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Arotech Corporation Reports Results For The First Quarter 2014

Strong growth in gross margins and record net profit

ANN ARBOR, Mich., May 13, 2014 /PRNewswire/ -- Arotech Corporation (Nasdaq GM: ARTX), a provider of quality defense and security products for the military, law enforcement and security markets, today reported results for the quarter ended March 31, 2014.

Revenues for the first quarter reached \$22.4 million, compared to \$22.1 million for the corresponding period in 2013, an increase of 1%.

Gross profit for the first quarter was \$7.3 million, or 32.8% of revenues, compared to \$5.3 million, or 23.9% of revenues, for the corresponding period in 2013, an 8.9 percentage point increase in the gross margin.

Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization (Adjusted EBITDA) for the quarter was \$2.4 million compared to \$1.5 million for the corresponding period of 2013, an increase of 61%. Arotech believes that information concerning Adjusted EBITDA enhances overall understanding of its current financial performance. Arotech computes Adjusted EBITDA, which is a non-GAAP financial measure, as reflected in the table below.

The Company reported an operating income for the first quarter of \$1.3 million compared to \$841,000 for the corresponding period in 2013. Operating expenses in the quarter grew to \$6.0 million versus \$4.4 million in the corresponding quarter in 2013. A large portion of the increase was due to an increase in R&D investment related to development of the Iron Flow technology, as well as one-time G&A expenses that were incurred in connection with the acquisition of UEC.

The Company's net income for the first quarter of 2014 was \$1.0 million or \$0.05 per share, compared to \$616,000, or \$0.03 per share, for the corresponding period in 2013.

Backlog

Backlog of orders totaled approximately \$51.9 million as of March 31, 2014, compared to \$58.0 million as of December 31, 2013.

Balance Sheet Metrics

As of March 31, 2014, the Company had \$6.4 million in cash and \$496,000 in restricted collateral deposits, as compared to December 31, 2013, when the Company had \$5.8

million in cash and \$498 thousand in restricted collateral deposits.

The Company ended the first quarter with \$2.5 million in short-term bank debt and \$1.8 million in long-term debt outstanding, as compared to December 31, 2013 when the Company had no short-term bank debt and \$1.8 million in total long-term debt outstanding.

The Company also had \$10.5 million in available, unused bank lines of credit with its main bank as of March 31, 2013, under a \$15.0 million credit facility under its FAAC subsidiary, which was secured by the Company's assets and the assets of the Company's other subsidiaries and guaranteed by the Company.

The Company had trade receivables of \$14.9 million as of March 31, 2013, compared to \$12.4 million as of December 31, 2013. The Company had a current ratio (current assets/current liabilities) of 2.23, compared with the December 31, 2013 current ratio of 2.12.

Management Comment

"Our first quarter 2014 results build on the extraordinary year just completed, and are a strong start to what we believe will be a very good year for Arotech," commented **Arotech's Chairman and CEO Robert S. Ehrlich**. "We are especially pleased with the strong improvement in profitability, in particular our gross margins. We look forward to a jump in the coming quarter as UEC is consolidated into Arotech."

Continued Mr. Ehrlich, "Our assimilation of UEC into our battery and power systems division is going well, and as we work closely with our new employees, we are increasingly impressed with the caliber of engineering talent and their manufacturing capabilities. We are now looking to capitalize on our newly expanded market opportunities in battery, electronics and power systems. UEC's sales have historically been concentrated in the United States, and we hope to bring some of our international experience to bear in realizing UEC's potential," **concluded Mr. Ehrlich**.

Conference Call

The Company will host a conference call tomorrow, Wednesday, May 14, 2014 at 9:00 a.m. ET. Those wishing to access the conference call should dial:

1-866-652-8972 (U.S.) or + 1-347-293-1926 (international).

For those unable to participate, the teleconference will be available for replay on Arotech's website at <http://www.arotech.com/> beginning 24 hours after the call.

About Arotech Corporation

Arotech Corporation is a leading provider of quality defense and security products for the military, law enforcement and homeland security markets, including multimedia interactive simulators/trainers and advanced zinc-air and lithium batteries and chargers. Arotech operates two major business divisions: Training and Simulation, and Battery and Power

Systems.

Arotech is incorporated in Delaware, with corporate offices in Ann Arbor, Michigan, and research, development and production subsidiaries in Alabama, Michigan, South Carolina and Israel. For more information on Arotech, please visit Arotech's website at www.arotech.com.

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Except for the historical information herein, the matters discussed in this news release include forward-looking statements, as defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements reflect management's current knowledge, assumptions, judgment and expectations regarding future performance or events. Although management believes that the expectations reflected in such statements are reasonable, readers are cautioned not to place undue reliance on these forward-looking statements, as they are subject to various risks and uncertainties that may cause actual results to vary materially. These risks and uncertainties include, but are not limited to, risks relating to: product and technology development; the uncertainty of the market for Arotech's products; changing economic conditions; delay, cancellation or non-renewal, in whole or in part, of contracts or of purchase orders (including as a result of budgetary cuts resulting from automatic sequestration under the Budget Control Act of 2011); and other risk factors detailed in Arotech's most recent Annual Report on Form 10-K, as amended, for the fiscal year ended December 31, 2013 and in Exhibit 99.3 to Arotech's Current Report on 8-K, filed on April 1, 2014, and other filings with the Securities and Exchange Commission. Arotech assumes no obligation to update the information in this release. Reference to the Company's website above does not constitute incorporation of any of the information thereon into this press release.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)
(U.S. Dollars, except share data)

	Three months ended March 31,	
	2014	2013
Revenues	\$ 22,382,800	\$ 22,053,131

Cost of revenues	15,043,311	16,776,967
Research and development expenses	995,513	533,385
Selling and marketing expenses	1,431,768	1,237,006
General and administrative expenses	3,538,673	2,387,811
Amortization of intangible assets	74,119	276,494
Total operating costs and expenses	21,083,384	21,211,663
Operating income	1,299,416	841,468
Other income	32,113	1,233
Financial expense, net	(119,001)	(189,137)
Total other expense	(86,888)	(187,904)
Income from continuing operations before income tax expense	1,212,528	653,564
Income tax expense	198,436	174,777
Income from continuing operations	1,014,092	478,787
Loss from discontinued operations, net of income tax	–	(74,743)
Net income	1,014,092	404,044

Other comprehensive income, net of income tax			
Foreign currency translation adjustment	(46,083)	211,676	
Comprehensive income	\$ 968,009	\$ 615,720	
Basic net income per share – continuing operations	\$ 0.05	\$ 0.03	
Basic net loss per share – discontinued operations	\$ —		
Basic net income per share	\$ 0.05	\$ 0.03	
Diluted net income per share – continuing operations	\$ 0.05	\$ 0.03	
Diluted net loss per share – discontinued operations	\$ —		
Diluted net income per share	\$ 0.05	\$ 0.03	
Weighted average number of shares used in computing basic net income per share	19,572,668	15,569,153	
Weighted average number of shares used in computing diluted net income per share	20,175,408	16,171,893	

Reconciliation of Non-GAAP Financial Measure – Continuing Operations
To supplement Arotech's consolidated financial statements presented in accordance with U.S. 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 EBITDA to the nearest GAAP measure follows:

	Three months ended March 31,	
	2014	2013
Net income continuing (GAAP measure)	\$1,014,092	\$478,787
<i>Add back:</i>		
Financial expense – including interest	119,001	189,137
Income tax expenses	198,436	174,777
Depreciation and amortization expense	377,873	571,256
Other adjustments*	722,054	97,058
Total adjusted EBITDA	\$2,431,456	\$1,511,015
* Includes stock compensation expense of \$129k, one-time transaction expenses of \$537k, and other non-cash expenses.		

SOURCE Arotech Corporation