of conversions of our debentures and exercises of our warrants in May and June 2003, our stockholders' equity as of June 30, 2003 stood at $10.4 million, bringing us back into compliance with Maintenance Standard 1. Continued compliance with the $10 million stockholders' equity requirement will be dependant in great part upon our ability to become profitable, which would cause our retained earnings to increase, thereby increasing the amount of stockholders' equity. Additional warrant exercises, debenture conversions and/or sales of our common stock would also positively impact our stockholders' equity. Conversely, failure to become profitable may be expected to have a negative impact on stockholders' equity.

Another of the continued listing standards for our stock on the Nasdaq National Market is the maintenance of a $1.00 bid price. Our stock price has periodically traded below $1.00 in the recent past. If our bid price were to go and remain below $1.00 for 30 consecutive business days, Nasdaq could notify us of our failure to meet the continued listing standards, after which we would have 180 calendar days to correct such failure or be delisted from the Nasdaq National Market. We would also have the opportunity to appeal this notification, although there can be no assurances that this appeal would be resolved favorably.

There can be no assurance that our common stock will remain listed on the Nasdaq National Market. If our common stock were to be delisted from the Nasdaq National Market, we

might apply to be listed on the Nasdaq SmallCap market; however, there can be no assurance that we would be approved for listing on the Nasdaq SmallCap market, which has the same $1.00 minimum bid and other similar requirements as the Nasdaq National Market, although with a lower stockholders' equity requirement of $2.5 million. If we were to move to the Nasdaq SmallCap market, current Nasdaq regulations would give us the opportunity to obtain an additional 180-day grace period and an additional 90-day grace period after that if we meet certain net income, stockholders' equity or market capitalization criteria. While our stock would continue to trade on the over-the-counter bulletin board following any delisting from the Nasdaq, any such delisting of our common stock could have an adverse effect on the market price of, and the efficiency of the trading market for, our common stock. Also, if in the future we were to determine that we need to seek additional equity capital, it could have an adverse effect on our ability to raise capital in the public equity markets.

In addition, if we fail to maintain Nasdaq listing for our securities, and no other exclusion from the definition of a "penny stock" under the Exchange Act is available, then any broker engaging in a transaction in our securities would be required to provide any customer with a risk disclosure document, disclosure of market quotations, if any, disclosure of the compensation of the broker-dealer and its salesperson in the transaction and monthly account statements showing the market values of our securities held in the customer's account. The bid and offer quotation and compensation information must be provided prior to effecting the transaction and must be contained on the customer's confirmation. If brokers become subject to the "penny stock" rules when engaging in transactions in our securities, they would become less willing to engage in transactions, thereby making it more difficult for our stockholders to dispose of their shares.

We are subject to significant influence by some stockholders that may have the effect of delaying or preventing a change in control.

As of June 30, 2003, our directors, executive officers and principal stockholders and their affiliates (including Leon S. Gross (10.1%), Austin W. Marxe and David M. Greenhouse (7.0%), and Robert S. Ehrlich (5.0%)) collectively are deemed beneficially to own approximately 21.1% of the outstanding shares of our common stock, including options and warrants exercisable within 60 days of February 28, 2003 (information with respect to the stockholdings of Messrs. Marxe and Greenhouse is based on a Schedule 13G filed with the Securities and Exchange Commission on February 11, 2002, as amended on February 13, 2003). As a result, these stockholders are able to exercise significant influence over matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions. This concentration of ownership may also have the effect of delaying, preventing or discouraging a change in control of Electric Fuel.

Pursuant to a voting rights agreement dated September 30, 1996, as amended, between Leon S. Gross, Robert S. Ehrlich, Yehuda Harats and us, Lawrence M. Miller, Mr. Gross's advisor, is entitled to be nominated to serve on our board of directors so long as Mr. Gross, his heirs or assigns retain beneficial ownership of at least 1,375,000 shares of common stock. In addition, under the voting rights agreement, Mr. Gross and Messrs. Ehrlich and Harats agreed to vote and take all necessary action so that Messrs. Ehrlich, Harats and Miller shall serve as members of the board of directors until the earlier of December 28, 2004 or our fifth annual meeting of stockholders

after December 28, 1999. Mr. Harats resigned as a director in 2002; however, we believe that Mr. Harats must continue to comply with the terms of this agreement.

A substantial number of our shares are available for sale in the public market and sales of those shares could adversely affect our stock price.

Sales of a substantial number of shares of common stock into the public market, or the perception that those sales could occur, could adversely affect our stock price or could impair our ability to obtain capital through an offering of equity securities. As of June 30, 2003, we had 40,078,032 shares of common stock issued and outstanding. Of these shares, 32,336,260 are freely transferable without restriction under the Securities Act of 1933 and 7,526,478 may be sold subject to the volume restrictions, manner-of-sale provisions and other conditions of Rule 144 under the Securities Act of 1933.

In connection with a stock purchase agreement dated September 30, 1996 between Leon S. Gross and us, we also entered into a registration rights agreement with Mr. Gross dated September 30, 1996, setting forth registration rights with respect to the shares of common stock issued to Mr. Gross in connection with the offering. These rights include the right to make two demands for the registration of the shares of our common stock owned by Mr. Gross. In addition, Mr. Gross was granted unlimited rights to "piggyback" on registration statements that we file for the sale of our common stock. Mr. Gross presently owns 3,547,870 shares, of which 1,538,462 have never been registered.

In addition, pursuant to the terms of their employment agreements with us, both Yehuda Harats and Robert S. Ehrlich have a right to demand registration of their shares. Of the shares owned by Mr. Harats, 435,404 shares have never been registered, and of the 688,166 shares owned by Mr. Ehrlich, 453,933 shares have never been registered.

Exercise of our warrants, options and convertible debt could adversely affect our stock price and will be dilutive.

As of June 30, 2003, there were outstanding warrants to purchase a total of 6,526,591 shares of our common stock at a weighted average exercise price of $1.91 per share, options to purchase a total of 8,760,626 shares of our common stock at a weighted average exercise price of $1.57 per share, of which 5,283,883 were vested and exercisable within 60 days of such date, at a weighted average exercise price of $2.01 per share, and outstanding debentures and promissory notes convertible into a total of 3,688,971 shares of our common stock at a weighted average conversion price of $0.66 per share. Holders of our options, warrants and convertible debt will probably exercise or convert them only at a time when the price of our common stock is higher than their respective exercise or conversion prices. Accordingly, we may be required to issue shares of our common stock at a price substantially lower than the market price of our stock. This could adversely affect our stock price. In addition, if and when these shares are issued, the percentage of our common stock that existing stockholders own will be diluted.

Our certificate of incorporation and bylaws and Delaware law contain provisions that could discourage a takeover.

Provisions of our amended and restated certificate of incorporation may have the effect of making it more difficult for a third party to acquire, or of discouraging a third party from attempting to acquire, control of us. These provisions could limit the price that certain investors might be willing to pay in the future for shares of our common stock. These provisions:

- o divide our board of directors into three classes serving staggered three-year terms;

- o only permit removal of directors by stockholders "for cause," and require the affirmative vote of at least 85% of the outstanding common stock to so remove; and

- o allow us to issue preferred stock without any vote or further action by the stockholders.

The classification system of electing directors and the removal provision may tend to discourage a third-party from making a tender offer or otherwise attempting to obtain control of us and may maintain the incumbency of our board of directors, as the classification of the board of directors increases the difficulty of replacing a majority of the directors. These provisions may have the effect of deferring hostile takeovers, delaying changes in our control or management, or may make it more difficult for stockholders to take certain corporate actions. The amendment of any of these provisions would require approval by holders of at least 85% of the outstanding common stock.

Israel-Related Risks

A significant portion of our operations takes place in Israel, and we could be adversely affected by the economic, political and military conditions in that region.

The offices and facilities of two of our principal subsidiaries, EFL and MDT, are located in Israel (in Beit Shemesh and Lod, respectively, both of which are within Israel's pre-1967 borders). We conduct research and development activities through EFL, and most of our senior management is located at EFL's facilities. Although we expect that most of our sales will be made to customers outside Israel, we are nonetheless directly affected by economic, political and military conditions in that country. Accordingly, any major hostilities involving Israel or the interruption or curtailment of trade between Israel and its present trading partners could have a material adverse effect on our operations. Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its Arab neighbors and a state of hostility, varying in degree and intensity, has led to security and economic problems for Israel.

Historically, Arab states have boycotted any direct trade with Israel and to varying degrees have imposed a secondary boycott on any company carrying on trade with or doing business in Israel. Although in October 1994, the states comprising the Gulf Cooperation Council (Saudi Arabia, the United Arab Emirates, Kuwait, Dubai, Bahrain and Oman) announced that they would no longer adhere to the secondary boycott against Israel, and Israel has entered into certain agreements with Egypt, Jordan, the Palestine Liberation Organization and the Palestinian Authority, Israel has not entered into any peace arrangement with Syria or Lebanon. Moreover, since September 2000, there has been a significant deterioration in Israel's relationship with the

Palestinian Authority, and a significant increase in terror and violence. Efforts to resolve the problem have failed to result in an agreeable solution. Continued hostilities between the Palestinian community and Israel and any failure to settle the conflict may have a material adverse effect on our business and us. Moreover, the current political and security situation in the region has already had an adverse effect on the economy of Israel, which in turn may have an adverse effect on us.

Many of our employees are currently obligated to perform annual reserve duty in the Israel Defense Forces and are subject to being called for active military duty at any time. No assessment can be made of the full impact of such requirements on us in the future, particularly if emergency circumstances occur, and no prediction can be made as to the effect on us of any expansion of these obligations. However, further deterioration of hostilities with the Palestinian community into a full-scale conflict might require more widespread military reserve service by some of our employees, which could have a material adverse effect on our business.

Service of process and enforcement of civil liabilities on us and our officers may be difficult to obtain.

We are organized under the laws of the State of Delaware and will be subject to service of process in the United States. However, approximately 49% of our assets are located outside the United States. In addition, two of our directors and all of our executive officers are residents of Israel and all or a substantial portion of the assets of such directors and executive officers are located outside the United States.

There is doubt as to the enforceability of civil liabilities under the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended, in original actions instituted in Israel. However, subject to certain time limitations and other conditions, Israeli courts may enforce final judgments of United States courts for liquidated amounts in civil matters, including judgments based upon the civil liability provisions of the Securities Act and the Exchange Act. As a result, it may not be possible for investors to enforce or effect service of process upon these directors and executive officers or to judgments of U.S. courts predicated upon the civil liability provisions of U.S. laws against our assets, as well as the assets of these directors and executive officers. In addition, awards of punitive damages in actions brought in the U.S. or elsewhere may be unenforceable in Israel.

Any failure to obtain the tax benefits from the State of Israel that we expect to receive could negatively impact our plans and prospects.

We have benefited from various Israeli government programs, grants and tax benefits, particularly as a result of the "approved enterprise" status of a portion of our existing facilities and the receipt of grants from the Office of the Chief Scientist of the Israeli Ministry of Industry and Trade. To be eligible for some of these programs, grants and tax benefits, we must continue to meet certain conditions, including producing in Israel and making specified investments in fixed assets. If we fail to meet such conditions in the future, we could be required to refund grants already received, adjusted for inflation and interest. From time to time, the government of Israel has discussed reducing or eliminating the benefits available under approved enterprise programs. In addition, EFL has granted a floating lien (that is, a lien that applies not only to assets

owned at the time but also to after-acquired assets) over all of EFL's assets as a security to the State of Israel to secure its obligations under the approved enterprise programs.

Our grants from the Israeli government impose certain restrictions on us.

Between 1992 and 2001, our Israeli subsidiary, EFL, has received funding from the Office of the Chief Scientist of the Israel Ministry of Industry and Trade relating to the development of our Zinc-Air battery products, such as our electric vehicle and our batteries and chargers for consumer products. Between 1998 and 2000, we have also received funds from the Israeli-U.S. Bi-National Industrial Research and Development (BIRD) Foundation. Through the end of 2002, we had received an aggregate of $9.9 million (net of royalties paid) from grants from the Chief Scientist and $772,000 from grants from BIRD, and we may receive future grants, the amounts of which would be determined at the time of application. The funding from the Chief Scientist prohibits the transfer or license of know-how and the manufacture of resulting products outside of Israel without the permission of the Chief Scientist. Although we believe that the Chief Scientist does not unreasonably withhold this permission if the request is based upon commercially justified circumstances and any royalty obligations to the Chief Scientist are sufficiently assured, the matter is solely within the discretion of the Chief Scientist, and we cannot be sure that such consent, if requested, would be granted upon terms satisfactory to us or granted at all. Without such consent, we would be unable to manufacture any products developed by this research outside of Israel, even if it would be less expensive for us to do so. Additionally, current regulations require that, in the case of the approved transfer of manufacturing rights out of Israel, the maximum amount to be repaid through royalty payments would be increased to between 120% and 300% of the amount granted, depending on the extent of the manufacturing to be conducted outside of Israel, and that an increased royalty rate of up to 5% would be applied. These restrictions could adversely affect our potential revenues and net income from the sale of such products.

Exchange rate fluctuations between the U.S. dollar and the Israeli NIS may negatively affect our earnings.

Although a substantial majority of our revenues and a substantial portion of our expenses are denominated in U.S. dollars, a significant portion of our costs, including personnel and facilities-related expenses, is incurred in New Israeli Shekels (NIS). Inflation in Israel will have the effect of increasing the dollar cost of our operations in Israel, unless it is offset on a timely basis by a devaluation of the NIS relative to the dollar.

Some of our agreements are governed by Israeli law.

Israeli law governs both our agreement with IES and our agreement with MDT, as well as certain other agreements, such as our lease agreements on our subsidiaries' premises in Israel. While Israeli law differs in certain respects from American law, we do not believe that these differences materially adversely affect our rights or remedies under these agreements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

We are exposed to the impact of interest rate changes and foreign currency fluctuations due to our international sales, production and funding requirements.

Certain of our activities are carried out by our wholly-owned subsidiaries EFL and MDT, at their facilities in Israel, and we market some of our products in Israel; accordingly we have sales and expenses in New Israeli Shekels. However, the majority of our sales are made outside Israel in U.S. dollars, and a substantial portion of our costs are incurred in U.S. dollars or in New Israeli Shekels linked to the U.S. dollar. Therefore, our functional currency is the U.S. dollar.

ITEM 4. CONTROLS AND PROCEDURES.

As of the end of the period covered by this report, we performed an evaluation, under the supervision and with the participation of our management, including the CEO and CFO, of the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 promulgated under the Securities Exchange Act of 1934. Based on that evaluation, our management, including the CEO and CFO, concluded that our disclosure controls and procedures are effective in ensuring that information that we are required to disclose in the reports that we file of submit under the Securities Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms.

There have been no changes in our internal controls over financial reporting that occurred during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II

Item 6. EXHIBITS AND REPORTS ON FORM 8-K.

(a) The following documents are filed as exhibits to this report:

Exhibit Number	Description
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(b) The following reports on Form 8-K were filed during the second quarter of 2003 and thereafter:

Date Filed	Item Reported
April 4, 2003	Item 5 - Other Events and Regulation FD Disclosure
May 8, 2003	Item 7 - Financial Statements, Pro Forma Financial Information and Exhibits (amendment of 8-K filed on August 12, 2002, as amended on October 11, 2002)
May 12, 2003	Item 7 - Financial Statements, Pro Forma Financial Information and Exhibits and Item 9 - Regulation FD Disclosure
July 17, 2003	Item 5 - Other Events and Regulation FD Disclosure and Item 7 - Financial Statements, Pro Forma Financial Information and Exhibits

August 7, 2003	Item 7 - Financial Statements, Pro Forma Financial Information and Exhibits and Item 12 - Results of Operations and Financial Condition

ELECTRIC FUEL CORPORATION

SIGNATURES

Pursuant to the requirements of the Securities 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

By: /s/ Robert S. Ehrlich
Name: Robert S. Ehrlich
Title: Chairman, President and CEO
(Principal Executive Officer)

/s/ Avihai Shen
Name: Avihai Shen
Title: Vice President - Finance
(Principal Financial Officer)

Dated: August 13, 2002

ELECTRIC FUEL CORPORATION

EXHIBIT INDEX

Exhibit Number	Description
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Exhibit 31.1

CERTIFICATION

I, Robert S. Ehrlich, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2003 of Electric Fuel Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: August 13, 2002

/s/ Robert S. Ehrlich

Robert S. Ehrlich, Chairman, President and CEO
(Principal Executive Officer)

ELECTRIC FUEL CORPORATION

Exhibit 31.2

CERTIFICATION

I, Avihai Shen, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2003 of Electric Fuel Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: August 13, 2002

/s/ Avihai Shen

Avihai Shen, Vice President - Finance
(Principal Financial Officer)

ELECTRIC FUEL CORPORATION

Exhibit 32.1

WRITTEN STATEMENT

In connection with the Quarterly Report of Electric Fuel Corporation (the "Company") on Form 10-Q for the quarterly period ended June 30, 2003 filed with the Securities and Exchange Commission (the "Report"), I, Robert S. Ehrlich, Chairman, President and Chief Executive Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that to my knowledge, the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement required by Section 906 has been provided to Electric Fuel Corporation and will be retained by Electric Fuel Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

By: /s/ Robert S. Ehrlich

Robert S. Ehrlich, Chairman, President and CEO
(Chief Executive Officer)

Dated: August 13, 2002

ELECTRIC FUEL CORPORATION

Exhibit 32.2

WRITTEN STATEMENT

In connection with the Quarterly Report of Electric Fuel Corporation (the "Company") on Form 10-Q for the quarterly period ended June 30, 2003 filed with the Securities and Exchange Commission (the "Report"), I, Avihai Shen, Vice President - Finance and Chief Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that to my knowledge, the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement required by Section 906 has been provided to Electric Fuel Corporation and will be retained by Electric Fuel Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

By: /s/ Avihai Shen

Avihai Shen, Vice President - Finance
(Chief Financial Officer)

Dated: August 13, 2002