

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

	Year ended December 31,		Three months ended December 31,	
	2004	2003*	2004	2003*
Revenues.....	\$ 49,953,846	\$ 17,326,641	\$ 16,570,823	\$ 4,094,155
Cost of revenues .....	34,011,094	11,087,840	11,330,173	2,722,628
Gross profit .....	15,942,752	6,238,801	5,240,650	1,371,527
Research and development .....	1,731,379	1,053,408	428,605	290,779
Selling and marketing expenses.....	4,922,217	3,532,636	1,487,034	1,137,446
General and administrative expenses.....	10,656,866	5,857,876	3,084,941	2,401,590
Amortization of intangible assets and impairment loss .....	2,814,835	864,910	1,083,410	137,783
Total operating costs and expenses.....	20,125,297	11,308,830	6,083,990	3,967,598
Operating loss .....	(4,182,545)	(5,070,029)	(843,340)	(2,596,071)
Financial expenses, net .....	(4,228,965)	(4,038,709)	(2,102,889)	(2,825,127)
Loss before minorities interests in loss (earnings) of subsidiaries and tax expenses.....	(8,411,510)	(9,108,738)	(2,946,229)	(5,421,198)
Income taxes .....	(586,109)	(396,193)	(299,584)	(88,057)
Minorities interests in loss (earnings) of subsidiaries .....	(44,694)	156,900	(9,333)	22,088
Loss from continuing operations .....	\$ (9,042,313)	\$ (9,348,031)	\$ (3,255,146)	\$ (5,487,167)
Income from discontinued operations .....	-	110,410	-	29,529
Net loss .....	\$ (9,042,313)	\$ (9,237,621)	\$ (3,255,146)	\$ (5,457,638)
Deemed dividend to certain stockholders .....	\$ (3,328,952)	\$ (350,000)	\$ -	\$ (82,974)
Net loss attributable to common stockholders .....	\$ (12,371,265)	\$ (9,587,621)	\$ (3,255,146)	\$ (5,540,612)
Basic and diluted net loss per share from continuing operations ....	\$ (0.13)	\$ (0.24)	\$ (0.04)	\$ (0.13)
Basic and diluted net earnings (loss) per share from discontinued operations ..	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Combined basic and diluted net loss per share .....	\$ (0.18)	\$ (0.25)	\$ (0.04)	\$ (0.13)
Weighted average number of shares outstanding.....	69,933,057	38,890,174	79,075,181	43,604,830

\*Restated.

**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**

	Year ended December 31,		Three months ended December 31,	
	2004	2003*	2004	2003*
Net loss from continuing operations (GAAP measure) .....	\$ (9,042,313)	\$ (9,348,031)	\$ (3,255,146)	\$ (5,487,167)
<i>Add back:</i>				
Interest expense (income), net (after deduction of minority interest)....	4,226,312	4,039,950	2,101,076	2,833,675
Taxes (after deduction of minority interest).....	555,507	240,039	268,982	73,864
Depreciation of fixed assets .....	1,199,465	730,159	364,828	201,004
Amortization of inventory adjustment to market values with the acquisition of one of our subsidiaries .....	920,544	-	334,219	-
Amortization of intangible assets and capitalized research and development expenses .....	2,888,226	879,312	1,156,801	146,948
<b>EBITDA</b> (non-GAAP measure) .....	\$ 747,741	\$ (3,458,571)	\$ 970,760	\$ (2,231,676)
<i>Add back certain non-cash charges:</i>				
Expenses attributed on issuance of shares to consultants and as a donation.....	89,078	333,627	51,878	179,296
Expenses attributed on issuance of warrants and options to employees, directors and consultants .....	662,392	276,045	194,398	246,286
Expenses attributed on issuance of shares to employees.....	212,424	-	103,770	-
Markdown of loans to shareholders .....	45,253	-	39,656	-
Non-cash portion of settlement agreement.....	-	688,642	-	688,642
<b>ADJUSTED EBITDA</b> (non-GAAP measure) .....	\$ 1,756,888	\$ (2,160,257)	\$ 1,360,462	\$ (1,117,452)

\* Restated.

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