

AROTECH CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	Three months ended March 31,	
	2005	2004
Revenues.....	\$10,387,445	\$7,182,254
Cost of revenues	6,371,874	4,557,220
Gross profit.....	4,015,571	2,625,034
Research and development	414,678	463,506
Selling and marketing expenses.....	1,158,820	1,021,084
General and administrative expenses.....	3,356,412	2,088,136
Amortization of intangible assets and impairment loss	823,088	496,013
Total operating costs and expenses.....	5,752,998	4,068,739
Operating loss	(1,737,427)	(1,443,705)
Financial expenses, net.....	(468,855)	(1,078,545)
Loss before minorities interests in earnings of subsidiaries and tax expenses	(2,206,282)	(2,522,250)
Income taxes	(217,264)	4,907
Minorities interests in earnings of subsidiaries.....	(32,954)	(546)
Loss from continuing operations	(2,456,500)	(2,517,889)
Deemed dividend to certain stockholders.....	-	(1,163,000)
Net loss attributable to common stockholders	(2,456,500)	(3,680,889)
Basic and diluted net loss per share from continuing operations....	(\$0.03)	(\$0.04)
Combined basic and diluted net loss per share	(\$0.03)	(\$0.06)
Weighted average number of shares outstanding	80,102,089	59,406,466

Reconciliation of Non-GAAP Financial Measure

To supplement Arotech's consolidated financial statements presented in accordance with GAAP, Arotech uses a non-GAAP measure, Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA), as adjusted to eliminate certain non-cash charges (Adjusted EBITDA). 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 EBITDA to the nearest GAAP measure follows:

	ADJUSTED EBITDA	
	Three months ended March 31,	
	2005	2004
Net loss from continuing operations (GAAP measure).....	(\$2,456,500)	(\$2,517,889)
<i>Add back:</i>		
Interest expense (income), net (after deduction of minority interest) ...	\$468,977	\$1,080,713
Taxes (after deduction of minority interest).....	\$201,027	(\$4,907)
Depreciation of fixed assets	\$298,110	\$236,408
Amortization of intangible assets and capitalized research and development expenses	\$853,796	\$505,176
EBITDA (non-GAAP measure)	(\$634,590)	(\$700,499)
<i>Add back certain non-cash charges:</i>		
Expenses attributed on issuance of shares to consultants and as a donation.....	\$58,560	\$15,280
Expenses attributed on issuance of warrants and options to employees, directors and consultants	\$87,139	\$4,500
Expenses attributed on issuance of shares to employees.....	\$134,100	-
Write down of promissory note	(\$1,425)	-
ADJUSTED EBITDA (non-GAAP measure)	(\$356,216)	(\$680,719)

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