

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

	Six months ended June 30,		Three months ended June 30,	
	2010	2009	2010	2009
Revenues .....	\$ 40,054,254	\$ 36,127,412	\$ 18,903,860	\$ 16,035,190
Cost of revenues, exclusive of amortization of intangibles.....	28,610,458	26,595,444	13,283,807	11,763,982
Research and development .....	1,578,497	735,575	764,016	403,687
Selling and marketing expenses .....	2,597,294	2,317,455	1,436,635	1,171,363
General and administrative expenses .....	5,871,919	5,548,527	2,918,322	2,781,858
Amortization of intangible assets .....	838,906	746,626	417,258	374,029
Total operating costs and expenses .....	39,497,074	35,943,627	18,820,038	16,494,919
Operating profit (loss) .....	557,180	183,785	83,822	(459,729)
Other income .....	61,218	51,650	37,758	1,819
Allowance for settlements .....	500,000	-	500,000	-
Financial expenses, net.....	(207,710)	(1,099,492)	(64,460)	(126,414)
Total other income (expense) .....	353,508	(1,047,842)	473,298	(124,595)
Income (loss) before income tax expenses .....	910,688	(864,057)	557,120	(584,324)
Income tax expenses.....	(459,140)	(468,644)	(197,120)	(272,354)
Net income (loss) .....	\$ 451,548	\$ (1,332,701)	\$ 360,000	\$ (856,678)
Basic net profit (loss) per share .....	\$ 0.03	\$ (0.10)	\$ 0.03	\$ (0.06)
Diluted net profit (loss) per share .....	\$ 0.03	\$ (0.10)	\$ 0.02	\$ (0.06)
Weighted average number of shares used in computing basic net profit/loss per share.....	13,944,492	13,802,821	14,013,658	14,028,757
Weighted average number of shares used in computing diluted net profit/loss per share.....	14,547,232	13,802,821	14,616,398	14,028,757

**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). This non-GAAP measure is provided to enhance overall understanding of Arotech's current financial performance and its progress towards GAAP profitability. Reconciliation of adjusted EBITDA to the nearest GAAP measure follows:

	EBITDA			
	(In thousands)			
	Six months ended June 30,		Three months ended June 30,	
	2010	2009	2010	2009
Net profit (loss) (GAAP measure).....	\$ 452	\$ (1,333)	\$ 360	\$ (857)
Add back:				
Interest expense (income).....	78	237	(76)	135
Taxes .....	459	469	197	272
Depreciation and Amortization .....	1,461	1,371	725	682
Other Non-Cash expenses (income)* .....	(129)	1,035	(214)	103
Total Adjusted EBITDA.....	\$ 2,321	\$ 1,779	\$ 992	\$ 335

\*Note includes stock compensation expense, debt discount, currency fluctuations, adjustments to allowances and other non-cash expenses.

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