

**CHARTER OF THE COMPENSATION COMMITTEE
OF THE BOARD OF DIRECTORS OF AROTECH CORPORATION**

As adopted August 20, 2014

I. PURPOSE

The purpose of the Compensation Committee (the “*Committee*”) of the Board of Directors (the “*Board*”) of Arotech Corporation (the “*Company*”) is to evaluate, recommend, approve and review executive officer and director compensation arrangements, plans, policies and programs of the Company, and for administering the Company’s cash-based and equity-based compensation plans for employees, whether adopted prior to or after the date of adoption of this charter. The Committee’s principal functions are to:

- review and approve all forms of non-equity and equity based compensation of the Company’s executive officers and directors;
- administer the Company’s equity-based compensation plans; and
- produce an annual report on executive compensation for use in the Company’s proxy statement, if required by any rules and regulations (“*Commission Rules*”) promulgated by the Securities and Exchange Commission (the “*Commission*”) under the Securities Exchange Act of 1934, as amended (the “*Exchange Act*”).

II. MEMBERSHIP

The Committee will consist of two or more members of the Board, with the exact number determined from time to time by the Board. Each member of the Committee will:

- be an “independent director” as defined under the applicable rules and regulations of The NASDAQ Stock Market, as amended from time to time (the “*Exchange Rules*”), except as may otherwise be permitted by such Exchange Rules;
- be “independent” as defined in any Commission Rules, except as may otherwise be permitted by Commission Rules;
- be a “non-employee director,” as defined in Rule 16b-3 under Section 16 of the Exchange Act;
- be an “outside director” under Regulation Section 1.162-27 promulgated under Section 162(m) of the Internal Revenue Code of 1986, as amended;
- be free from any relationship that, in the opinion of the Board, would interfere with the exercise of independent judgment as a Committee member; and
- meet any other requirements imposed by applicable law, regulations or rules, subject to any applicable exemptions and transition provisions.

No member of the Committee may accept directly or indirectly any consulting, advisory or other compensatory fee from the Company or any subsidiary thereof; provided that such prohibition shall not include: (i) fees received as a member of the Committee, the Board or any other Board committee; or (ii) the receipt of fixed amounts of compensation under a retirement

plan (including deferred compensation) for prior service with the Company (provided that such compensation is not contingent in any way on continued service). Further, in connection with appointing or continuing the membership of each director serving on the Committee, when affirmatively determining the independence of such member, the Board will consider whether the director is affiliated with the Company, a subsidiary of the Company or an affiliate of a subsidiary of the Company to determine whether such affiliation would impair the director's judgment as a member of the Committee.

All members of the Committee will be appointed by, and will serve at the discretion of, the Board. Unless a chairperson is elected by the Board, the members of the Committee may designate a chairperson by majority vote of the Committee members. The chairperson will set the agenda for Committee meetings and conduct the proceedings of those meetings.

III. RESPONSIBILITIES AND DUTIES

The principal duties of the Committee in carrying out its responsibilities are set forth below. These duties are set forth as a guide, with the understanding that the Committee may supplement them as appropriate and may establish policies and procedures from time to time that it deems necessary or advisable in fulfilling its responsibilities.

The Committee will:

1. Annually review the Company's overall compensation strategy, including base salary, incentive compensation and equity-based grants, to assure that it promotes stockholder interests and supports the Company's strategic and tactical objectives, and that it provides for appropriate rewards and incentives for the Company's management and employees, taking into account whether such rewards and incentives encourage undue or inappropriate risk taking by such personnel. The Committee will also have the authority to determine and approve the form and amount of compensation to be paid or awarded to all employees of the Company, including the Company's officers, as defined under Section 16 of the Exchange Act and the rules promulgated thereunder, including the Chairman of the Board ("*Executive Officers*"). In connection with its evaluation of Executive Officer compensation, the Committee will consider the results of the most recent stockholder vote on executive compensation, and make such adjustments to Company compensation practices for Executive Officers as it deems appropriate in response thereto, if any. The Committee may delegate authority to subcommittees of the Committee or to Executive Officers with respect to compensation determinations for persons who are not Executive Officers.

2. Annually review and approve the corporate goals and objectives to be considered in determining the compensation of the Company's Chief Executive Officer (the "*CEO*") and the Company's Executive Officers, and evaluate the performance of the CEO and Executive Officers in light of these goals and objectives. Based on this evaluation, including an evaluation of the Company's performance, the Committee will have the sole authority, subject to any approval by the Board which the Committee or legal counsel determines to be desirable or is required by applicable law, the Commission Rules or Exchange Rules, to make decisions respecting (i) salary paid to the CEO and other Executive Officers, (ii) the grant of all cash-based bonuses and equity-based compensation to the CEO and other Executive Officers, (iii) the entering into or amendment or extension of any employment contract or

similar arrangement with the CEO and other Executive Officers, (iv) any CEO or other Executive Officer severance or change in control arrangements, and (v) any other CEO or other Executive Officer compensation matters as from time to time directed by the Board; provided that the Committee may take account of the recommendations of the Board with respect to CEO and other Executive Officer compensation. The Committee may also take account of the recommendations of the CEO for other Executive Officers with respect to each of the foregoing items. The CEO may not be present during voting or deliberations regarding the CEO's compensation.

3. Annually review and make recommendations to the Board with respect to adoption and approval of, or amendments to, all cash and equity-based incentive compensation plans and arrangements, and the cash amounts and numbers of shares reserved thereunder after taking into consideration the Company's strategies with respect to cash and equity-based compensation.

4. Review and approve policies and procedures relating to perquisites and expense accounts of the CEO and other Executive Officers.

5. Supervise, administer and evaluate equity-based compensation plans in which Executive Officers and other employees of the Company participate, including, (i) approving grants of stock, stock options, stock purchase rights or other awards to individuals eligible for such grants; (ii) interpreting the equity-based compensation plans and agreements thereunder and advise on the establishment of equity award guidelines and the general type and size of overall equity awards; (iii) designating employees eligible to participate in the equity-based compensation plans; and (iv) determining acceptable forms of consideration for stock acquired pursuant to the equity-based incentive compensation plans.

6. Meet with the CEO to discuss the incentive compensation programs to be in effect for the Executive Officers and other employees of the Company or any subsidiary for such fiscal year and the corporate goals and objectives relevant to those programs and performance targets applicable to the CEO and the other Executive Officers and, where appropriate, other employees of the Company or any subsidiary.

7. At least annually, evaluate the adequacy of non-employee director's compensation, and recommend to the Board the form and amount of cash and equity compensation to be paid or awarded to the Company's non-employee directors, including compensation for service on the Board or on committees of the Board.

8. Review and discuss the "Compensation Discussion and Analysis" disclosure as well as (i) any narrative disclosure regarding the Company's compensation policies and practices as they relate to its risk management prepared in response to the requirement of Item 402(b) and (s), respectively, of Regulation S-K (or any successor disclosure item), (ii) any narrative disclosure related to compensation to consultants in determining or recommending the amount or form of executive and director compensation whose work has raised any conflict of interest in response to the requirement of Item 407(e)(3)(iv) of Regulation S-K and (iii) any other "say on pay" voting material to be included in the proxy statement. Based on such review and discussion, recommend to the Board whether such "Compensation Discussion and Analysis" disclosure and

narrative disclosure regarding compensation risk, compensation to consultants or any other “say on pay” voting material should be included in the Company’s annual report on Form 10-K, proxy statement, information statement or similar document, and prepare a report of the Committee for inclusion in the annual report or the proxy statement for the Company’s annual meeting in accordance with the Commission Rules, so long as the Company is subject to the periodic reporting requirements of the Exchange Act.

9. Review and reassess the adequacy of the Committee’s charter at least annually, and recommend to the Board any changes the Committee determines are appropriate.

10. Evaluate the Committee’s composition and performance on an annual basis.

11. Oversee the Company’s compliance with regulatory requirements associated with compensation of its directors, officers and employees, and review the Company’s compliance program relating to restrictions on and reporting of securities transactions by the Company and its Executive Officers and directors.

12. Periodically review the Company’s procedures with respect to employee loans. The Committee will not approve any arrangement in which the Company, directly or indirectly, extends or maintains credit, arranges for the extension of credit or renews an extension of credit, in the form of a personal loan to or for any director or executive officer (or equivalent thereof) of the Company. The Committee will assist the Board and management of the Company in complying with this prohibition.

13. Consider and, if determined to be appropriate, make recommendations to the Board regarding adoption of a Company policy regarding recovery of incentive-based compensation that is based on financial information required to be reported under the Exchange Act (or other federal securities laws) following restatement of such financial information.

14. Have the sole authority and right, at the expense of the Company, to retain legal and other consultants, experts and advisers of its choice to assist the Committee in connection with its functions, including any studies or investigations, and shall have direct oversight of the work performed by such advisers. In connection with the retention of such advisers (other than in-house legal counsel), the Committee shall consider the factors related to the independence of such advisers, including with respect to each such adviser (or the adviser’s employer): (a) the provision of other services to the Company by such adviser (or their employer); (b) the amount of fees received from the Company, as a percentage of the total revenue of such adviser (or their employer); (c) the policies and procedures of such adviser (or their employer) that are designed to prevent conflicts of interest; (d) any business or personal relationship of such adviser (or their employer) with a member of the Committee or an Executive Officer; (e) any shares of Company capital stock or other Company securities owned by such adviser (or their employer); and (f) such other factors as the Committee deems relevant or may be required from time to time by the Commission Rules or the Exchange Rules; provided, that, nothing herein requires that compensation advisers must be independent – rather that the enumerated independence factors be considered before selecting or otherwise receiving advice from such an adviser. The Committee will have the sole authority to approve the fees and other retention terms of such advisers. The Company will provide for appropriate funding, as determined by the Committee, for:

- payment of compensation to any such advisers retained by the Committee;
- ordinary administrative expenses of the Committee that are necessary and appropriate in carrying out its functions; and
- as appropriate, (i) the commission of any necessary studies or surveys concerning the levels of executive compensation payable in the industry in which the Company is engaged and in other related industries or (ii) obtaining recommendations from outside consultants concerning comparable compensation programs.

Irrespective of the retention of compensation and other consultants, legal counsel, accountants, experts and advisers to assist the Committee, the Committee shall exercise its own judgment in fulfillment of its functions.

15. Perform any other activities required by applicable law, rules or regulations, including the Commission Rules and the Exchange Rules, and may perform other activities that are consistent with this charter, the Company's Certificate of Incorporation, and applicable laws, rules or regulations as the Committee, any other committee of the Board or the Board deems necessary or appropriate.

IV. MEETINGS AND MINUTES

Meetings of the Committee will be held at least twice per year, and also from time to time in response to the needs of the Board or as otherwise determined by the chairperson of the Committee. The Committee will report to the Board from time to time with respect to the activities of the Committee. A quorum of the Committee for the transaction of business will be a majority of its members. Meetings may be held telephonically. The Committee may also act by unanimous written consent in lieu of a meeting. Subject to the requirements of this Charter, applicable law, the Exchange Rules and the Commission Rules, the Committee and the Chair may invite any director, executive or employee of the Company, or such other person, as it deems appropriate in order to carry out its responsibilities, to attend and participate (in a non-voting capacity) in all or a portion of any Committee meeting. The Committee may exclude from all or a portion of its meetings any person it deems appropriate in order to carry out its responsibilities. The Committee will maintain written minutes of its meetings, and will file such minutes with the minutes of the meetings of the Board.

V. PUBLICATION

The Company shall make this Charter freely available to stockholders on request and, provided that the Company is subject to the periodic reporting requirements of the Exchange Act, shall publish it on the Company's web site.