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 MARCH 31, 2004.

COMMISSION FILE NUMBER: 0-23336

AROTECH 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.)

250 WEST 57TH STREET, SUITE 310, NEW YORK, NEW YORK	10107
(Address of principal executive offices)	(Zip Code)

(212) 258-3222
(Registrant's telephone number, including area code)

632 BROADWAY, SUITE 1200, NEW YORK, NEW YORK 10012
(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|_|

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes |_| No |X|

APPLICABLE ONLY TO CORPORATE ISSUERS:

The number of shares outstanding of the issuer's common stock as of May 15, 2004 was 64,868,912.

<TABLE>
<CAPTION>

AROTECH CORPORATION

INDEX

PART I - FINANCIAL INFORMATION

</TABLE>

<TABLE>
<CAPTION>

ITEM 1. INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

CONSOLIDATED BALANCE SHEETS
(U.S. DOLLARS)

ASSETS	MARCH 31, 2004 (Unaudited)	DECEMBER 31, 2003 (Note 1.b.)
CURRENT ASSETS:		
<S>	<C>	<C>
Cash and cash equivalents	$ 4,852,795	$13,685,125
Restricted securities and deposits due within one year	5,735,529	706,180
Available-for-sale marketable securities	124,153	--
Trade receivables (netof allowance for doubtful accounts in the amounts of $70,087 and $61,282 as of March 31, 2004 and December 31, 2003, respectively)	5,219,099	4,706,423
Current portion of note receivable	306,116	--
Unbilled revenues	756,388	--
Other accounts receivable and prepaid expenses	1,214,914	1,187,371
Inventories	4,542,899	1,914,748
Assets of discontinued operations	65,894	66,068
TOTAL CURRENT ASSETS	22,817,787	22,265,915
SEVERANCE PAY FUND	1,732,591	1,023,342
PROPERTY AND EQUIPMENT, NET	3,190,825	2,292,741
RESTRICTED SECURITIES AND DEPOSITS	3,769,047	--
LONG TERM RECEIVABLES	876,016	--
GOODWILL	13,905,371	5,064,555
OTHER INTANGIBLE ASSETS, NET	13,585,811	2,375,195
	$59,877,448	$33,021,748

</TABLE>

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

<TABLE>
<CAPTION>

CONSOLIDATED BALANCE SHEETS
(U.S. DOLLARS, EXCEPT SHARE AND PER SHARE DATA)

LIABILITIES AND SHAREHOLDERS' EQUITY	MARCH 31, 2004 (Unaudited)	DECEMBER 31, 2003 (Note 1.b.)
CURRENT LIABILITIES:		
<S>	<C>	<C>
Trade payables	$ 2,863,266	$ 1,967,448
Other accounts payable and accrued expenses	4,251,695	4,180,411 *
Current portion of promissory note due to purchase of subsidiaries	1,000,926	150,000
Short-term bank loans and current portion of long-term loans	967,858	40,849
Deferred revenues	336,901	140,936 *
Liabilities of discontinued operations	323,817	380,108
TOTAL CURRENT LIABILITIES	9,744,463	6,859,752

LONG TERM LIABILITIES		
Accrued severance pay	3,226,038	2,814,492
Convertible debentures	849,037	881,944
Deferred warranty revenue, less current portion	168,818	220,143
Long-term loan	17,827	--
Promissory note due to purchase of a subsidiary	1,801,171	150,000
TOTAL LONG-TERM LIABILITIES	6,062,891	4,066,579
MINORITY INTEREST	50,766	51,290
SHAREHOLDERS' EQUITY:		
Share capital -		
Common stock - $0.01 par value each; Authorized: 100,000,000 shares as of March 31, 2004 and December 31, 2003; Issued: 62,868,129 shares as of March 31, 2004 and 47,972,407 shares as of December 31, 2003; Outstanding - 62,312,796 shares as of March 31, 2004 and 47,417,074 shares as of December 31, 2003	628,683	479,726
Preferred shares - $0.01 par value each; Authorized: 1,000,000 shares as of March 31, 2004 and December 31, 2003; No shares issued and outstanding as of March 31, 2004 and December 31, 2003	--	--
Additional paid-in capital	162,331,180	135,891,316
Deferred stock compensation	(8,464)	(8,464)
Accumulated deficit	(113,988,048)	(109,681,893)
Treasury stock, at cost (common stock - 555,333 shares as of March 31, 2004 and December 31, 2003)	(3,537,106)	(3,537,106)
Notes receivable on account of shares	(1,207,819)	(1,203,881)
Accumulated other comprehensive income (loss)	(199,098)	104,429
TOTAL SHAREHOLDERS' EQUITY	44,019,328	22,044,127
	$59,877,448	$33,021,748

</TABLE>

* Reclassified.

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

<TABLE>
<CAPTION>

CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
(U.S. DOLLARS, EXCEPT SHARE AND PER SHARE DATA)

	THREE MONTHS ENDED MARCH 31,	
	2004	2003
<S>	<C>	<C>
Revenues	$ 7,182,254	$ 4,033,453
Cost of revenues	4,557,220	2,633,719
Gross profit	2,625,034	1,399,734
Operating expenses:		
Research and development	463,506	358,039
Selling and marketing expenses	1,021,084	703,987
General and administrative expenses	3,680,993	1,012,756
Amortization of intangible assets	496,013	311,771
Total operating costs and expenses	5,661,596	2,386,552
Operating loss	(3,036,562)	(986,818)
Financial expenses, net	(1,273,954)	(261,075)
Loss before taxes	(4,310,516)	(1,247,893)
Tax income, net	4,907	--
Loss before minority interest in earnings of a subsidiary and tax expenses	(4,305,609)	(1,247,893)
Minority interest in earnings of a subsidiary	(546)	(43,228)

Loss from continuing operations	(4,306,155)	(1,291,121)
Loss from discontinued operations	--	(95,962)
Net loss	$(4,306,155)	$(1,387,083)
Basic and diluted net loss per share from continuing operations	$ (0.07)	$ (0.04)
Basic and diluted net loss per share from discontinued operations	$ --	$ (0.00)
Combined basic and diluted net loss per share	$ (0.07)	$ (0.04)
Weighted average number of shares used in computing basic and diluted net loss per share	59,406,466	34,758,960

</TABLE>

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

<TABLE>
<CAPTION>

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
(U.S. DOLLARS, EXCEPT SHARE AND PER SHARE DATA)

	COMMON STOCK SHARES	COMMON STOCK AMOUNT	ADDITIONAL PAID-IN CAPITAL	DEFERRED STOCK COMPENSATION
<S>	<C>	<C>	<C>	<C>
BALANCE AT JANUARY 1, 2004 - NOTE 1	47,972,407	$ 479,726	$ 135,891,316	$ (8,464)
CHANGES DURING THE THREE-MONTH PERIOD ENDED MARCH 31, 2004				
Issuance of shares, net	10,290,426	102,904	18,455,096	--
Investment in subsidiary against issuance of shares	1,003,856	10,039	1,996,789	--
Issuance of shares on conversion of convertible debentures	1,796,875	17,969	1,103,031	--
Issuance of shares on exercise of warrants	1,722,050	17,220	2,473,502	--
Issuance of shares to consultants	74,215	742	170,938	--
Compensation related to options and warrants issued to consultants and investors	--	--	2,226,685	--
Compensation related to non-recourse loan granted to shareholder	--	--	4,500	--
Employee option exercises	8,300	83	5,385	--
Interest accrued on notes 1 receivable from shareholders	--	--	3,938	--
Other comprehensive loss - foreign currency translation adjustment	--	--	--	--
Net loss	--	--	--	--
Total comprehensive loss	--	--	--	--
BALANCE AT MARCH 31, 2004 - UNAUDITED	62,868,129	$ 628,683	$ 162,331,180	$ (8,464)

</TABLE>

<TABLE>
<CAPTION>

ACCUMULATED DEFICIT	TREASURY STOCK	NOTES RECEIVABLE FROM SHAREHOLDERS	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	TOTAL COMPREHENSIVE LOSS

						TOTAL
BALANCE AT JANUARY 1, 2004 - NOTE 1	$(109,681,893)	$ (3,537,106)	$ (1,203,881)	$ 104,429	$ --	$ 22,044,127
CHANGES DURING THE THREE-MONTH PERIOD ENDED MARCH 31, 2004						
Issuance of shares, net	--	--	--	--	--	18,558,000
Investment in subsidiary against issuance of shares .	--	--	--	--	--	2,006,828
Issuance of shares on conversion of convertible debentures	--	--	--	--	--	1,121,000
Issuance of shares on exercise of warrants	--	--	--	--	--	2,490,722
Issuance of shares to consultants	--	--	--	--	--	171,680
Compensation related to options and warrants issued to consultants and investors	--	--	--	--	--	2,226,685
Compensation related to non-recourse loan granted to shareholder	--	--	--	--	--	4,500
Employee option exercises	--	--	--	--	--	5,468
Interest accrued on notes receivable from shareholders	--	--	(3,398)	--	--	--
Other comprehensive loss - foreign currency translation adjustment	--	--	--	(303,527)	(303,527)	(303,527)
Net loss	(4,306,155)	--	--	--	(4,306,155)	(4,306,155)
Total comprehensive loss	--	--	--	--	(4,494,380)	--
BALANCE AT MARCH 31, 2004 - UNAUDITED	$(113,988,048)	$ (3,537,106)	$ (1,207,819)	$ (199,098)		44,019,328

</TABLE>

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

<TABLE>
<CAPTION>

CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED) (U.S. DOLLARS)

	THREE MONTHS ENDED MARCH 31,	
	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss for the period..	(4,306,155)	(1,387,083)
Net loss for the period from discontinued operations......................	-	

		95,962
Adjustments required to reconcile net loss to net cash used in operating activities:		
Depreciation	236,408	180,591
Amortization of intangible assets	496,013	311,771
Amortization of deferred financial expenses	-	78,750
Amortization of compensation related to warrants issued to the holders of convertible debentures and beneficial conversion feature	1,117,093	189,000
Amortization of deferred expenses related to convertible debenture issuance	73,667	24,322 *
Amortization of capitalized research and development projects	9,163	-
Stock-based compensation due to repricing of warrants granted to investors	1,592,857	-
Stock-based compensation due to options granted to employees	4,500	-
Write-off of inventory	41,487	20,000
Profit to minority	546	43,227
Impairment of fixed assets	-	62,332
Interest income accrued on promissory notes due to purchase of subsidiary	-	(34,461)
Interest accrued on certificates of deposit due within one year	(33,738)	(762)
Amortization of premium related to restricted securities	33,993	-
Accrued interest on long-term loan	449	-
Capital gain from sale of property and equipment	(5,744)	(1,576)
Accrued severance pay, net	(383,588)	44,216
Increase in deferred tax assets	(16,809)	-
Changes in operating asset and liability items:		
Decrease (increase) in trade receivables	2,108,359	(1,597,094)
Decrease in unbilled revenues	544,000	-
Decrease in notes receivable	97,741	-
Decrease (increase) in accounts receivable	76,912	(185,246)*
Decrease (increase) in inventories	(1,398,145)	51,544
Increase (decrease) in trade payables	(53,819)	408,449
Decrease in deferred revenues	(467,562)	-
Increase (decrease) in accounts payable and accruals	(1,184,388)	(120,060)
NET CASH USED IN OPERATING ACTIVITIES FROM CONTINUING OPERATIONS (RECONCILED FROM CONTINUING OPERATIONS)	(1,416,760)	(1,816,118)
NET CASH USED IN OPERATING ACTIVITIES FROM DISCONTINUED OPERATIONS (RECONCILED FROM DISCONTINUED OPERATIONS)	(56,116)	(171,737)
NET CASH USED IN OPERATING ACTIVITIES	(1,472,876)	(1,987,855)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Repayment of promissory note related to purchase of subsidiary	(75,000)	(750,000)
Investment in subsidiary(1)	(7,186,837)	-
Investment in subsidiary(2)	(12,106,358)	-
Purchase of property and equipment	(234,032)	(138,622)
Increase in capitalized research and development projects	(67,482)	-

	2004	2003
Proceeds from sale of property and equipment	10,284	5,402
Decrease in demo inventories, net	1,185	32,040
Purchase restricted securities and deposits, net	(8,418,569)	-
NET CASH USED IN INVESTING ACTIVITIES	(28,076,809)	(851,180)
FORWARD	$ (29,549,685)	$ (2,839,035)

* Reclassified.

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

CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED) (U.S. DOLLARS)

	THREE MONTHS ENDED MARCH 31, 2004	2003
FORWARD	$ (29,549,685)	$ (2,839,035)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase in short-term credit from banks	432,859	7,062
Proceeds from issuance of share capital, net	17,807,500	-
Proceeds from exercise of options	5,468	-
Proceeds from exercise of warrants	2,490,722	-
Payment on capital lease obligation	(914)	(1,935)
Repayment of long-term loans	(14,228)	-
Issuance of convertible debenture	-	3,238,662 *
NET CASH PROVIDED BY FINANCING ACTIVITIES	20,721,407	3,243,789
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(8,828,278)	404,754
CASH EROSION DUE TO EXCHANGE RATE DIFFERENCES	(4,052)	-
BALANCE OF CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	13,685,125	1,457,526
BALANCE OF CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	$ 4,852,795	$ 1,862,280
SUPPLEMENTARY INFORMATION ON NON-CASH TRANSACTIONS:		
Issuance of shares and warrants against accrued expenses	$ 1,416,894	$ -

Increase in restricted deposit due within one year..........................	$ 110,114	$ -
Investment in subsidiary against promissory note............................	$ 2,577,097	$ -
Exercise of convertible debentures against shares...........................	$ 1,150,000	$ -
Compensation related to issuance of warrants in connection with convertible debenture and beneficial conversion feature of convertible debentures........	$ -	$ 1,890,000
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION - CASH (PAID) RECEIVED DURING THE PERIOD FOR:		
Interest..	$ (94,865)	$ (7,384)

</TABLE>

* Reclassified.

(1) In January 2004, the Company acquired substantially all of the outstanding ordinary shares of Epsilor Electronic Industries, Ltd. ("Epsilor"). The net fair value of the assets acquired and the liabilities assumed, at the date of acquisition, was as follows:

Working capital, excluding cash and cash equivalents (unaudited)...	$ (533,750)
Fixed assets (unaudited).............................	709,847
Intangible assets and goodwill (unaudited)...........	9,587,837
	9,763,934
Issuance of promissory note (unaudited)..............	(2,577,097)
	$ 7,186,837

CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED) (U.S. DOLLARS)

(2) In January 2004, the Company acquired all of the outstanding common stock of FAAC Incorporated ("FAAC"). The net fair value of the assets acquired was as follows :

Working capital, excluding cash and cash equivalents (unaudited)...	$ 2,647,822
Fixed assets (unaudited).............................	263,669
Intangible assets and goodwill (unaudited)...........	11,201,695
	14,113,186
Issuance of shares, net (unaudited)..................	(2,006,828)
	$ 12,106,358

AROTECH CORPORATION

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 1: BASIS OF PRESENTATION

a. Company:

Arotech Corporation, formerly known as Electric Fuel Corporation ("Arotech" or the "Company"), and its subsidiaries provide defense and security products for the military, law enforcement and homeland security markets, including advanced zinc-air and lithium batteries and chargers, multimedia interactive simulators/trainers and lightweight vehicle armoring. The Company is primarily operating through IES Interactive Training Systems, Inc., a wholly-owned subsidiary based in Littleton, Colorado; FAAC Corporation, a wholly-owned subsidiary based in Ann Arbor, Michigan; Electric Fuel Battery Corporation, a wholly-owned subsidiary based in Auburn, Alabama; Electric Fuel Ltd. ("EFL") a wholly-owned subsidiary based in Beit Shemesh, Israel; Epsilor Electronic Industries, Ltd., a wholly-owned subsidiary located in Dimona, Israel; M.D.T. Protective Industries, Ltd., a majority-owned subsidiary based in Lod, Israel; and MDT Armor Corporation, a majority-owned subsidiary based in Auburn, Alabama.

b. Basis of presentation:

The accompanying interim consolidated financial statements have been prepared by Arotech 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 Arotech 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 March 31, 2004 and the operating results and cash flows for the three months ended March 31, 2004 and 2003.

The results of operations for the three months ended March 31, 2004 are not necessarily indicative of results that may be expected for any other interim period or for the full fiscal year ending December 31, 2004.

The balance sheet at December 31, 2003 has been derived from the audited financial statements at that date but does not include all the information and footnotes required by generally accepted accounting principles for complete financial statements.

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 months ended March 31, 2004 and 2003:

	THREE MONTHS ENDED MARCH 31, 2004	2003
	(Unaudited)	
Risk free interest	2.8%	3.5%
Dividend yields	0.0%	0.0%
Volatility	0.764	0.640
Expected life	5	5

Pro forma information under SFAS No. 123:

	THREE MONTHS ENDED MARCH 31, 2004	2003
	Unaudited (U.S. Dollars, except per share data)	
Net loss as reported	$ (4,306,155)	$(1,387,083)
Add: Stock-based compensation expense determined under fair value method for all awards, net of related tax effects	$ (210,283)	(551,397)
Pro forma net loss	$ (4,516,438)	$(1,938,480)

Loss per share:

Basic and diluted, as reported	$ (0.07)	$ (0.04)
Diluted, pro form	$ (0.08)	$ (0.06)

NOTE 2: ACQUISITION OF EPSILOR

In January of 2004, the Company entered into a stock purchase agreement between itself and all of the shareholders of Epsilor Electronic Industries, Ltd. ("Epsilor"), pursuant to the terms of which the Company purchased all of the outstanding stock of Epsilor from Epsilor's existing shareholders. Epsilor develops and sells rechargeable and primary lithium batteries and smart chargers to the military, and to private industry in the Middle East, Europe and Asia. The total consideration of $10.0 million for the shares purchased consisted of (i) cash in the amount of $7,000,000, and (ii) a series of three $1,000,000 promissory notes, due on the first, second and third anniversaries of the agreement, which were recorded at their fair value of $2,577,097.

Based upon a preliminary valuation of tangible and intangible assets acquired, Arotech has allocated the total cost of the acquisition to Epsilor's assets as follows (unaudited):

Tangible assets acquired	$ 2,360,968
Intangible assets	
Technology	159,364
Customer list	4,889,671
Goodwill	4,538,801
Liabilities assumed	(2,184,870)
Total consideration	$ 9,763,934

In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets," goodwill arising from acquisitions will not be amortized. In lieu of amortization, Arotech is required to perform an annual and interim impairment review. If Arotech determines, through the impairment review process, that goodwill has been impaired, it will record the impairment charge in its statement of operations. Arotech will also assess the impairment of goodwill whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

NOTE 3: ACQUISITION OF FAAC

In January of 2004, the Company entered into a stock purchase agreement with the shareholders of FAAC Incorporated ("FAAC"), pursuant to the terms of which it acquired all of the issued and outstanding common stock of FAAC, a leading provider of driving simulators, systems engineering and software products to the United States military, government and private industry.

The consideration for the purchase consisted of (i) cash in the amount of $12.0 million, and (ii) the issuance of a total of 1,003,856 shares of our common stock, $0.01 par value per share, having a value of $2.0 million. Additionally, there is an earn-out based on 2004 net pretax profit, with an additional earn-out on the 2005 net profit from certain specific and limited programs. The total consideration of $14.0 million was determined based upon arm's-length negotiations between the Company and FAAC's shareholders.

Based upon a preliminary valuation of tangible and intangible assets acquired, Arotech has allocated the total cost of the acquisition to FAAC's assets as follows (unaudited):

Tangible assets acquired	$ 5,684,583
Intangible assets	
Technology	4,610,000
Existing contracts	636,000
Website	14,000
Customer list	1,125,000
Trademarks	360,000
Goodwill	4,456,695
Liabilities assumed	(2,770,843)
Total consideration	$ 14,115,436

In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets," goodwill arising from acquisitions will not be amortized. In lieu of amortization, Arotech is required to perform an annual and interim impairment review. If Arotech determines, through the impairment review process, that goodwill has been impaired, it will record the impairment charge in its statement of operations. Arotech will also assess the impairment of goodwill whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

NOTE 4: PRO FORMA FINANCIAL INFORMATION

In January 2004, the Company acquired FAAC and Epsilor, as more fully described in "Note 2 - Acquisition of Epsilor" and "Note 3 - Acquisition of FAAC," above (the "Acquisitions"). The following summary pro forma information includes the effects of the Acquisitions. The pro forma data for the three months ended March 31, 2004 and 2003 are presented as if the Acquisitions had been completed on January 1, 2004 and 2003, respectively. This pro forma financial information does not purport to be indicative of the results of operations that would have occurred had the Acquisitions taken place at the beginning of the period, nor do they purport to be indicative of the results that will be obtained in the future.

<TABLE>
<CAPTION>

	THREE MONTHS ENDED MARCH 31,	
	2004	2003
	(IN THOUSANDS, EXCEPT PER SHARE DATA) (Unaudited)	
<S>	<C>	<C>
Total revenues................................	$ 7,182	$ 7,452
Gross profit..................................	2,625	3,217
Net loss......................................	(4,306)	(1,132)
Basic and diluted net loss per share..........	$ (0.07)	$ (0.03)

</TABLE>

NOTE 5: 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:

	MARCH 31, 2004	DECEMBER 31, 2003
	(Unaudited)	(Note 1.b.)
Raw materials...................	$ 2,566,681	$ 657,677
Work-in-progress................	727,002	634,221
Finished goods..................	1,249,216	622,851
	$ 4,542,899	$ 1,914,748

NOTE 6: IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN No. 46") which clarifies the application of Accounting Research Bulletin (ARB) No. 51, "Consolidated Financial Statements," relating to consolidation of certain entities. First, FIN No. 46 will require identification of the Company's participation in variable interest entities (VIEs), which are defined as entities with a level of invested equity that is not sufficient to fund future activities to permit them to operate on a stand-alone basis, or whose equity holders lack certain characteristics of a controlling financial interest. Then, for entities identified as VIEs, FIN No. 46 sets forth a model to evaluate potential consolidation based on an assessment of which party to the VIE, if any, bears a majority of the exposure to its expected losses, or stands to gain from a majority of its expected returns. FIN No. 46 is effective for all new VIEs created or acquired after January 31, 2003. For VIEs created or acquired prior to February 1, 2003, the provisions of FIN No. 46 must be applied for the first interim or annual period beginning after December 15, 2003. FIN No. 46 also sets forth certain disclosures regarding interests in VIEs that are deemed significant, even if consolidation is not required. The adoption of FIN No. 46 has not had a material impact on the Company's results of operations or financial position.

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" ("SFAS No. 149"). SFAS No. 149 amends and clarifies the accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 149 is generally effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. The adoption of SFAS No. 149 has not had a material impact on the Company's results of operations or financial position.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" ("SFAS No. 150"). SFAS No. 150 requires that certain financial instruments, which under previous guidance were accounted for as equity, must now be accounted for as liabilities. The financial instruments affected include mandatory redeemable stock, certain financial instruments that require or may require the issuer to buy back some of its shares in exchange for cash or other assets and certain obligations that can be settled with shares of stock. SFAS No. 150 is effective for all financial instruments entered into or modified after May 31, 2003 and must be applied to the Company's existing financial instruments effective July 1, 2003, the beginning of the first fiscal period after June 15, 2003. The adoption of SFAS No. 150 has not had a material effect on the Company's financial position, results of operations or cash flows.

NOTE 7: SEGMENT INFORMATION

a. General:

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

The Company previously managed its business in two reportable segments organized on the basis of differences in its related products and services. With the acquisition of FAAC and Epsilor early in 2004, the Company reorganized into three segments: Simulation, Training and Consulting; Battery and Power Systems; and Armored Vehicles. 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 operating income and the other is based on the segment's contribution to the Company's future strategic growth.

b. The following is information about reported segment revenues, income (losses) and assets for the three months ended March 31, 2004 and 2003 (in U.S. dollars):

<TABLE>
<CAPTION>

	SIMULATION, TRAINING AND CONSULTING	BATTERY AND POWER SYSTEMS	ARMORED VEHICLES	ALL OTHERS	TOTAL
THREE MONTHS ENDED MARCH 31, 2004					
<S>	<C>	<C>	<C>	<C>	<C>
Revenues from outside customers	$ 3,212,082	$ 2,505,621	$ 1,464,550	$ -	$ 7,182,254
Depreciation expenses and amortization	(385,100)	(282,870)	(29,450)	(35,000)	(732,421)
Direct expenses (1)	(3,167,491)	(2,463,960)	(1,328,452)	(2,519,963)	(9,479,866)
Segment gross profit (loss)	$ (340,509)	$ (241,209)	$ 106,648	$ (2,554,963)	(3,030,033)
Financial expense (after deduction of minority interest)					(1,276,122)

Net loss from continuing operations					$(4,306,155)
Segment assets	18,795,589	12,629,305	3,360,366	439,646	35,224,906
THREE MONTHS ENDED MARCH 31, 2003					
Revenues from outside customers	$ 1,958,446	$ 828,645	$ 1,246,362	$ -	$ 4,033,453
Depreciation expenses and amortization	(271,821)	(119,024)	(53,517)	(48,000)	(492,362)
Direct expenses (1)	(1,725,235)	(991,690)	(1,150,274)	(719,547)	(4,586,746)
Segment gross profit (loss)	$ (38,610)	$ (282,069)	$ 42,571	$ (767,547)	(1,045,655)
Financial income (after deduction of minority interest)					(245,466)
Net loss from continuing operations					$(1,291,121)
Segment assets	6,551,606	2,135,749	2,124,422	469,436	11,281,213

</TABLE>

(1) Including sales and marketing, general and administrative and tax expenses.
(2) Consisting of property and equipment, inventory and intangible assets.

NOTE 8: CONVERTIBLE DEBENTURES

a. 9% Secured Convertible Debentures due June 30, 2005

Pursuant to the terms of a Securities Purchase Agreement dated December 31, 2002, the Company issued and sold to a group of institutional investors an aggregate principal amount of 9% secured convertible debentures in the amount of $3.5 million due June 30, 2005. These debentures are convertible at any time prior to June 30, 2005 at a conversion price of $0.75 per share (see also Note 9.a). The conversion price of these debentures was adjusted to $0.64 per share in April 2003. In accordance with EITF 96-19, "Debtor's Accounting for a Modification or Exchange of Debt Instruments," the terms of convertible debentures are not treated as changed or modified when the cash flow effect on a present value basis is less than 10%, and therefore the Company did not record any compensation related to the change in the conversion price of the convertible debentures.

During the three months ended March 31, 2004, the remaining $1,150,000 of 9% secured convertible debentures outstanding was converted into an aggregate of 1,796,875 shares of common stock.

In determining whether the convertible debentures include a beneficial conversion feature 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 convertible debentures and the detachable warrants based on their relative fair values. In connection with these convertible debentures, the Company recorded financial expenses of $600,000 with respect to the beneficial conversion feature. The $600,000 was amortized from the date of issuance to the actual conversion date as financial expenses.

During the three months ended March 31, 2004, the Company recorded an expense of $118,286, all which was attributable to amortization due to conversion of the convertible debenture into shares.

b. 8% Secured Convertible Debentures due September 30, 2006

Pursuant to the terms of a Securities Purchase Agreement dated September 30, 2003, the Company issued and sold to a group of institutional investors an aggregate principal amount of 8% secured convertible debentures in the amount of $5.0 million due September 30, 2006. These debentures are convertible at any time prior to September 30, 2006 at a conversion price of $1.15 per share, or a maximum aggregate of 4,347,826 shares of common stock (see also Note 9.b).

In determining whether the convertible 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 convertible debentures and the detachable warrants based on their relative fair values. In connection with these convertible debentures, the Company will record financial expenses of $1,938,043 with respect to the beneficial conversion feature. The $1,938,043 is amortized from the date of issuance to the stated redemption date - September 30, 2006 - as financial expenses.

During the three months ended March 31, 2004 the Company recorded an expense of $39,424, all of which was attributable to amortization of the beneficial conversion feature of the convertible debenture over its term.

c. 8% Secured Convertible Debentures due December 31, 2006

Pursuant to the terms of a Securities Purchase Agreement dated September 30, 2003, the Company issued and sold to a group of institutional investors an aggregate principal amount of 8% secured convertible debentures in the amount of $6.0 million due December 31, 2006. These debentures are convertible at any time prior to December 31, 2006 at a conversion price of $1.45 per share, or a maximum aggregate of 4,137,931 shares of common stock (see also Note 9.c).

In determining whether the convertible 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 convertible debentures and the detachable warrants based on their relative fair values. In connection with these convertible debentures, the Company will record financial expenses of $3,157,500 with respect to the beneficial conversion feature. The $3,157,500 is amortized from the date of issuance to the stated redemption date - December 31, 2006 - as financial expenses.

During the three months ended March 31, 2004 the Company recorded an expense of $257,236, all of which was attributable to amortization of the beneficial conversion feature of the convertible debenture over its term.

NOTE 9: WARRANTS

a. Warrants issued in connection with the 9% Secured Convertible Debentures due June 30, 2005

As part of the securities purchase agreement on December 31, 2002 (see Note 8.a), the Company issued to the purchasers of its 9% secured convertible debentures due June 30, 2005, warrants, as follows: (i) Series A Warrants to purchase an aggregate of 1,166,700 shares of common stock at any time prior to December 31, 2007 at a price of $0.84 per share; (ii) Series B Warrants to purchase an aggregate of 1,166,700 shares of common stock at any time prior to December 31, 2007 at a price of $0.89 per share; and (iii) Series C Warrants to purchase an aggregate of 1,166,700 shares of common stock at any time prior to December 31, 2007 at a price of $0.93 per share. The exercise price of these warrants was adjusted to $0.64 per share in April 2003.

In connection with these warrants, the Company recorded a deferred debt discount of $1,290,000, which will be amortized ratably over the life of the convertible debentures (3 years), unless these warrants are exercised, in which case any remaining financial expense will be taken in the quarter in which the exercise occurs. This transaction was accounted according to APB No. 14 "Accounting for Convertible debt and Debt Issued with Stock Purchase Warrants" and Emerging Issue Task Force No. 00-27 "Application of Issue No. 98-5 to Certain Convertible Instruments" ("EITF 00-27"). 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 5 years.

During the three months ended March 31, 2003, the Company recorded an expense of $73,714 for amortization of these debt discounts over their term, which is included in financial expenses.

b. Warrants issued in connection with the 8% Secured Convertible Debentures due September 30, 2006

As part of the securities purchase agreement on September 30, 2003 (see Note 8.b), the Company issued to the purchasers of its 8% secured convertible debentures due September 30, 2006, warrants to purchase an aggregate of 1,250,000 shares of common stock at any time prior to September 30, 2006 at a price of $1.4375 per share.

In connection with these warrants, the Company recorded a deferred debt discount of $1,025,000, which will be amortized ratably over the life of the convertible debentures (3 years). This transaction was accounted according to APB No. 14 "Accounting for Convertible debt and Debt Issued with Stock Purchase Warrants" and Emerging Issue Task Force No. 00-27 "Application of Issue No. 98-5 to Certain Convertible Instruments" ("EITF 00-27"). The fair value of these warrants was determined using Black-Scholes pricing model, assuming a risk-free interest rate of 1.95%, a volatility factor 98%, dividend yields of 0% and a contractual life of 3 years.

During the three months ended March 31, 2004, an aggregate of 500,000 shares were issued pursuant to exercises of these warrants.

During the three months ended March 31, 2004, the Company recorded an expense of $396,860, of which $51,203 was attributable to amortization of the debt discount over their term and $345,657 was attributable to amortization due to exercise of warrants. Those expenses were included in the financial expenses.

c. Warrants issued in connection with 8% Secured Convertible Debentures due December 31, 2006

As a further part of the securities purchase agreement on September 30, 2003 (see Note 8.c), the Company issued to the purchasers of its 8% secured convertible debentures due December 31, 2006, warrants to purchase an aggregate of 1,500,000 shares of common stock at any time prior to December 31, 2006 at a price of $1.8125 per share. Additionally, the Company issued to the investors supplemental warrants to purchase an aggregate of 1,038,000 shares of common stock at any time prior to December 31, 2006 at a price of $2.20 per share.

In connection with these warrants, the Company will record financial expenses of $ 1,545,000 and $1,297,500 for the additional and the supplemental warrants referred to above, respectively, which will be amortized ratably over the life of the convertible debentures (3 years). This transaction was accounted according to APB No. 14 "Accounting for Convertible debt and Debt Issued with Stock Purchase Warrants" and Emerging Issue Task Force No. 00-27 "Application of Issue No. 98-5 to Certain Convertible Instruments" ("EITF 00-27"). The fair value of these warrants was determined using Black-Scholes pricing model, assuming a risk-free interest rate of 2.45%, a volatility factor 98%, dividend yields of 0% and a contractual life of 3 years.

During the three months ended March 31, 2003, the Company recorded an expense of $231,573 for amortization of these debt discounts over their term, which is included in financial expenses.

d. Warrants issued to an investor

In November 2000 and May 2001, the Company issued a total of 916,667 warrants to an investor, which warrants contained certain antidilution provisions: a Series A warrant to purchase 666,667 shares of the Company's common stock at a price of $3.50 per share, and a Series C warrant to purchase 250,000 shares at a price of $3.08 per share. Operation of the antidilution provisions provided that the Series A warrant should be adjusted to be a warrant to purchase 888,764 shares at a price of $2.67 per share, and the Series C warrant should be adjusted to be a warrant to purchase 333,286 shares at a price of $2.35 per share. After negotiations, the investor agreed to exercise its warrants immediately, in exchange for a lowering of the exercise price to $1.45 per share, and the issuance of a new six-month Series D warrant to purchase 1,222,050 shares at an exercise price of $2.10 per share. The new Series D warrant would not have similar antidilution provisions. As a result of this repricing and the issuance of these new warrants, the Company recorded a compensation expense in the amount of approximately $1,299,690 in the first quarter of 2004.

NOTE 10: ISSUANCE OF SHARES AND WARRANTS

Pursuant to the terms of a Securities Purchase Agreement dated January 7, 2004 by and between the Company and several institutional investors, the Company issued and sold (i) an aggregate of 9,840,426 shares of the Company's common stock at a purchase price of $1.88 per share, and (ii) three-year warrants to purchase up to an aggregate of 9,840,426 shares of the Company's common stock at any time beginning six months after closing at an exercise price per share of $1.88. Gross proceeds of this offering were approximately $18.5 million.

NOTE 11: LITIGATION SETTLEMENT

On February 4, 2004, the Company entered into an agreement settling the litigation brought against it in the Tel-Aviv, Israel district court by I.E.S. Electronics Industries, Ltd. ("IES Electronics") and certain of its affiliates in connection with the Company's purchase of the assets of its IES Interactive Training, Inc. from IES Electronics in August 2002. The litigation had sought monetary damages in the amount of approximately $3.0 million.

Pursuant to the terms of the settlement agreement, in addition to agreeing to dismiss their lawsuit with prejudice, IES Electronics agreed (i) to cancel the Company's $450,000 debt to IES Electronics that had been due on December 31, 2003, and (ii) to transfer to the Company title to certain certificates of deposit in the approximate principal amount of $112,000.

In consideration of the foregoing, the Company issued to IES Electronics (i) 450,000 shares of its common stock, and (ii) five-year warrants to purchase up to an additional 450,000 shares of its common stock at a purchase price of $1.91 per share.

NOTE 12: SUBSEQUENT EVENTS

a. Conversion of debentures:

In April 2004, a total of $850,000 principal amount of debentures was converted into an aggregate of 649,176 shares of our common stock.

b. Exercise of warrants:

In May 2004, warrants to purchase a total of 337,500 shares of common stock, having an aggregate exercise price of $541,406 and issued in connection with the issuance of the Company's debentures, were exercised.

c. Amendment to Certificate of Incorporation:

In February 2004, the Board of Directors of the Company approved a proposed amendment to Article Four of the Company's Amended and Restated Certificate of Incorporation to increase the number of shares of common stock that the Company is authorized to issue from 100,000,000 to 250,000,000. The Board directed that the proposed amendment be submitted to a vote of the Company's stockholders at the Company's next annual meeting of stockholders, to be held on June 14, 2004.

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

This report contains forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These statements 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.

Arotech(TM) is a trademark and Electric Fuel(R) is a registered trademark of Arotech 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 Arotech Corporation and its subsidiaries.

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.

EXECUTIVE SUMMARY

DIVISIONS AND SUBSIDIARIES

We operate primarily as a holding company, through our various subsidiaries, which we have organized into three divisions. Our divisions and subsidiaries (all 100% owned by us, unless otherwise noted) are as follows:

>> Our SIMULATION, TRAINING AND CONSULTING DIVISION, which develops, manufactures and markets advanced hi-tech multimedia and interactive digital solutions for use-of-force and driving training of military, law enforcement and security personnel, as well as offering security consulting and other services, consisting of:

o IES Interactive Training, Inc., located in Littleton, Colorado, which provides specialized "use of force" training for police, security personnel and the military ("IES");

o FAAC Incorporated, located in Ann Arbor, Michigan, which provides simulators, systems engineering and software products to the United States military, government and private industry ("FAAC"); and

o Arocon Security Corporation, located in New York, New York, which provides security consulting and other services, focusing on protecting life, assets and operations with minimum hindrance to personal freedom and daily activities ("Arocon").

>> Our BATTERY AND POWER SYSTEMS DIVISION, which manufactures and sells Zinc-Air and lithium batteries for defense and security products and other military applications and pioneers advancements in Zinc-Air battery technology for electric vehicles, consisting of:

o Electric Fuel Battery Corporation, located in Auburn, Alabama, which manufactures and sells Zinc-Air fuel sells, batteries and chargers for the military, focusing on applications that demand high energy and light weight ("EFB");

o Epsilor Electronic Industries, Ltd., located in Dimona, Israel (in Israel's Negev desert area), which develops and sells rechargeable and primary lithium batteries and smart chargers to the military and to private industry in the Middle East, Europe and Asia ("Epsilor"); and

o Electric Fuel (E.F.L.) Ltd., located in Beit Shemesh, Israel, which produces water-activated lifejacket lights for commercial aviation and marine applications, and which conducts our Electric Vehicle effort, focusing 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 our Zinc-Air energy system for electric vehicles ("EFL").

>> Our ARMORED VEHICLE DIVISION, which utilizes sophisticated lightweight materials and advanced engineering processes to armor vehicles, consisting of:

o MDT Protective Industries, Ltd., located in Lod, Israel, which specializes in using state-of-the-art lightweight ceramic materials, special ballistic glass and advanced engineering processes to fully armor vans and cars, and is a leading supplier to the Israeli military, Israeli special forces and special services ("MDT") (75.5% owned by us); and

o MDT Armor Corporation, located in Auburn, Alabama, which conducts MDT's United States activities ("MDT Armor") (88% owned by us).

OVERVIEW OF RESULTS OF OPERATIONS

We incurred significant operating losses for the years ended December 31, 2001, 2002 and 2003 and for the first three months of 2004. While we expect to continue to derive revenues from the sale of products that we manufacture and the services that we provide, there can be no assurance that we will be able to achieve or maintain profitability on a consistent basis.

During 2003, we substantially increased our revenues and reduced our operating loss, from $18.5 million in 2002 to $9.0 million in 2003. This was achieved through a combination of cost-cutting measures and increased revenues, particularly from the sale of Zinc-Air batteries to the military and from sales of interactive training systems by IES. We believe that our acquisitions of FAAC and Epsilor will contribute to our goal of achieving profitability.

We regard moving the company to a positive cash flow situation on a consistent basis to be an important goal, and we are focused on achieving that goal for the second half of 2004 and beyond. In this connection, we note that most of our business lines historically have had weaker first halves than second halves, and weaker first quarters than second quarters. We expect this to be the case for 2004 as well.

A portion of our operating loss during the first three months of 2004 arose as a result of non-cash charges. These charges were primarily related to our acquisitions and to our raising capital. Because we anticipate continuing these activities during 2004, we expect to continue to incur such non-cash charges in the future.

Non-cash charges related to acquisitions arise when the purchase price for an acquired company exceeds the company's book value. In such a circumstance, a portion of the excess of the purchase price is recorded as goodwill, and a portion as intangible assets. In the case of goodwill, the assets recorded as goodwill are not amortized; instead, we are required to perform an annual impairment review. If we determine, through the impairment review process, that goodwill has been impaired, we must record the impairment charge in our statement of operations. Intangible assets are amortized in accordance with their useful life. Accordingly, for a period of time following an acquisition, we incur a non-cash charge in the amount of a fraction (based on the useful life of the intangible assets) of the amount recorded as intangible assets. Our acquisitions of FAAC and Epsilor resulted in our incurring similar non-cash charges during the first three months of 2004.

As a result of the application of the above accounting rule, we incurred non-cash charges related to our acquisitions in the amount of $496,013 during the first three months of 2004.

The non-cash charges that relate to our financings occurred in connection with our sale of convertible debentures with warrants. When we issue convertible debentures, we record an expense for a beneficial conversion feature that is amortized ratably over the life of the debenture. When a debenture is converted, however, the entire remaining unamortized beneficial conversion feature expense is immediately recognized in the quarter in which the debenture is converted. Similarly, when we issue warrants in connection with convertible debentures, we record an expense for financial expenses that is amortized ratably over the term of the warrant; when the warrant is exercised, the entire remaining unamortized financial expense is immediately recognized in the quarter in which the warrant is exercised. As and to the extent that our remaining convertible debentures and warrants are converted and exercised, we would incur similar non-cash charges going forward.

As a result of the application of the above accounting rule, we incurred non-cash charges related to our financings in the amount of $1,117,093 during the first three months of 2004.

Additionally, in an effort to improve our cash situation and our shareholders' equity, during the first three months of 2004 we induced holders of certain of our warrants to exercise their warrants by lowering the exercise price of the warrants in exchange for immediate exercise of such warrants, and by issuing to such investors new warrants at a higher exercise price. Under such circumstances, accounting rules require us to record a compensation expense in an amount determined based upon the fair value of the new warrants (using a Black-Scholes pricing model). As and to the extent that we engage in similar warrant repricings and issuances in the future, we would incur similar non-cash charges.

As a result of the application of the above accounting rule, we incurred non-cash charges related to warrant repricings in the amount of $1,299,690 during the first three months of 2004.

In addition, we incurred non-cash charges in the amount of $293,167 during the first three months of 2004 as a result of warrants granted to some of our investors in the past.

FUNCTIONAL CURRENCY

We consider the United States dollar to be the currency of the primary economic environment in which we and our Israeli subsidiary 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 our Israeli subsidiaries MDT and Epsilor, is in New Israel Shekels ("NIS") and a substantial portion of MDT's and Epsilor's costs is incurred in NIS. Management believes that the NIS is the functional currency of MDT and Epsilor. Accordingly, the financial statements of MDT and Epsilor 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 have 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.

OVERVIEW OF OPERATING PERFORMANCE AND BACKLOG

We shut down our money-losing consumer battery operations and began acquiring new businesses in the defense and security field in 2002. Since then, we have concentrated on eliminating our operating deficit and moving Arotech to cash-flow positive operations. In order to do this, we have focused on acquiring businesses with strong revenues and profitable operations.

In the first three months of 2004, IES experienced a substantial slowdown of new sales. As of March 31, 2004, our backlog for our Simulation, Training and Consulting Division totaled $5.5 million, most of which was attributable to FAAC.

In our Battery and Power Systems Division, EFB and Epsilor had revenues roughly in line with expectations. As of March 31, 2004, our backlog for our Battery and Power Systems Division totaled $7.2 million.

In our Armored Vehicle Division, MDT Armor experienced an increase in revenues during the first three months of 2004 as a result of new orders in connection with the War in Iraq. As of March 31, 2004, our backlog for our Armored Vehicle Division totaled $8.8 million.

RESULTS OF OPERATIONS

PRELIMINARY NOTE

Results for the three months ended March 31, 2004 include the results of FAAC and Epsilor for such period as a result of our acquisitions of these companies early in the first quarter of 2004. The results of FAAC and Epsilor were not included in our operating results for the three months ended March 31, 2003. Accordingly, the following period-to-period comparisons should not necessarily be relied upon as indications of future performance.

THREE MONTHS ENDED MARCH 31, 2004 COMPARED TO THE THREE MONTHS ENDED MARCH 31, 2003.

REVENUES. During the first three months of 2004, we (through our subsidiaries) recognized revenues as follows:

>> IES and FAAC recognized revenues from the sale of interactive use-of-force training systems and from the provision of warranty services in connection with such systems;

>> MDT and MDT Armor recognized revenues from payments under vehicle armoring contracts and for service and repair of armored vehicles;

>> EFB and Epsilor recognized revenues from the sale of batteries, chargers and adapters to the military, and under certain development contracts with the U.S. Army;

>> Arocon recognized revenues under consulting agreements; and

>> EFL recognized revenues from the sale of lifejacket lights and from subcontracting fees received in connection with Phase IV of the United States Department of Transportation (DOT) electric bus program.

Revenues for the three months ended March 31, 2004 totaled $7.2 million, compared to $4.0 million in the comparable period in 2003, an increase of $3.1 million, or 78%. This increase was primarily attributable to the following factors:

>> Increased revenues from our Armored Vehicle Division, particularly MDT Armor;

>> Increased revenues from our Battery and Power Systems Division, particularly CECOM revenues from EFB;

>> Revenues from FAAC and Epsilor present in the first quarter of 2004 that were not present in the corresponding period of 2003.

These revenues were offset to some extent by

>> Decreased revenues from our IES subsidiary.

In the first quarter of 2004, revenues were $3.2 million for the

Simulation, Training and Consulting Division (compared to $2.0 million in the first quarter of 2003, an increase of $1.3 million, or 64%, due primarily to the added revenues of FAAC, offset to some extent by decreased revenues from IES); $2.5 million for the Battery and Power Systems Division (compared to $829,000 in the first quarter of 2003, an increase of $1.7 million, or 202%, due primarily to increased sales of our Zinc-Air military batteries and the added revenues of Epsilor); and $1.5 million for the Armored Vehicle Division (compared to $1.2 million in the first quarter of 2003, an increase of $218,000, or 18%, due primarily to increased revenues from MDT Armor).

COST OF REVENUES AND GROSS PROFIT. Cost of revenues totaled $4.6 million during the first quarter of 2004, compared to $2.6 million in the first quarter of 2003, an increase of $1.9 million, or 73%, due primarily to increased sales in all divisions.

Direct expenses for our three divisions during the first quarter of 2004 were $3.2 million for the Simulation, Training and Consulting Division (compared to $1.7 million in the first quarter of 2003, an increase of $1.4 million, or 84%, due primarily the added expenses of FAAC, offset to some extent by decreased sales by IES); $2.5 million for the Battery and Power Systems Division (compared to $1.0 million in the first quarter of 2003, an increase of $1.5 million, or 148%, due primarily to increased in sales of our Zinc-Air military batteries and the added revenues of Epsilor ($738,000); and $1.3 million for the Armored Vehicle Division (compared to $1.2 million in the first quarter of 2003, an increase of $178,000, or 15%, due primarily to increased revenues from MDT Armor).

Gross profit was $2.6 million during the first quarter of 2004, compared to $1.4 million during the first quarter of 2003, an increase of $1.2 million, or 88%. This increase was the direct result of all factors presented above, most notably the presence of FAAC and Epsilor in our results and the increase in vehicle armoring revenues.

RESEARCH AND DEVELOPMENT EXPENSES. Research and development expenses for the first quarter of 2004 were $464,000, compared to $358,000 during the first quarter of 2003, an increase of $105,000, or 29%. This increase was the result of the inclusion of the research and development expenses of FAAC and Epsilor in our results this quarter.

SALES AND MARKETING EXPENSES. Sales and marketing expenses for the first quarter of 2004 were $1.0 million, compared to $704,000 the first quarter of 2003, an increase of $317,000, or 45%. This increase was primarily attributable to the following factors:

>> The inclusion of the sales and marketing expenses of FAAC and Epsilor in our results for 2004; and

>> We incurred expenses in connection with new activities by our Arocon and MDT Armor subsidiaries.

GENERAL AND ADMINISTRATIVE EXPENSES. General and administrative expenses for the first quarter of 2004 were $3.7 million compared to $1.0 million in the first quarter of 2003, an increase of $2.7 million, or 263%. This increase was primarily attributable to the following factors:

>> The inclusion of the general and administrative expenses of FAAC and Epsilor in our results for 2004;

>> Expenses in 2004 in connection with warrant repricings and grants of new warrants, in the amount of $1.6 million, that were not present in 2003; and

>> Increases in other general and administrative expenses in comparison to 2003, such as employee accruals and amortization of certain expenses related to convertible debentures.

FINANCIAL EXPENSES, NET. Financial expenses, net of interest income and exchange differentials, totaled approximately $1.3 million in the first quarter of 2004 compared to $261,000 in the first quarter of 2003, a difference of $1.0 million. This difference was due primarily to amortization of compensation related to the issuance of convertible debentures, as well as interest expenses related to those debentures.

INCOME TAXES. We and certain of our subsidiaries incurred net operating losses during 2004 and, accordingly, we were not required to make any provision for income taxes. With respect to those of our subsidiaries that operated at a net profit during 2004, we were able to offset federal taxes against our loss carryforwards. We recorded a total of $5,000 in tax income in the first quarter of 2004, on account of deferred tax assets with respect to certain of our subsidiaries. In the first quarter of 2003, we did not accrue any tax expenses.

AMORTIZATION OF INTANGIBLE ASSETS. Amortization of intangible assets totaled $496,000 in the first quarter of 2004, compared to $312,000 the first quarter of 2003, an increase of $184,000, or 59%. $226,000 of this amortization was attributable to FAAC and $142,000 was attributable to Epsilor.

NET LOSS. Due to the factors cited above, we reported a net loss of $4.3 million in the first quarter of 2004, compared to a net loss of $1.4 million the first quarter of 2003, an increase of $2.9 million.

LIQUIDITY AND CAPITAL RESOURCES

As of March 31, 2004, we had $4.9 million in cash, $5.7 million in restricted collateral securities and cash deposits due within one year, $3.8 million in long-term restricted securities and deposits, and $124,000 in marketable securities, as compared to at December 31, 2003, when we had $13.7 million in cash and $706,000 in restricted cash deposits due within one year. The decrease in cash was primarily the result of the costs of the acquisitions of FAAC and Epsilor, and working capital needed in our other segments.

We used available funds in the first quarter of 2004 primarily for acquisitions, sales and marketing, continued research and development expenditures, and other working capital needs. We increased our investment in fixed assets during the quarter ended March 31, 2004 by $234,000 over the investment as at December 31, 2003, primarily in the Battery and Power Systems Division and in the Simulation, Training and Consulting Division. Our fixed assets amounted to $3.2 million at quarter end.

Net cash used in operating activities from continuing operations for the three months ended March 31, 2004 and 2003 was $1.4 million and $1.8 million, respectively, a decrease of $399,000, or 22%. This decrease was primarily the result of changes in operating assets and liabilities, particularly a decrease in trade receivables.

Net cash used in investing activities for the three months ended March 31, 2004 and 2003 was $28.1 million and $851,000, respectively, an increase of $27.0 million. This increase was primarily the result of our investment in the acquisition of FAAC and Epsilor in 2004.

Net cash provided by financing activities for the three months ended March 31, 2004 and 2003 was $20.7 million and $3.2 million, respectively, an increase of $17.5 million, or 539%. This increase was primarily the result of higher amounts of funds raised through sales of our securities in 2004 compared to 2003.

During the three months ended March 31, 2004, certain of our employees exercised options under our registered employee stock option plan. The proceeds to us from the exercised options were approximately $5,000.

On January 7, 2004, we issued (i) an aggregate of 9,840,426 shares of our common stock at a purchase price of $1.88 per share, and (ii) three-year warrants to purchase up to an aggregate of 9,840,426 shares of our common stock at any time beginning six months after closing at an exercise price per share of $1.88, as more fully described in the Current Report on Form 8-K that we filed with the Securities and Exchange Commission on January 8, 2004. Gross proceeds of this offering were approximately $18.5 million.

As of March 31, 2004, we had (based on the contractual amount of the debt and not on the accounting valuation of the debt) approximately $9.4 million in long term bank and certificated debt outstanding, of which $7.2 million was convertible debt, and approximately $2.0 million in short-term debt.

Our current debt agreements grant to our investors a right of first refusal on any future financings, except for underwritten public offerings in excess of $30 million. We do not believe that this covenant will materially limit our ability to undertake future financings.

Based on our internal forecasts, we believe that our present cash position and anticipated cash flows from operations should be sufficient to satisfy our current 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. Over the long term, we will need to become profitable, at least on a cash-flow basis, and maintain that profitability in order to avoid future capital requirements. Additionally, we would need to raise additional capital in order to fund any future acquisitions.

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 have incurred significant operating losses since our inception. Additionally, as of March 31, 2004, we had an accumulated deficit of approximately $114.0 million. There can be no assurance that we will ever be able to maintain profitability consistently or that our business will continue to exist.

OUR EXISTING INDEBTEDNESS MAY ADVERSELY AFFECT OUR ABILITY TO OBTAIN ADDITIONAL FUNDS AND MAY INCREASE OUR VULNERABILITY TO ECONOMIC OR BUSINESS DOWNTURNS.

Our bank and certificated indebtedness aggregated approximately $11.4 million as of March 31, 2004. 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.

WE HAVE PLEDGED A SUBSTANTIAL PORTION OF OUR ASSETS TO SECURE OUR BORROWINGS.

Our 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 creditors to satisfy our obligations to the secured creditors, 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 market our products and develop and market new products. To the extent that we are unable to fully fund our operations through profitable sales of our products and services, we may 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 acquisitions of IES and MDT in 2002 and the acquisitions of FAAC and Epsilor in January 2004, 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 our acquisitions, a substantial component of our business is the marketing and sale of hi-tech multimedia and interactive training solutions 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 our acquired companies' management personnel, 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, our business, financial condition and results of operations could be materially impaired.

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, MDT, FAAC and Epsilor, 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.

A SIGNIFICANT PORTION OF OUR BUSINESS IS DEPENDENT ON GOVERNMENT CONTRACTS.

Many of the customers of IES and FAAC 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. Additionally, all of EFB's sales to date of battery products for the military and defense sectors have been in the public sector in the United States. 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 has only recently opened 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 U.S. GOVERNMENT CONTRACTS MAY BE TERMINATED AT ANY TIME AND MAY CONTAIN OTHER UNFAVORABLE PROVISIONS.

The U.S. government typically can terminate or modify any of its contracts with us either for its convenience or if we default by failing to perform under the terms of the applicable contract. A termination arising out of our default could expose us to liability and have a material adverse effect on our ability to re-compete for future contracts and orders. Our U.S. government contracts contain provisions that allow the U.S. government to unilaterally suspend us from receiving new contracts pending resolution of alleged violations of procurement laws or regulations, reduce the value of existing contracts, issue modifications to a contract and control and potentially prohibit the export of our products, services and associated materials.

A negative audit by the U.S. government could adversely affect our business, and we might not be reimbursed by the government for costs that we have expended on our contracts.

Government agencies routinely audit government contracts. These agencies review a contractor's performance on its contract, pricing practices, cost structure and compliance with applicable laws, regulations and standards. If we are audited, we will not be reimbursed for any costs found to be improperly allocated to a specific contract, while we would be required to refund any improper costs for which we had already been reimbursed. Therefore, an audit could result in a substantial adjustment to our revenues. If a government audit uncovers improper or illegal activities, we may be subject to civil and criminal penalties and administrative sanctions, including termination of contracts, forfeitures of profits, suspension of payments, fines and suspension or debarment from doing business with United States government agencies. We could suffer serious reputational harm if allegations of impropriety were made against us. A governmental determination of impropriety or illegality, or an allegation of impropriety, could have a material adverse effect on our business, financial condition or results of operations.

WE MAY BE LIABLE FOR PENALTIES UNDER A VARIETY OF PROCUREMENT RULES AND REGULATIONS, AND CHANGES IN GOVERNMENT REGULATIONS COULD ADVERSELY IMPACT OUR REVENUES, OPERATING EXPENSES AND PROFITABILITY.

Our defense and commercial businesses must comply with and are affected by various government regulations that impact our operating costs, profit margins and our internal organization and operation of our businesses. Among the most significant regulations are the following:

- the U.S. Federal Acquisition Regulations, which regulate the formation, administration and performance of government contracts;

- the U.S. Truth in Negotiations Act, which requires certification and disclosure of all cost and pricing data in connection with contract negotiations; and

- the U.S. Cost Accounting Standards, which impose accounting requirements that govern our right to reimbursement under certain cost-based government contracts.

These regulations affect how we and our customers do business and, in some instances, impose added costs on our businesses. Any changes in applicable laws could adversely affect the financial performance of the business affected by the changed regulations. With respect to U.S. government contracts, any failure to comply with applicable laws could result in contract termination, price or fee reductions or suspension or debarment from contracting with the U.S. government.

OUR OPERATING MARGINS MAY DECLINE UNDER OUR FIXED-PRICE CONTRACTS IF WE FAIL TO ESTIMATE ACCURATELY THE TIME AND RESOURCES NECESSARY TO SATISFY OUR OBLIGATIONS.

Some of our contracts are fixed-price contracts under which we bear the risk of any cost overruns. Our profits are adversely affected if our costs under these contracts exceed the assumptions that we used in bidding for the contract. In the first three months of 2004, approximately 27% of our revenues were derived from fixed-price contracts for both defense and non-defense related government contracts. Often, we are required to fix the price for a contract before we finalize the project specifications, which increases the risk that we will mis-price these contracts. The complexity of many of our engagements makes accurately estimating our time and resources more difficult.

IF WE ARE UNABLE TO RETAIN OUR CONTRACTS WITH THE U.S. GOVERNMENT AND SUBCONTRACTS UNDER U.S. GOVERNMENT PRIME CONTRACTS IN THE COMPETITIVE REBIDDING PROCESS, OUR REVENUES MAY SUFFER.

Upon expiration of a U.S. government contract or subcontract under a U.S. government prime contract, if the government customer requires further services of the type provided in the contract, there is frequently a competitive rebidding process. We cannot guarantee that we, or if we are a subcontractor that the prime contractor, will win any particular bid, or that we will be able to replace business lost upon expiration or completion of a contract. Further, all U.S. government contracts are subject to protest by competitors. The termination of several of our significant contracts or nonrenewal of several of our significant contracts, could result in significant revenue shortfalls.

WE CANNOT ASSURE YOU OF MARKET ACCEPTANCE OF OUR 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 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. We cannot assure you that we will be able to successfully develop, engineer or commercialize our Zinc-Air energy system. 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.

SOME OF THE COMPONENTS OF OUR ELECTRIC VEHICLE TECHNOLOGY AND OUR PRODUCTS POSE POTENTIAL SAFETY RISKS WHICH COULD CREATE POTENTIAL LIABILITY EXPOSURE FOR US.

Some of the components of our electric vehicle 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 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.

In the event that our products, including the products manufactured by MDT, fail to perform as specified, users of these products may assert claims for substantial amounts. These claims could have a materially adverse effect on our financial condition and results of operations. There is no assurance that the amount of the general product liability insurance that we maintain 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.

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.

OUR BUSINESS IS DEPENDENT ON 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.

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. 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 need to acquire a license under such patents to develop and market our products.

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, and entities with which we maintain strategic relationships. 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 the presidents of our IES and FAAC subsidiaries and the general managers of our MDT and Epsilor subsidiaries, 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 2003, 2002 and 2001, without taking account of revenues derived from discontinued operations, 42%, 56% and 49%, respectively, of our revenues, 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.

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:

o Announcements by us, our competitors or our customers;

o 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.

One 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.

Although we would have the opportunity to appeal any potential delisting, there can be no assurances that this appeal would be resolved favorably. As a result, 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. 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 Securities Exchange Act of 1934, as amended, 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.

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 May 15, 2004, we had 64,868,912 shares of common stock issued and outstanding. Of these shares, most are freely transferable without restriction under the Securities Act of 1933, and a substantial portion of the remaining shares 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, providing 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 3,482,534 shares, of which 1,538,462 have never been registered.

EXERCISE OF OUR WARRANTS, OPTIONS AND CONVERTIBLE DEBT COULD ADVERSELY AFFECT OUR STOCK PRICE AND WILL BE DILUTIVE.

As of May 7, 2004, there were outstanding warrants to purchase a total of 18,570,040 shares of our common stock at a weighted average exercise price of $1.84 per share, options to purchase a total of 8,486,790 shares of our common stock at a weighted average exercise price of $1.30 per share (not including 940,502 options granted contingent on shareholder approval of a new stock option plan), of which 5,216,017 were vested, at a weighted average exercise price of $1.52 per share, and outstanding debentures convertible into a total of 4,036,732 shares of our common stock at a weighted average conversion price of $1.39 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:

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

- 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

- 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 three of our subsidiaries, EFL, MDT and Epsilor, are located in Israel (in Beit Shemesh, Lod and Dimona, respectively, all of which are within Israel's pre-1967 borders). 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.

Some 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 35% 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 a 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. 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.

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 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. In 2003, the inflation adjusted NIS appreciated against the dollar, which raised the dollar cost of our Israeli operations.

SOME OF OUR AGREEMENTS ARE GOVERNED BY ISRAELI LAW.

Israeli law governs some of our agreements, such as our lease agreements on our subsidiaries' premises in Israel, and the agreements pursuant to which we purchased IES, MDT and Epsilor. 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.

INTEREST RATE RISK

It is our policy not to enter into interest rate derivative financial instruments, except for hedging of foreign currency exposures discussed below. We do not currently have any significant interest rate exposure.

FOREIGN CURRENCY EXCHANGE RATE RISK

Since a significant part of our sales and expenses are denominated in U.S. dollars, we have experienced only insignificant foreign exchange gains and losses to date, and do not expect to incur significant gains and losses in 2004. Our research, development and production activities are primarily carried out by our Israeli subsidiary, EFL, at its facility in Beit Shemesh, and accordingly we have sales and expenses in NIS. Additionally, our MDT and Epsilor subsidiaries operate primarily in NIS. 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. Therefore, our functional currency is the U.S. dollar.

While we conduct our business primarily in U.S. dollars, some of our agreements are denominated in foreign currencies. Specifically, at the end of the first quarter of 2004 our IES contract with the German National Police, which accounted for 16% of our revenues on a consolidated basis in 2003, was denominated in Euros. Thus, we are exposed to market risk, primarily related to fluctuations in the value of the Euro. Therefore, due to the volatility in the exchange rate of the Euro versus the U.S. dollar, we decided to hedge part of the risk of a devaluation of the U.S dollar, which could have an adverse effect on the revenues that we incur in IES. During the first three months of 2004, we hedged revenues derived from the German National Police in order to protect against a decrease in value of forecasted foreign currency cash flows resulting from revenues payments denominated in Euro. We do not hold or issue derivative financial instruments for trading or speculative purposes

ITEM 4. CONTROLS AND PROCEDURES.

As of the end of the first quarter of 2004, our management, including the principal executive officer and principal financial officer, evaluated the effectiveness of our disclosure controls and procedures related to the recording, processing, summarization, and reporting of information in our periodic reports that we file with the SEC. These disclosure controls and procedures have been designed to ensure that material information relating to us, including our subsidiaries, is made known to our management, including these officers, by other of our employees, and that this information is recorded, processed, summarized, evaluated and reported, as applicable, within the time periods specified in the SEC's rules and forms. Due to the inherent limitations of control systems, not all misstatements may be detected. These inherent

limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. Our controls and procedures can only provide reasonable, not absolute, assurance that the above objectives have been met.

As of March 31, 2004, based upon their evaluations, these officers concluded that the design of the disclosure controls and procedures are effective in ensuring that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized, evaluated and reported, as applicable, within the time periods specified in the SEC's rules and forms. We intend to continually strive to improve our disclosure controls and procedures to enhance the quality of our financial reporting.

There have been no changes in our internal control over financial reporting that occurred during the fiscal quarter to which this Quarterly Report on Form 10-Q relates that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II

ITEM 2. CHANGES IN SECURITIES, USE OF PROCEEDS AND ISSUER PURCHASES OF EQUITY SECURITIES.

Issuance of Warrants in Connection with an Offering of Registered Shares

Pursuant to the terms of a Securities Purchase Agreement dated January 7, 2004 (the "SPA") by and between us and several institutional investors (the "Investors"), we issued and sold to the Investors registered stock off of our effective shelf registration statement, and three-year warrants to purchase up to an aggregate of 9,840,426 shares of our common stock at any time beginning six months after closing (the "Warrants") at an exercise price per share equal to $1.88. The common stock underlying the Warrants was not registered.

The foregoing description of our agreement with the Investors is qualified in its entirety by reference to the agreements with the Investors filed as exhibits to our Current Report on Form 8-K that we filed with the SEC on January 9, 2004.

We issued the Warrants in reliance on the exemption from registration provided by Section 4(2) of the Securities Act as transactions by an issuer not involving a public offering. The issuance of these securities was without the use of an underwriter, and the Warrants were issued with restrictive legends permitting transfer thereof and of the shares underlying the Warrants only upon registration or an exemption under the Act.

Issuance of Shares to a Consultant

Under the terms of an independent contractor agreement between us and

InteSec Group LLC, we pay InteSec a commission in stock of 5% of the military battery sales that InteSec brings to us from U.S. and NATO defense, security and military entities and U.S. defense contractors. Pursuant to the terms of this agreement, in February 2004, we issued 74,215 shares to InteSec.

We issued the above securities in reliance on the exemption from registration provided by Section 4(2) of the Securities Act as transactions by an issuer not involving a public offering. The issuance of these securities was without the use of an underwriter, and the shares of common stock were issued with restrictive legends permitting transfer thereof only upon registration or an exemption under the Act.

Issuance of Warrants to an Investor

In November 2000 and May 2001, we issued a total of 916,667 warrants to an investor, which warrants contained certain antidilution provisions: a Series A warrant to purchase 666,667 shares of our common stock at a price of $3.22 per share, and a Series C warrant to purchase 250,000 shares at a price of $3.08 per share. Operation of the antidilution provisions provided that the Series A warrant should be adjusted to be a warrant to purchase 888,764 shares at a price of $2.48 per share, and the Series C warrant should be adjusted to be a warrant to purchase 333,286 shares at a price of $2.31 per share. After negotiations, the investor agreed to exercise its warrants immediately, in exchange for a lowering of the exercise price to $1.45 per share, and the issuance of a new six-month Series D warrant to purchase 1,222,050 shares at an exercise price of $2.10 per share. The new Series D warrant does not have similar antidilution provisions.

We issued the Series D Warrant in reliance on the exemption from registration provided by Section 4(2) of the Securities Act as transactions by an issuer not involving a public offering. The issuance of these securities was without the use of an underwriter, and the shares of common stock currently bear restrictive legends permitting transfer thereof only upon registration or an exemption under the Act.

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 or Form 8-K/A were filed or furnished during the first quarter of 2004:

DATE FILED	ITEM REPORTED
January 9, 2004	Item 2 - Acquisition or Disposition of Assets; Item 5 - Other Events and Regulation FD Disclosure; and Item 7 - Financial Statements, Pro Forma Financial Information and Exhibits
January 15, 2004	Item 7 - Financial Statements, Pro Forma Financial Information and Exhibits; and Item 12 - Results of Operations and Financial Condition (furnished but not filed)
January 21, 2004	Item 5 - Other Events and Regulation FD Disclosure; and Item 7 - Financial Statements, Pro Forma Financial Information and Exhibits
February 4, 2004	Item 2 - Acquisition or Disposition of Assets; and Item 7 - Financial Statements, Pro Forma Financial Information and Exhibits
February 5, 2004	Item 5 - Other Events and Regulation FD Disclosure; and Item 7 - Financial Statements, Pro Forma Financial Information and Exhibits

March 9, 2004.........Item 7 -Financial Statements, Pro Forma Financial Information and Exhibits (amendment)

March 9, 2004.........Item 7 - Financial Statements, Pro Forma Financial Information and Exhibits; and Item 12 - Results of Operations and Financial Condition (furnished but not filed)

March 26, 2004........Item 5 - Other Events and Regulation FD Disclosure; and Item 7 - Financial Statements, Pro Forma Financial Information and Exhibits (amendment)

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.

Dated: May 17, 2004

AROTECH CORPORATION

By: /s/ Robert S. Ehrlich

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

By: /s/ Avihai Shen

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

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

AROTECH CORPORATION

CERTIFICATION

I, Robert S. Ehrlich, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Arotech Corporation;

2. Based on my knowledge, this quarterly 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 quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report;

4. The registrant's other certifying officer 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) for the registrant and we have:

   (a) designed such disclosure controls and procedures, or caused such disclosure control 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 quarterly report is being prepared;

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

   (c) disclosed in this quarterly 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 first fiscal quarter in the case of this quarterly 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 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 registrant's board of directors (or persons performing the equivalent function):

   (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 controls over financial reporting.

Dated: May 17, 2004

/s/ Robert S. Ehrlich

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

EXHIBIT 31.2

AROTECH CORPORATION

CERTIFICATION

I, Avihai Shen, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Arotech Corporation;

2. Based on my knowledge, this quarterly 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 quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report;

4. The registrant's other certifying officer 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) for the registrant and we have:

   (a) designed such disclosure controls and procedures, or caused such disclosure control 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 quarterly report is being prepared;

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

   (c) disclosed in this quarterly 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 first fiscal quarter in the case of this quarterly 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 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 registrant's board of directors (or persons performing the equivalent function):

   (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 controls over financial reporting.

Dated: May 17, 2004

/s/ Avihai Shen

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

EXHIBIT 32.1

AROTECH CORPORATION

WRITTEN STATEMENT

In connection with the Quarterly Report of Arotech Corporation (the "Company") on Form 10-Q for the quarterly period ended March 31, 2004 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 consolidated financial condition of the Company and its subsidiaries as of the dates presented and the consolidated results of operations of the Company and its subsidiaries for the periods presented.

Dated: May 17, 2004

By: /s/ Robert S. Ehrlich

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

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

The foregoing certification is being furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code) and is not being filed as part of the Form 10-Q or as a separate disclosure document.

EXHIBIT 32.2

AROTECH CORPORATION

WRITTEN STATEMENT

In connection with the Quarterly Report of Arotech Corporation (the "Company") on Form 10-Q for the quarterly period ended March 31, 2004 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 consolidated financial condition of the Company and its subsidiaries as of the dates presented and the consolidated results of operations of the Company and its subsidiaries for the periods presented.

Dated: May 17, 2004

By: /s/ Avihai Shen

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

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

The foregoing certification is being furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code) and is not being filed as part of the Form 10-Q or as a separate disclosure document.