

**AROTECH CORPORATION**  
**CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)**

	<b>Three months ended March 31,</b>	
	<b>2004</b>	<b>2003</b>
Revenues.....	\$ 7,182,254	\$ 4,033,453
Cost of revenues .....	4,557,220	2,633,719
Gross profit.....	2,625,034	1,399,734
Research and development .....	463,506	358,039
Selling and marketing expenses.....	1,021,084	703,987
General and administrative expenses.....	3,680,993	1,012,755
Amortization of intangible assets.....	496,013	311,771
	<u>5,661,596</u>	<u>2,386,552</u>
Operating loss .....	(3,036,562)	(986,818)
Financial expenses, net .....	(1,273,954)	(261,075)
Net loss before taxes .....	(4,310,516)	(1,247,893)
Tax income, net .....	4,907	-
Net loss before minority interest in profit of a subsidiary .....	(4,305,609)	(1,247,893)
Profit to minority .....	(546)	(43,228)
Net loss from continuing operations .....	(4,306,155)	(1,291,121)
Net loss from discontinued operations.....	-	(95,962)
Net loss for the period.....	<u>(4,306,155)</u>	<u>\$ (1,387,083)</u>
Basic and diluted net loss per share from continuing operations.....	<u>\$ (0.07)</u>	<u>\$ (0.04)</u>
Basic and diluted net earnings (loss) per share from discontinued operations.....	<u>\$ -</u>	<u>\$ (0.00)</u>
Combined basic and diluted net loss per share .....	<u>\$ (0.07)</u>	<u>\$ (0.04)</u>
Weighted average number of shares outstanding.....	<u>59,406,466</u>	<u>34,758,960</u>

**Reconciliation of Non-GAAP Financial Measure**

To supplement Arotech's consolidated financial statements presented in accordance with GAAP, Arotech uses a non-GAAP measure, Loss Before Interest, Taxes, Depreciation and Amortization (LBITDA), as adjusted to eliminate certain non-cash charges (Adjusted LBITDA). This non-GAAP measure is provided to enhance overall understanding of Arotech's current financial performance and its progress towards cash-flow break even and toward GAAP profitability. Reconciliation of Adjusted LBITDA to the nearest GAAP measure follows:

	<b>ADJUSTED LBITDA</b>	
	<b>Three months ended March 31,</b>	
	<b>2004</b>	<b>2003</b>
Net loss from continuing operations (GAAP measure).....	\$ (4,306,155)	\$ (1,291,121)
Add back:		
Interest expense (income), net (after deduction of minority interest).....	1,276,122	245,466
Tax (income) expenses (after deduction of minority interest).....	(4,907)	-
Depreciation of fixed assets.....	236,408	180,591
Amortization of intangible assets and capitalized research and development expenses...	505,176	311,771
LBITDA (non-GAAP measure) .....	<u>(2,293,356)</u>	<u>(553,293)</u>
Add back certain non-cash charges:		
Expenses attributed on issuance of shares and options to consultants and employees .....	19,780	-
Expenses attributed on repricing and issuance of warrants to investors.....	1,592,857	-
ADJUSTED LBITDA (non-GAAP measure) .....	<u>\$ (680,719)</u>	<u>\$ (553,293)</u>

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