



**IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF NEW YORK**

IN RE AROTECH CORP. SECURITIES
LITIGATION

07-cv-1838-RJD-VVP

**NOTICE OF PENDENCY OF CLASS ACTION AND PROPOSED SETTLEMENT,
MOTION FOR ATTORNEYS' FEES AND SETTLEMENT FAIRNESS HEARING**

IF YOU PURCHASED THE COMMON STOCK OF AROTECH CORPORATION ("AROTECH") ON THE OPEN MARKET DURING THE PERIOD FROM NOVEMBER 9, 2004 THROUGH NOVEMBER 14, 2005, INCLUSIVE, THEN YOU ARE A MEMBER OF THE CLASS FOR THE PURPOSES OF SETTLEMENT AND YOU MAY BE ENTITLED TO SHARE IN THE SETTLEMENT PROCEEDS.

A federal court authorized this Notice. This is not a solicitation from a lawyer.

- The proposed Settlement will provide a \$2,900,000 Settlement fund for the benefit of investors who purchased Arotech common stock on the open market during the period from November 9, 2004 through November 14, 2005, inclusive (the "Class Period") and who have a Recognized Claim, as defined below.
- The proposed Settlement resolves a lawsuit over whether Arotech and certain of its officers and directors misled investors about the financial condition and outlook of the company and its subsidiary, Armour of America. Arotech and the Individual Defendants deny all charges of wrongdoing or liability, and the Court has not ruled on the issue of liability, but Arotech has agreed to the proposed Settlement to resolve this Action.
- Your legal rights are affected whether you act or do not act. Read this Notice carefully.

YOUR LEGAL RIGHTS AND OPTIONS IN THIS PROPOSED SETTLEMENT	
SUBMIT A CLAIM FORM	The only way to receive a payment.
EXCLUDE YOURSELF	Get no payment. This is the only option that allows you to ever be part of any other lawsuit against Arotech and the other Released Parties about the Settled Released Claims.
OBJECT	Write to the Court about why you do not like the proposed Settlement. You may also ask to speak in Court about your written objection.
DO NOTHING	Receive no payment. Give up your rights to object to the proposed Settlement or participate in any lawsuit against any Released Parties about Released Claims.

- These rights and options — **and the deadlines to exercise them** — are explained in this Notice.
- The Court in charge of this case still has to decide whether to approve the proposed Settlement. Payments will be made if the Court approves the Settlement and after appeals, if filed, are resolved and all claims are processed. Please be patient.



SUMMARY OF NOTICE

Statement of Plaintiff Recovery

Pursuant to the proposed Settlement described herein, a Settlement Fund consisting of \$2,900,000 in cash, plus interest, will be established by February 10, 2010. Plaintiffs estimate that there were approximately 36.9 million shares of Arotech common stock purchased on the open market during the Class Period that may have been damaged. Plaintiffs estimate that the proposed settlement will provide for an average recovery of \$0.079 per damaged share of Arotech common stock, before deduction of Court-awarded attorneys' fees and expenses. A Class Member's actual recovery will be a proportion of the Net Settlement Fund determined by that claimant's Recognized Claim, as defined below in response to Question No. 10, as compared to the total Recognized Claims of all Class Members who submit valid Proofs of Claim. The following factors, among others, will affect whether the Class Member receives payment for a claim and the amount an individual Class Member will actually receive: the number of damaged shares for which claims are submitted; if sold, when those shares were sold during the Class Period; and the amount of attorneys fees and expenses awarded by the Court. See the Plan of Allocation at Question 10 for more information on your Recognized Claim.

Statement of Potential Outcome of Case

The Parties disagree on both liability and damages and do not agree on the average amount of damages per share, if any, that would be recoverable if Plaintiffs were to have prevailed on each claim alleged. Defendants deny that they are liable to the Plaintiffs or the other members of the Class and deny that Plaintiffs or any other member of the Class have suffered any damages. The Court has not considered, or ruled on, the question of liability.

Statement of Attorneys' Fees and Costs Sought

Plaintiffs' Counsel are moving the Court to award attorneys' fees not to exceed one-third (33-1/3%) of the Gross Settlement Fund, and for reimbursement of expenses incurred in connection with the prosecution of this Action up to the amount of \$75,000. The requested fees and expenses would amount to up to an average of \$0.028 per damaged share of Arotech common stock. Plaintiffs' Counsel have expended considerable time and effort in the prosecution of this litigation on a contingent fee basis, and have advanced or incurred the expenses of the litigation, in the expectation that, if they were successful in obtaining a recovery for the Class, they would be paid from such recovery. In this type of litigation, counsel are frequently awarded a percentage of the common fund recovery as their attorneys' fees.

Further Information

Further information regarding the Action and this Notice may be obtained by contacting Plaintiffs' Co-Lead Counsel: David A.P. Brower, Esq., Brower Piven, A Professional Corporation, 488 Madison Avenue, New York, NY 10022; or Mark Levine, Esq., Stull, Stull & Brody, 6 East 45th Street, New York, NY 10017.

Reasons for the Proposed Settlement

The principal reason for the proposed Settlement is the benefit to be provided to the Class now. This benefit must be compared to the risk that no recovery might be achieved after a contested trial and likely appeals, possibly years into the future.

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BASIC INFORMATION

1. Why did I get this Notice package?

You or someone in your family may have purchased shares of Arotech common stock on the open market during the period from November 9, 2004 through November 14, 2005, inclusive.

The Court directed that this Notice be sent to Class Members because they have a right to know about a proposed Settlement of a class action lawsuit, and about all of their options, before the Court decides whether to approve the Settlement. If the Court approves the Settlement, and after any objections and appeals are resolved and claims are submitted by Class Members, a Claims Administrator appointed by the Court will make the payments that the Settlement allows.

This package explains the lawsuit, the proposed Settlement, Class Members' legal rights, what benefits are available, who is eligible for them, and how to obtain them.

The Court in charge of this case is the United States District Court for the Eastern District of New York, and the case is known as *In re Arotech Corp. Securities Litigation*, Civil Action No. 07-cv-1838-RJD-VVP. This case was assigned to United States District Judge Raymond J. Dearie. The persons who sued are called "Plaintiffs," and the company and the individuals they sued, Arotech and Robert S. Ehrlich (President, Chairman, Chief Executive Officer and Chairman of Executive and Finance Committees of the Board of Directors of Arotech during the Class Period), Steven Esses (Chief Operating Officer and a member of the Board of Directors and a member of Executive and Finance Committees of the Board of Directors of Arotech during the Class Period), and Avihai Shen (Chief Financial Officer and Vice President of Financial Affairs of Arotech during the Class Period) (collectively, the "Individual Defendants"), are called the "Defendants."

The Parties to the proposed Settlement described herein are Plaintiffs and Defendants.

2. What is this lawsuit about?

Arotech is a corporation principally engaged in the manufacture and marketing of defense and security products for the military, law enforcement and homeland security markets, including advanced batteries and chargers, multimedia interactive simulators/trainers and lightweight armoring.

The lawsuit claims that the Defendants misled investors regarding the financial forecast of Arotech and its subsidiary, Armour of America. The Plaintiffs allege that the Defendants issued materially false and misleading statements regarding the procurement of new contracts and sales by Armour of America and claimed organic growth for Arotech in a scheme to artificially inflate the value of Arotech's common stock. Plaintiffs also allege that Arotech's financial statements during the Class Period were materially false and misleading with respect to the carrying value of certain assets.

Plaintiffs further allege that investors purchased Arotech common stock, on the open market, during the Class Period at prices artificially inflated as a result of the Defendants' dissemination of materially false and misleading statements regarding Arotech, in violation of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, and Rule 10b-5 thereunder.

The Defendants deny each of the Plaintiffs' claims and maintain that they did nothing wrong. Defendants also state that they have many defenses to the Plaintiffs' claims and that the Plaintiffs are not entitled to any money or benefits from this litigation.

The proposed Settlement is not an admission of wrongdoing or an indication that any law was violated. Arotech and the Individual Defendants named in this lawsuit have entered into this proposed Settlement solely to avoid further expense, inconvenience, and the burden of this litigation and any other present or future litigation arising out of the facts that the Plaintiffs' claim gave rise to this lawsuit. The Court has not ruled on the merits of the Plaintiffs' claims or on the defenses raised by the Defendants.

3. Why is this a class action?

In a class action, one or more people called "Class Representatives" (in this case Morris Akerman, David Jakoman, Stan J. Vasilauskas, and Eager Beaver Testers, Inc.), sue on behalf of people who have similar claims. All



these people are a “Class” or “Class Members.” Bringing a case as a class action, such as this one, allows adjudication of many similar claims of persons and entities that might be economically too small to bring in individual actions. One court resolves the issues for all Class Members, except for those who exclude themselves from the Class.

4. Why is there a proposed Settlement?

The litigation was commenced on March 23, 2007, with filing of the first complaint in the United States District Court for the Eastern District of Michigan. Two other complaints were filed thereafter in the United States District Court for the Eastern District of New York on behalf of different plaintiffs and the actions were subsequently consolidated by the United States District Court for the Eastern District of New York under the caption *In re Arotech Corp. Securities Litigation*, Civil Action No. 07-cv-1838-RJD-VVP.

On July 3, 2007, the Court appointed Morris Akerman, David Jakoman, Stan J. Vasilauskas, and Eager Beaver Testers, Inc as Lead Plaintiffs. The Court also approved the law firms of Stull, Stull & Brody and Brower Piven, a Professional Corporation, as Co-Lead Counsel.

On September 28, 2007, Plaintiffs filed a Consolidated Amended Class Action Complaint (the “Complaint”) against Defendants. On November 30, 2007, Defendants moved to dismiss the Complaint, which was denied by the Court in its Opinion and Order filed March 30, 2009. On April 20, 2009, the Defendants filed their answer to the Complaint in which they denied that they violated any laws or committed any improper acts and asserted affirmative defenses. Defendants filed an amended answer to the Complaint on July 1, 2009.

On August 25, 2009, before the Court made any ruling on the merits of the case, the Parties submitted their dispute to private mediation before retired United States District Judge Nicholas H. Politan. At the conclusion of the mediation, the Parties reached a preliminary agreement in principle on the terms of a settlement. That way, they avoid the risks, costs and delays of a trial, and the people affected will receive compensation. The Plaintiffs and the attorneys think the proposed Settlement is best for all Class Members. As part of the proposed Settlement, Plaintiffs’ Co-Lead Counsel were provided with over 60,000 pages of documents produced by Defendants and conducted the deposition of Steven Esses, who was Chief Operating Officer at Arotech during the Class Period. This additional discovery confirmed the opinion of Plaintiffs and Plaintiffs Co-Lead Counsel that the proposed Settlement is fair, reasonable and adequate for the Class.

WHO IS IN THE PROPOSED SETTLEMENT

To see if you will get money from this proposed Settlement, you first have to determine if you are a Class Member and are thus part of the proposed Settlement.

5. How do I know if I am part of the proposed Settlement?

The Court directed that, for the purposes of the proposed Settlement, everyone who fits this description is a Class Member: *All people who purchased common stock of Arotech on the open market during the period from November 9, 2004 through November 14, 2005, inclusive.*

6. Are there exceptions to being included?

Excluded from the Class are the Defendants in this Action, members of the immediate families (parents, spouses, siblings, and children) of each of the Individual Defendants, all directors, officers, parents, subsidiaries and affiliates of Arotech, any Person, firm, trust, corporation or entity in which any excluded person during the Class Period had or has a controlling interest or which is related to or affiliated with any excluded Person, and the legal representatives, heirs, successors in interest, or assigns of any excluded Person.

If one of your mutual funds purchased publicly-traded Arotech securities on the open market during the Class Period, that alone does not make you a Class Member. You are a Class Member only if you **directly** purchased the publicly-traded securities of Arotech on the open market during the Class Period. Check your investment records or contact your broker to see if you purchased Arotech securities during the Class Period.



If you merely **sold** Arotech common stock on the open market during the Class Period, that does not make you a Class Member. You are a Class Member only if you **purchased** Arotech common stock on the open market during the Class Period.

7. What if I am still not sure if I am included?

If you are still not sure whether you are included, you can ask for free help. You can contact the Claims Administrator: by toll-free phone at 800-766-3330; by fax at 516-931-0810; by mail at Arotech Securities Litigation, c/o Berdon Claims Administration LLC, P.O. Box 9014, Jericho, NY 11753-8914; or visit www.berdonclaims.com, for more information. Or, you can fill out and return the Proof of Claim form described in Question 11 to see if you qualify.

THE SETTLEMENT BENEFITS — WHAT YOU GET

8. What does the proposed settlement provide?

In exchange for the Settlement and dismissal of the Action, the Defendants' insurance carrier has agreed to create a \$2,900,000 fund to be divided, after the Court's award of attorneys' fees and expenses, among all Class Members who send in a valid Proof of Claim form and have incurred a Recognized Claim, as defined below in response to Question No. 10.

9. How much will my payment be?

Your share of the fund will depend on the total of the Recognized Claim, as defined below in response to Question No. 10, represented by the valid Proof of Claim forms that Class Members send in, how many shares of Arotech common stock you bought, when you bought and whether or when you sold them. Only Arotech common stock purchased during the Class Period which result in a Recognized Loss Claim, as defined in Question 10, will be entitled to share in the Settlement Fund.

You can calculate your Recognized Claim in accordance with the formula shown below in the Plan of Allocation, set forth below in response to Question No. 10. It is unlikely that you will get a payment for all of your Recognized Claim. After all Class Members have sent in their Proof of Claim forms, the payment you get will be a part of the Net Settlement Fund equal to your Recognized Claim, divided by the total of everyone's Recognized Claims. See the Plan of Allocation in the next question for more information about your Recognized Claim.

PLAN OF ALLOCATION OF SETTLEMENT PROCEEDS AMONG CLASS MEMBERS

10. What is the Plan of Allocation?

The \$2,900,000 Cash Settlement Amount and any interest earned thereon shall be the Gross Settlement Fund. The Gross Settlement Fund, less all taxes, approved costs, fees and expenses (the "Net Settlement Fund") shall be distributed to members of the Class who submit valid Proofs of Claim ("Authorized Claimants").

The Claims Administrator shall determine each Authorized Claimant's *pro rata* share of the Net Settlement Fund based upon each Authorized Claimant's "Recognized Claim." The Recognized Claim formula is not intended to be an estimate of the amount of what a Class Member might have been able to recover after a trial; nor is it an estimate of the amount that will be paid to Authorized Claimants pursuant to the Settlement. The Recognized Claim formula is the basis upon which the Net Settlement Fund will be proportionately allocated to the Authorized Claimants.

The Class Period begins on November 9, 2004 and ends on November 14, 2005. Members of the Class purchased Arotech common stock during the Class Period.

The following Plan of Allocation formula reflects the Plaintiffs' theory that the price of Arotech common stock was artificially inflated during the Class Period until some of the artificial inflation was removed on August 15, 2005 when, following an allegedly partially corrective disclosure, the price of Arotech common stock declined from \$1.09 per share to \$0.92 per share; and the rest of the artificial inflation was removed on November 15, 2005 when,



following allegedly corrective revelations made by Arotech, the price of Arotech common stock declined from a close of \$0.60 per share on November 14, 2005 to a close of \$0.44 per share on November 15, 2005. The Plan of Allocation attributes \$0.08 of the \$0.17 decline in the price of Arotech common stock on August 15, 2005 to the alleged fraud and the full \$0.16 decline in the price of Arotech common stock on November 15, 2005 to the alleged fraud.

The Recognized Claims will be calculated in the following manner:

1. For Arotech shares purchased during the period from November 9, 2004 through August 14, 2005, and:
 - a. sold prior to the close of trading August 14, 2005, the Recognized Claim shall be zero;
 - b. sold during the period from August 15, 2005 through November 14, 2005, the Recognized Claim shall be \$0.08 per share;
 - c. held through November 14, 2005, the Recognized Claim shall be \$0.24 per share.
2. For Arotech shares purchased during the period from August 15, 2005 through November 14, 2005, and:
 - a. sold prior to the close of trading on November 14, 2005, the Recognized Claim shall be zero;
 - b. held through November 14, 2005, the Recognized Claim shall be \$0.16 per share.

General Provisions

1. If a Class Member held the common stock of Arotech at the opening of the Class Period, any sales of Arotech common stock during the Class Period shall be matched against such holding on a First-In First-Out ("FIFO") basis, and then against purchases during the Class Period in chronological order.

2. A purchase or sale of Arotech common stock shall be deemed to have occurred on the "contract" or "trade" date as opposed to the "settlement" or "payment" date.

3. The receipt of an *inter vivos* gift, distribution from an estate, or an inter-account transfer of Arotech common stock during the Class Period shall not be deemed to be a purchase of Arotech common stock. However, the recipient of a gift or a distribution from an estate, or an inter-account transfer of Arotech common stock, shall be eligible to file a Proof of Claim and participate in the Settlement to the extent the particular donor as the actual purchaser of such Arotech common stock would have been eligible, and based upon the circumstances of such purchase within the Class Period. However, donor and donee may not both claim with regard to the same Arotech common stock. If both donor and donee make such a claim, only the claim filed by the donee will be honored.

4. Each Authorized Claimant will be allocated a *pro rata* share of the Net Settlement Fund based on his, her or its Recognized Claim as compared to the total Recognized Claims of all Authorized Claimants.

5. All Class Members who do not submit a request for exclusion will, if the Settlement becomes Final, be considered members of the "Settlement Class" and will be subject to and bound by the provisions of the Stipulation, including the releases contained therein, and the Final Order and Judgment. Members of the Settlement Class must submit a valid Proof of Claim to share in the Settlement proceeds. A Settlement Class Member who fails to submit a valid Proof of Claim will not share in the Settlement proceeds, but will nonetheless be bound by the terms of the Settlement.

6. No cash payment will be made on a claim where the potential distribution amount is \$10.00 or less.

7. Distributions will be made to Authorized Claimants after all claims have been processed and after the Court has finally approved the Settlement. If any funds remain in the Net Settlement Fund by reason of uncashed distributions or otherwise, then, after the Claims Administrator has made reasonable and diligent efforts to have Class Members who are entitled to participate in the distribution of the Net Settlement Fund cash their distributions, any balance remaining in the Net Settlement Fund one (1) year after the initial distribution of such funds may, if practicable, be redistributed to Class Members who have cashed their initial distributions and who would receive at least \$10.00 from such re-distribution, after payment of any unpaid costs or fees incurred in administering the Net Settlement Fund for such re-distribution. If after six (6) months after such re-distribution, or one year after initial distribution if there is no re-distribution, any funds shall remain in the Net Settlement Fund, then such balance shall be contributed to non-sectarian, not-for-profit, 501(c)(3) organization(s) designated by Plaintiffs' Lead Counsel.



8. Plaintiffs, Defendants, their respective counsel, and all other Released Parties shall have no responsibility for or liability whatsoever for the investment or distribution of the Settlement Fund, the Net Settlement Fund, the Plan of Allocation or the determination, administration, calculation or payment of any Proof of Claim or non-performance of the Claims Administrator, the payment or withholding of taxes owed by the Settlement Fund or any losses incurred in connection therewith.

HOW YOU GET A PAYMENT — SUBMITTING A PROOF OF CLAIM FORM

11. How can I obtain a payment?

To qualify for a payment, you must submit a valid Proof of Claim form. A Proof of Claim form is annexed to this Notice. You may also download a Proof of Claim form from the Claims Administrator's website at www.berdonclaims.com. Read the instructions carefully, fill out the Proof of Claim form, include all the required documents, sign and mail the Proof of Claim form to the address provided, **postmarked no later than June 1, 2010**.

12. When would I get my payment?

The Court will hold a hearing on May 6, 2010, to decide whether to approve the proposed Settlement. If the Court approves the Settlement, there may be appeals. It is always uncertain whether these appeals can be resolved, and resolving them can take time, perhaps more than a year. It also takes time for all the Proofs of Claim to be processed. Please be patient.

13. What am I giving up to get a payment or stay in the Class?

Unless you exclude yourself in the manner described below, you will be in the Settlement Class, and that means that, if the Court approves the Settlement, upon the "Effective Date," you will release all "Released Claims" (as defined below) against the "Released Parties" (as defined below).

"Released Claims" means any and all direct and indirect claims, debts, demands, rights or causes of action or liabilities whatsoever (including, but not limited to, any claims for damages, interest, attorneys' fees, expert or consulting fees, and any other costs, expenses or liability whatsoever), whether based on federal, state, local, statutory or common law or any other law, rule or regulation, whether fixed or contingent, accrued or un-accrued, liquidated or un-liquidated, at law or in equity, matured or un-matured, whether class or individual in nature, including both known claims and unknown claims, (a) that have been asserted in this Action by members of the Settlement Class or any of them against any of the Released Parties, or (b) that could have been asserted in any forum by members of the Settlement Class or any of them against any of the Released Parties which arise out of, are related to, or are based upon in any way, either directly or indirectly, in part or in whole, any of the allegations, transactions, facts, matters or occurrences, representations or omissions involved, set forth, or referred to in the Complaint.

"Released Parties" means the Defendants, Arotech's past or present subsidiaries, parents, successors and predecessors, officers (including, but not limited to, the Individual Defendants), directors, agents, employees, attorneys, advisors, and investment advisors, auditors, accountants, insurers, and any Person, firm, trust, corporation, officer, director or other individual or entity in which Arotech or the Individual Defendants has a controlling interest or which is related to or affiliated with Arotech or the Individual Defendants, and the legal representatives, heirs, successors in interest or assigns of Arotech or the Individual Defendants.

The "Effective Date" will occur when an Order entered by the Court approving the Settlement becomes final and not subject to appeal.

If you are a member of the Settlement Class, all of the Court's orders will apply to you and legally bind you.

EXCLUDING YOURSELF FROM THE PROPOSED SETTLEMENT

If you do not want to be part of this proposed Settlement and obtain any payments to which you may be entitled, but you want to keep any right you may have to sue or continue to sue Arotech and the other Released Parties, on your own, about the Released Claims, then you must take steps to get out. This is called excluding yourself — or



is sometimes referred to as “opting out” of the Class. Defendants may withdraw from and terminate the proposed Settlement if putative Class Members who purchased in excess of a certain amount of Arotech common stock exclude themselves from the Class.

14. How do I exclude myself from the proposed Settlement?

To exclude yourself from the Class, you must send a signed letter by mail stating that you “request exclusion from the Class in the Arotech Securities Litigation.” Your letter should also state the date(s), price(s), and number(s) of shares of Arotech common stock for all your purchases and sales of Arotech common stock during the Class Period. In addition, be sure to include your name, address and your daytime telephone number. You must mail your exclusion request postmarked no later than March 31, 2010 to:

Arotech Securities Litigation – Exclusion Request
c/o Berdon Claims Administration LLC
P.O. Box 9014
Jericho, NY 11753-8914

You cannot exclude yourself by telephone or by e-mail. If you ask to be excluded, you will not get any Settlement payment, and you cannot object to the proposed Settlement. You will not be legally bound by anything that happens in this lawsuit, and you may be able to sue (or continue to sue) Arotech and the other Released Parties in the future.

15. If I do not exclude myself, can I sue Arotech and the other Released Parties for the same thing later?

No. If you do not exclude yourself, you become a member of the Settlement Class and you give up any right to sue Arotech and the other Released Parties for any and all Released Claims. If you have a pending lawsuit, speak to your lawyer in that case immediately. You must exclude yourself from *this* Class to continue your own lawsuit. Remember, the exclusion deadline is March 31, 2010.

16. If I exclude myself, can I get money from the proposed Settlement?

No. If you exclude yourself, do not send in a Proof of Claim form to ask for any money. But, you may exercise any right you may have to sue, continue to sue, or be part of a different lawsuit against Arotech and the other Released Parties.

THE LAWYERS REPRESENTING YOU

17. Do I have a lawyer in this case?

The Court has ordered that the law firms of Stull, Stull & Brody and Brower Piven, a Professional Corporation in New York, New York, will represent all Class Members. These lawyers are called Plaintiffs’ Co-Lead Counsel. You will not be separately charged for these lawyers. The Court will determine the amount of Plaintiffs’ Counsel’s fees and expenses, which will be paid from the Gross Settlement Fund. If you want to be represented by your own lawyer, you may hire one at your own expense.

18. How will the lawyers be paid?

Plaintiffs’ Counsel are moving the Court to award attorneys’ fees from the Gross Settlement Fund in an amount of not greater than one third (33.3%) of the Gross Settlement Fund and for reimbursement of their expenses in an amount of up to \$75,000 plus interest on such expenses at the same rate as earned by the Settlement Fund. Plaintiffs’ Counsel, without further notice to the Class, will subsequently apply to the Court for fees and expenses incurred in connection with providing notice, administering the Settlement, and distributing the Settlement proceeds to the members of the Class and any proceedings subsequent to the Settlement Fairness Hearing.



OBJECTING TO THE PROPOSED SETTLEMENT, THE PROPOSED PLAN OF ALLOCATION, OR PLAINTIFFS' CO-LEAD COUNSEL'S MOTION FOR AN AWARD OF FEES AND EXPENSES

You can tell the Court that you do not agree with the proposed Settlement or some part of it.

19. How do I tell the Court that I do not like the proposed Settlement, the Plan of Allocation, or Plaintiffs' Co-Lead Counsel's motion for an award of attorneys' fees and expenses?

If you are a Class Member you can object to the proposed Settlement or any of its terms, the proposed Plan of Allocation and/or the motion by Plaintiffs' Co-Lead Counsel for an award of fees and expenses. You may write to the Court setting out your objection. You may give reasons why you think the Court should not approve any or all of the proposed Settlement terms or arrangements, the proposed Plan of Allocation, or the motion for attorneys' fees and expenses. The Court will consider your views if you file a proper objection within the deadline identified, and according to the following procedures.

To object, you must send a signed letter stating that you object to the proposed Settlement, the proposed Plan of Allocation, or the motion for attorneys' fees and expenses in *In re Arotech Corp. Securities Litigation*, Civil Action No. 07-cv-1838-RJD-VVP. Be sure to include your name, address, daytime telephone number, and your signature, identify the date(s), price(s), and number(s) of shares of Arotech common stock for all purchases and sales you made during the Class Period, and state the reasons why you object to the proposed Settlement. Your objection must be filed with the Court and served on all the following counsel on or before March 31, 2010:

COURT	PLAINTIFFS' CO-LEAD COUNSEL	DEFENDANTS' COUNSEL
Clerk of the Court United States District Court for the Eastern District of New York United States Courthouse 225 Cadman Plaza East Brooklyn, NY 11201	Mark Levine, Esq. Stull, Stull & Brody 6 East 45th Street New York, NY 10017 David A.P. Brower, Esq. Brower Piven A Professional Corporation 488 Madison Avenue New York, NY 10022	Christopher G. Green, Esq. Ropes & Gray LLP One International Place Boston, MA 02110

You do not need to go to the Settlement Fairness Hearing to have your written objection considered by the Court. At the Settlement Fairness Hearing, any Class Member who has not previously submitted a request for exclusion from the Class and who has complied with the procedures set out in this Question 19 and Question 23, below, for filing with the Court and providing to the counsel for Plaintiffs and Defendants a statement of an intention to appear at the Settlement Fairness Hearing may also appear and be heard, to the extent allowed by the Court, to state any objection to the proposed Settlement, the Plan of Allocation, or Plaintiffs' Co-Lead Counsel's motion for an award of attorneys' fees and reimbursement of expenses. Any such objector may appear in person or arrange, at that objector's expense, for a lawyer to represent the objector at the Hearing.

20. What is the difference between objecting and excluding?

Objecting is telling the Court that you do not like something about the proposed Settlement. You can object only if you stay in the Class. Excluding yourself is telling the Court that you do not want to be part of the Class. If you exclude yourself, you have no basis to object because the case no longer affects you.



THE COURT'S SETTLEMENT FAIRNESS HEARING

The Court will hold a hearing to decide whether to approve the proposed Settlement, the Plan of Allocation, and motion for an award of attorneys' fees and reimbursement of expenses. You may attend and you may ask to speak, but you do not have to.

21. When and where will the Court decide whether to approve the proposed Settlement?

The Court will hold a Settlement Fairness Hearing at 2:30 p.m. on Thursday, May 6, 2010, at the United States Courthouse, Courtroom 10A South, 225 Cadman Plaza East, Brooklyn, New York 11201. At this hearing the Court will consider whether the proposed Settlement is fair, reasonable and adequate. At the Settlement Fairness Hearing, the Court also will consider the proposed Plan of Allocation for the proceeds of the Settlement and the motion of Plaintiffs' Co-Lead Counsel for attorneys' fees and reimbursement of expenses. The Court will take into consideration any written objections filed in accordance with the instructions at Question 19. The Court also may listen to people who have properly indicated, within the deadline identified above, an intention to speak at the hearing; but decisions regarding the conduct of the hearing will be made by the Court. See Question 23, below, for more information about speaking at the hearing. The Court may also decide how much to pay to Plaintiffs' Counsel for attorneys' fees and expenses. After the hearing, the Court will decide whether to approve the Settlement. We do not know how long these decisions will take.

You should be aware that the Court may change the date and time of the Settlement Fairness Hearing. Thus, if you want to come to the hearing, you should check with Plaintiffs' Co-Lead Counsel before coming to be sure that the date and/or time has not changed.

22. Do I have to come to the hearing?

No. Plaintiffs' Counsel will answer questions the Court may have. But, you are welcome to come at your own expense. If you send an objection, you do not have to come to Court to talk about it. As long as you filed your written objection on time, the Court will consider it. You may also pay your own lawyer to attend, but it is not required to have your own lawyer attend. Class Members do not need to appear at the hearing or take any other action to indicate their approval.

23. May I speak at the hearing?

If you object to the proposed Settlement, you may ask the Court for permission to speak at the Settlement Fairness Hearing. To do so, you must include with your objection (see Question 19 above) a statement stating that it is your "Notice of Intention to Appear in *In re Arotech Corp. Securities Litigation*, Civil Action No. 07-cv-1838-RJD-VVP." Persons who intend to object to the proposed Settlement, the Plan of Allocation, and/or counsel's application for an award of attorneys' fees and expenses and desire to present evidence at the Settlement Fairness Hearing must include in their written objections the identity of any witnesses they may call to testify and exhibits they intend to introduce into evidence at the Settlement Fairness Hearing. You cannot speak at the hearing if you excluded yourself from the Class or if you have not provided written notice of your intention to speak at the Settlement Fairness Hearing by the deadline identified, and in accordance with the procedures described in Questions 19 and 21 above.

IF YOU DO NOTHING

24. What happens if I do nothing at all?

If you do nothing, you will get no money from this proposed Settlement and you will be precluded from starting a lawsuit, continuing with a lawsuit, or being part of any other lawsuit against Arotech and the other Released Parties about the Released Claims in this case, ever again. To share in the Net Settlement Fund you must submit a Proof of Claim form (see Question 11). To start, continue or be a part of any other lawsuit against Arotech and the other Released Parties about the Released Claims in this case, you must exclude yourself from this Class (see Question 14).



GETTING MORE INFORMATION

25. Are there more details about the proposed Settlement?

This Notice summarizes the proposed Settlement. More details are in a Stipulation and Agreement of Settlement dated January 7, 2010 (the "Stipulation"). You can get a copy of the Stipulation by writing to Mark Levine, Esq., Stull, Stull & Brody, 6 East 45th Street, New York, NY 10017, or David A.P. Brower, Esq., Brower Piven, A Professional Corporation, 488 Madison Avenue, New York, NY 10022, or by visiting the Claims Administrator's website at www.berdonclaims.com.

You also can contact the Claims Administrator: by mail at Arotech Securities Litigation, c/o Berdon Claims Administration LLC, P.O. Box 9014, Jericho, NY 11753-8914; by toll-free phone at 800-766-3330; by fax at 516-931-0810; or visit the website at www.berdonclaims.com, where you can request (or download) additional copies of the Notice and Proof of Claim form and will find answers to common questions about the proposed Settlement plus other information to help you determine whether you are a Class Member and whether you are eligible for a payment.

26. How do I get more information?

For even more detailed information concerning the matters involved in this Action, reference is made to the pleadings, to the Stipulation, to the Orders entered by the Court and to the other papers filed in the Action, which may be inspected at the Office of the Clerk of the United States District Court for the Eastern District of New York, 225 Cadman Plaza East, Brooklyn, New York 11201, during regular business hours.

SPECIAL NOTICE TO SECURITIES BROKERS AND OTHER NOMINEES

If you purchased Arotech common stock (CUSIP Number 042682104) during the period from November 9, 2004 through November 14, 2005, inclusive, on behalf of any beneficial owner, the Court has directed that, within seven (7) days of your receipt of this Notice, you either (a) provide to the Claims Administrator the name and last known address of each such person or entity, preferably in an MS Excel data table setting forth (i) title/registration, (ii) street address, and (iii) city/state/zip; or on electronic mailing labels in MS Word or WordPerfect files; or printed out on physical mailing labels; or (b) request sufficient copies of this Notice and the Proof of Claim form, free of charge, and within seven (7) days mail the Notice and Proof of Claim form directly to the beneficial owners of the common stock referred to herein. If you choose to make your own mailing, the Court has directed that, upon such mailing, you send a statement to the Claims Administrator confirming that you have done so as directed. You are entitled to reimbursement from the Settlement Fund of any reasonable expenses actually incurred in connection with the research of beneficial owner records **and** the generating of electronic media **or** mailing labels **or** postage. Those expenses will be paid after your request and submission of appropriate supporting documentation to the Claims Administrator. All communications concerning the foregoing should be addressed to:

Arotech Securities Litigation
c/o Berdon Claims Administration LLC
P.O. Box 9014
Jericho, NY 11753-8914
Toll-Free Phone: (800) 766-4440
Fax: (516) 931-0810
Website: www.berdonclaims.com

Dated: February 5, 2010

BY ORDER OF THE COURT