

CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
(U.S. Dollars, except share data)

	Six months ended June 30,		Three months ended June 30,	
	2005	2004	2005	2004
Revenues.....	\$ 22,624,355	\$ 17,110,502	\$ 12,236,910	\$ 9,928,248
Cost of revenues	14,981,150	11,131,967	8,609,276	6,574,747
Gross profit.....	7,643,205	5,978,535	3,627,634	3,353,501
Operating expenses:				
Research and development.....	898,504	871,627	483,826	408,121
Selling and marketing	2,222,692	2,140,696	1,063,873	1,119,611
General and administrative	6,720,816	5,460,070	3,364,406	3,371,934
Amortization of intangible assets.....	1,646,241	992,025	823,153	496,013
Impairment of goodwill and other intangible assets.....	2,389,129	-	2,389,129	-
Total operating costs and expenses	13,877,382	9,464,418	8,124,387	5,395,679
Operating loss.....	(6,234,177)	(3,485,883)	(4,496,753)	(2,042,178)
Financial expenses, net.....	(1,306,466)	(3,231,356)	(837,608)	(2,152,811)
Loss before income taxes	(7,540,643)	(6,717,239)	(5,334,361)	(4,194,989)
Income tax expenses.....	(267,218)	(170,065)	(49,954)	(174,972)
Loss before minority interest in earnings of a subsidiary	(7,807,861)	(6,887,304)	(5,384,315)	(4,369,961)
Minority interest in earnings of a subsidiary ..	(71,153)	(26,708)	(38,199)	(26,162)
Loss from continuing operations	(7,879,014)	(6,914,012)	(5,422,514)	(4,396,123)
Loss from discontinued operations	(200,000)	-	(200,000)	-
Net loss.....	(8,079,014)	(6,914,012)	(5,622,514)	(4,396,123)
Deemed dividend to certain stockholders.....	-	(1,163,000)	-	-
Net loss attributable to common stockholders.....	\$ (8,079,014)	\$ (8,077,012)	\$ (5,622,514)	\$ (4,396,123)
Basic and diluted net loss per share from continuing operations.....	\$ (0.10)	\$ (0.11)	\$ (0.07)	\$ (0.07)
Basic and diluted net loss per share from discontinued operation	\$ (0.00)	\$ -	\$ (0.00)	\$ -
Basic and diluted net loss per share.....	\$ (0.10)	\$ (0.13)	\$ (0.07)	\$ (0.07)
Weighted average number of shares used in computing basic and diluted net loss per share	80,441,575	62,035,532	80,780,149	64,499,090

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 (Loss) Before Interest, Taxes, Depreciation and Amortization (EBITDA) to enhance overall understanding of Arotech's current financial performance and its progress towards GAAP profitability.

EBITDA

	Six months ended June 30,		Three months ended June 30,	
	2005	2004	2005	2004
Net loss from continuing operations before deemed dividend to certain shareholders (GAAP measure).....	\$ (7,879,014)	\$ (6,914,012)	\$ (5,422,514)	\$ (4,396,123)
<i>Add back:</i>				
Interest expense (income), net (after deduction of minority interest)....	1,308,092	3,232,944	839,115	2,152,231
Taxes (after deduction of minority interest).....	243,884	154,290	42,857	159,196
Depreciation of fixed assets (after deduction of minority interest).....	606,589	518,332	308,479	281,924
Amortization of intangible assets.....	1,710,325	1,010,351	856,529	505,175
Impairment of goodwill and other intangible assets	2,389,129	-	2,389,129	-
EBITDA (LBITDA) (non-GAAP measure)	\$ (1,620,995)	\$ (1,998,095)	\$ (986,405)	\$ (1,297,597)

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