AROTECH CORP
Form DEF 14A
April 30, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934

Filed by the Registrant T

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Check the appropriate box:

o Preliminary Proxy Statement o Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

x Definitive Proxy Statement

o Definitive Additional Materials

o Soliciting Material under Rule 14a-12

AROTECH CORPORATION
(Exact Name of Registrant as Specified in Charter)

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(3) Filing Party:

(4) Date Filed:

Arotech Corporation

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Nasdaq: ARTX

Robert S. Ehrlich
Chairman and Chief Executive Officer

April 30, 2009

Dear Stockholder:

It is our pleasure to invite you to the 2009 Annual Meeting of Stockholders of Arotech Corporation, a Delaware corporation, to be held at 4:00 p.m. local time on Tuesday, June 9, 2009 at the offices of Lowenstein Sandler P.C., 1251 Avenue of the Americas, 18th Floor, New York, New York.

As per our usual practice, we are distributing our proxy materials primarily over the Internet. We believe that this method of distribution encourages more stockholders to vote their proxies and reduces the cost and environmental impact of mass distribution of paper proxy materials. If you wish to receive a paper or e-mail copy of the proxy materials, you may do so in accordance with the procedures set forth in the Notice of Internet Availability of Proxy Materials. However, if you do decide that you want a paper copy of these proxy materials, we urge you to simply print a copy from off the Internet (available at http://www.voteproxy.com) rather than having your company incur the additional costs of printing and mailing.

Whether or not you plan to attend and regardless of the number of shares you own, it is important that your shares be represented at the meeting. You are accordingly urged to carefully review the proxy materials available to you on the Internet and to vote electronically through the Internet or by telephone, all in accordance with the procedures set forth in the Notice of Internet Availability of Proxy Materials, in order to ensure your representation and the presence of a quorum at the annual meeting. If you submit your proxy and then decide to attend the annual meeting to vote your shares in person, you may still do so if you hold your shares in your own name. Your proxy is revocable in accordance with the procedures set forth in the Proxy Statement.

Sincerely,

Robert S. Ehrlich
Chairman of the Board of Directors

QUESTIONS AND ANSWERS

Although we encourage you to read the proxy statement in its entirety, we include these Questions and Answers to provide background information and brief answers to several questions that you may have about the Annual Meeting.

Q. What is the purpose of the Annual Meeting?

A. At our Annual Meeting, stockholders will act upon the matters outlined in the accompanying Notice of Annual Meeting, including the following proposals:

1. To elect three Class I directors for a three-year term ending in 2012 and continuing until their successors are duly elected and qualified (beginning on page 3);

2. To consider and act upon a proposal to amend our Amended and Restated Certificate of Incorporation to reduce our authorized common stock from 250,000,000 shares to 50,000,000 shares (beginning on page 5);

3. To consider and act upon a proposal to amend our Amended and Restated Certificate of Incorporation to authorize the Board of Directors, in addition to the stockholders, to make, amend and repeal our by-laws (beginning on page 7);

4. To consider and act upon a proposal to amend our Amended and Restated Certificate of Incorporation to include a provision pursuant to which we will be governed by Section 203 of the General Corporation Law of the State of Delaware (beginning on page 9);

5. To consider and act upon a proposal to adopt the Arotech 2009 Equity Incentive Plan and to reserve 5,000,000 shares of common stock for issuance under such plan and to ratify certain previous issuances of restricted stock (beginning on page 11); and

6. To act upon all other business that may properly come before the meeting or any postponements or adjournments thereof.

Q. Why have I received a Notice of Internet Availability of Proxy Materials?

A. We are distributing our proxy materials primarily over the Internet. We believe that this method of distribution encourages more stockholders to vote their proxies and reduces the cost and environmental impact of mass distribution of paper proxy materials. You will not receive a printed copy of our proxy materials unless you specifically request one. If you wish to receive a paper or e-mail copy of the proxy materials, you may do so in accordance with the procedures set forth in the Notice of Internet Availability of Proxy Materials. However, if you do decide that you want a paper copy of these proxy materials, we urge you to simply print a copy from off the Internet rather than having your company incur the additional costs of printing and mailing.

Q. Why is Arotech seeking stockholder approval for the first proposal?

A. Our by-laws provide for a Board of one or more directors. The number of directors is currently seven. Our Board is composed of three classes of similar size. The members of each class are elected in different years, so that only one-third of the Board is elected in any single year. Under Delaware law, directors of a corporation are elected by the stockholders, so we are presenting the Board of Directors' slate of Class I directors for election by the

stockholders.

Q. Why is Arotech seeking stockholder approval for the second proposal?

A. We pay franchise tax in Delaware based, in part, on the number of shares of our common stock and preferred stock that are authorized in our certificate of incorporation. Based on the authorized shares

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currently provided in our certificate of incorporation, we have been paying $165,000 per year, which is the maximum franchise tax in Delaware. By reducing the authorized number of shares as proposed, we anticipate reducing our annual franchise tax by approximately $81,500.

Q. Why is Arotech seeking stockholder approval for the third proposal?

A. Section 109 of the Delaware General Corporation Law provides that in order for a board or directors to have the power to adopt, amend or repeal by-laws of a corporation, the Certificate of Incorporation of the corporation must include a provision conferring such powers upon the board of directors. Absent such a provision, the by-laws of a corporation may be adopted, amended or repealed only by the stockholders. We are seeking the affirmative vote of the holders of a majority of the outstanding shares of common stock entitled to vote at the meeting in order to approve an amendment to our Amended and Restated Certificate of Incorporation to permit the directors, in addition to the stockholders, to adopt, amend or repeal our by-laws.

Q. Why is Arotech seeking stockholder approval for the fourth proposal?

A. We believe that the protections that Section 203 of the Delaware General Corporation Law would provide to us would be beneficial to the stockholders because they would enhance the Board of Directors' capacity to defend against undesirable takeover attempts and, in the event of the sale of the Company, enhance the Board of Directors' ability to negotiate a transaction that is in the stockholders' best interest and maximizes value for all stockholders. In the past, there have been a number of surprise takeovers of publicly-owned corporations which have occurred through tender offers or other sudden purchases of a substantial number of outstanding shares. Such tender offers and other share purchases are often followed by a merger or acquisition of the target corporation by the purchaser without any negotiations with the Board of Directors of the target corporation. Such a "two-tiered" business combination automatically eliminates minority interests in the target corporation, often for less valuable consideration per share than was paid in the purchaser's original tender offer or market purchases.

Q. Why is Arotech seeking stockholder approval for the fifth proposal?

A. We believe that long-term incentive compensation programs align the interests of management, employees and the stockholders to create long-term stockholder value. The Board believes that plans such as the 2009 Equity Incentive Plan increase our ability to achieve this objective, and, by allowing for several different forms of long-term incentive awards, help us to recruit, reward, motivate and retain talented personnel. The Board believes strongly that the approval of the 2009 Equity Incentive Plan is essential to our continued success. In particular, the Board believes that our employees are our most valuable assets and that the awards permitted under the 2009 Equity Incentive Plan are vital to our ability to attract and retain outstanding and highly skilled individuals in the extremely competitive labor markets in which we compete. Such awards also are crucial to our ability to motivate employees to achieve our goals. Furthermore, our current equity compensation plans for employees have all either expired or have no more shares reserved for issuance under them, making it imperative that we adopt a new plan. As part of the proposal, we are asking stockholders to ratify certain previous grants of restricted stock that were made to certain officers and employees. Ratification of these grants as proposed will result in bringing them under the 2009 Equity Incentive Plan.

Q. What shares can I vote?

A. All shares of our common stock owned by you as of the close of business on the record date, April 21, 2009, may be voted by you. These shares include (i) shares held directly in your name as the stockholder of record, and (ii)

shares held for you as the beneficial owner through a stockbroker, bank or other nominee. Each share of common stock owned by you entitles you to cast one vote on each matter to be voted upon.

Q. What is the difference between holding shares as a stockholder of record and as a beneficial owner?

A. Most of our stockholders hold their shares through a stockbroker, bank or other nominee rather than directly in their own name. As summarized below, there are some distinctions between shares held of record and those owned beneficially.

Stockholder of Record

If your shares are registered directly in your name with our transfer agent, American Stock Transfer & Trust Company, you are considered, with respect to those shares, the stockholder of record. As the stockholder of record, you have the right to grant your voting proxy directly to us or to vote in person at the Annual Meeting.

Beneficial Owner

If your shares are held in a stock brokerage account or by a bank or other nominee, you are considered the beneficial owner of shares held in street name, and these proxy materials are being forwarded to you by your broker, bank or nominee which is considered, with respect to those shares, the stockholder of record. As the beneficial owner, you have the right to direct your broker as to how to vote and are also invited to attend the Annual Meeting. However, because you are not the stockholder of record, you may not vote these shares in person at the Annual Meeting unless you obtain a signed proxy from the record holder giving you the right to vote the shares. If you do not vote your shares over the Internet or otherwise provide the stockholder of record with voting instructions, your shares may constitute broker non-votes. The effect of broker non-votes is more specifically described in “What vote is required to approve each proposal?” below.

Q. How can I vote my shares in person at the Annual Meeting?

A. Shares held directly in your name as the stockholder of record may be voted in person at the Annual Meeting. If you wish to vote your shares at the Annual Meeting, please bring the Notice of Internet Availability of Proxy Materials that you received, as well as proof of identification.

Even if you currently plan to attend the Annual Meeting, we recommend that you also submit your proxy as described below so that your vote will be counted if you later decide not to attend the meeting. Shares held beneficially in street name may be voted in person by you at the Annual Meeting only if you obtain a signed proxy from the record holder giving you the right to vote the shares.

Q. What vote is required to approve each proposal?

A. Holders of a majority of the outstanding shares entitled to vote must be present, in person or by proxy, at the Annual Meeting in order to have the required quorum for the transaction of business.

With respect to the first proposal (election of directors), directors are elected by a plurality of the votes present in person or represented by proxy and entitled to vote, and the director nominees who receive the greatest number of votes at the Annual Meeting (up to the total number of directors to be elected) will be elected. As a result, abstentions and “broker non-votes” (see below) will not affect the outcome of the vote on this proposal.

With respect to the second proposal (amending our certificate of incorporation to reduce our authorized shares), the affirmative vote of a majority of all outstanding shares of our common stock entitled to vote on this proposal is

required to approve the proposal. As a result, abstentions and “broker non-votes” (see below) will have the same practical effect as a negative vote on this proposal.

With respect to the third proposal (amending our certificate of incorporation to authorize our Board of Directors to amend our by-laws), the affirmative vote of a majority of all outstanding shares of our common stock entitled to vote on this proposal is required to approve the proposal. As a result, abstentions and "broker non-votes" (see below) will have the same practical effect as a negative vote on this proposal.

With respect to the fourth proposal (amending our certificate of incorporation to include a provision pursuant to which we will be governed by Section 203 of the General Corporation Law of the State of Delaware), the affirmative vote of a majority of all outstanding shares of our common stock entitled to vote on this proposal is required to approve the proposal. As a result, abstentions and "broker non-votes" (see below) will have the same practical effect as a negative vote on this proposal.

With respect to the fifth proposal (approval of the Arotech 2009 Equity Incentive Plan), the affirmative vote of a majority of the total votes cast at the Annual Meeting on this proposal, in person or by proxy, is required to approve the proposal. As a result, abstentions will have the same practical effect as a negative vote on this proposal, and "broker non-votes" (see below) will not affect the outcome of the vote on this proposal.

Q. What are "broker non-votes"?

A. Broker non-votes occur when nominees, such as banks and brokers holding shares on behalf of beneficial owners, do not receive voting instructions from the beneficial holders at least ten days before the meeting. If that happens, the nominees may vote those shares only on matters deemed "routine" by the New York Stock Exchange, such as the election of directors and the adoption of the decrease in authorized shares of common stock. Nominees cannot vote on non-routine matters unless they receive voting instructions from beneficial holders, resulting in so-called "broker non-votes." The effect of broker non-votes on each of the five proposals that will be considered at the Annual Meeting is described above and in our proxy statement.

We believe that the proposal for the election of directors and the proposal to amend our certificate of incorporation to reduce our authorized share are considered to be a "routine" matters, and as a result we do not expect that there will be a significant number of broker non-votes on these proposals. We believe that the proposals to amend our certificate of incorporation to authorize our Board of Directors to amend our by-laws and to include a provision pursuant to which we will be governed by Section 203 of the General Corporation Law of the State of Delaware, and the proposal to adopt the 2009 Equity Incentive Plan, are not "routine" matters, and as a result there may be a significant number of broker non-votes on these proposals.

Q. Where can I find the voting results of the meeting?

A. We will announce preliminary voting results at the meeting and publish final results in a Current Report on Form 8-K to be filed by us with the SEC by Thursday, June 11, 2009, by 5:30 p.m. E.D.T.

Q. Who will count the votes?

A. An attorney with Lowenstein Sandler P.C., our outside counsel, will tabulate the votes and act as the inspector of elections.

Q. Who will bear the costs of this solicitation?

A.

Our Board of Directors is making this solicitation, and we will pay the entire cost of preparing, assembling, printing, mailing and distributing these proxy materials. If you choose to access the proxy materials over the Internet, however, you are responsible for Internet access charges you may incur. The solicitation of proxies or votes may be made in person, by telephone or by electronic communication by our directors, officers and employees, who will not receive any additional compensation for such solicitation activities. We have hired Broadridge Financial Solutions, Inc. to assist us in providing Internet access and in the distribution of proxy materials. We will also reimburse brokerage

houses and other custodians, nominees and fiduciaries for their reasonable out-of-pocket expenses for forwarding proxy and solicitation materials to stockholders.

Q. What should I do now?

A. You should read this proxy statement carefully and promptly submit your proxy card or vote by telephone or the Internet as provided on the proxy card to ensure that your vote is counted at the Annual Meeting.

Q. How do I vote if I hold shares directly?

A. You may vote your shares by attending the Annual Meeting in person and completing a ballot or returning your validly executed proxy card at the meeting. The Annual Meeting will begin promptly at 4:00 p.m. local time on Tuesday, June 9, 2009 at the offices of Lowenstein Sandler P.C., 1251 Avenue of the Americas, 18th Floor, New York, New York. Attendance at the Annual Meeting will not, by itself, result in the revocation of a previously submitted proxy. Even if you are planning to attend the Annual Meeting, we encourage you to submit your proxy in advance to ensure the representation of your shares at the Annual Meeting.

If you do not want to attend the Annual Meeting and you hold your shares directly, you may vote by granting a proxy. To grant a proxy, vote over the Internet or by telephone as instructed in the Notice of Availability of Proxy Materials, or mail a signed proxy card, as soon as possible so that your shares may be represented at the Annual Meeting. Votes over the Internet or by telephone must be received by 11:59 p.m. E.D.T. on June 8, 2009 in order to be counted.

Q. How do I vote if I hold shares in street name?

A. If you do not want to attend the Annual Meeting and you hold your shares in a stock brokerage account or if your shares are held by a bank or nominee (i.e., in "street name"), you must provide your broker with directions on how to vote your shares. Your broker will provide you with instructions regarding how to direct your broker to vote your shares. It is important to follow these instructions carefully to ensure your shares are represented at the Annual Meeting. If you do not provide directions to your broker, your shares will not be voted at the Annual Meeting.

If you want to attend the Annual Meeting and you hold your shares in street name, you must obtain a signed proxy card from your broker, bank or other nominee acting as record holder that gives you the right to vote the shares. Your broker will provide you with instructions regarding how to obtain a signed proxy card from the bank or other nominee acting as record holder in order to enable you to vote your shares in person at the Annual Meeting.

Q. What does it mean if I receive more than one Notice of Internet Availability of Proxy Materials?

A. It means your shares are registered in different ways or are in more than one account. Please provide voting instructions for all proxy and voting instruction cards you receive.

Q. How can I change my vote after I have mailed my proxy card?

A. If you are a holder of record, you may generally change your vote by delivering a later-dated proxy or written notice of revocation to our Corporate Secretary before the Annual Meeting, or by attending the Annual Meeting and voting in person. If your shares are held in "street name" by your broker, you must follow the instructions received from your broker regarding how to change your vote.

Q&A-5

1229 Oak Valley Drive
Ann Arbor, Michigan 48108

ANNUAL MEETING OF THE STOCKHOLDERS
OF AROTECH CORPORATION
TO BE HELD ON JUNE 9, 2009

PROXY STATEMENT

The accompanying proxy is solicited by and on behalf of the Board of Directors of Arotech Corporation, for use at our Annual Meeting of Stockholders and any postponements and adjournments thereof. The meeting is to be held at the offices of Lowenstein Sandler P.C., 1251 Avenue of the Americas, 18th Floor, New York, New York, on Tuesday, June 9, 2009 at 4:00 p.m. local time, and thereafter as the meeting may be postponed or adjourned from time to time, for the purposes described in the accompanying Notice of Annual Meeting of Stockholders.

Stockholders of record at the close of business on April 21, 2009 will be entitled to vote at the annual meeting. As of April 21, 2009, there were 14,268,742 shares of our common stock outstanding held of record by 322 record stockholders. Each holder of common stock is entitled to one vote per share on each matter that comes before the annual meeting.

This proxy statement and the enclosed form of proxy will be available on the Internet to you com−mencing on or about April 30, 2009. We are also providing Internet access to our annual report for the fiscal year ended December 31, 2008 to our stockholders along with this proxy statement.

Voting Procedures and Vote Required

Proxies that are properly marked, dated, and signed, or submitted electronically via the Internet or by telephone by following the instructions on the proxy card, and not revoked will be voted at the annual meeting in accordance with any indicated directions. If no direction is indicated, proxies will be voted FOR the election of the Class I director nominees for director set forth below; FOR the proposal amending our certificate of incorporation to reduce our authorized shares; FOR the proposal amending our certificate of incorporation to authorize our Board of Directors to amend our by-laws; FOR the proposal amending our Amended and Restated Certificate of Incorporation to include a provision pursuant to which we will be governed by Section 203 of the General Corporation Law of the State of Delaware; FOR the proposal approving the Arotech 2009 Equity Incentive Plan; and IN THE DISCRETION OF THE HOLDERS OF THE PROXIES with respect to any other business that properly comes before the annual meeting and all matters relating to the conduct of the annual meeting. If a broker indicates on the enclosed proxy or its substitute that it does not have discretionary authority as to certain shares to vote on a particular matter (“broker non-votes”), those shares will not be considered as voting with respect to that matter. We believe that the tabulation procedures to be followed by the Inspector of Elections are consistent with the general requirements of Delaware law concerning voting of shares and determination of a quorum.

You may revoke your proxy at any time before it is voted by delivering to the Secretary of our company a written revocation or a duly executed proxy bearing a later date than the date of the proxy being revoked (including a proxy voted over the Internet or by telephone). Any record stockholder attending

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the annual meeting in person may revoke his or her proxy and vote his or her shares at the annual meeting.

Votes cast by proxy or in person at the annual meeting will be tabulated by the Inspector of Elections, with the assistance of our transfer agent. The Inspector of Elections will also determine whether or not a quorum is present at the annual meeting. The presence of a quorum is required to transact the business proposed to be transacted at the annual meeting. The presence in person or by proxy of holders of a majority of the outstanding shares of our common stock entitled to vote will constitute a quorum for the transaction of business at the annual meeting. Abstentions and broker non-votes (as defined above) will be counted for purposes of determining the presence or absence of a quorum.

With respect to the first proposal (election of directors), directors are elected by a plurality of the votes present in person or represented by proxy and entitled to vote, and the director nominees who receive the greatest number of votes at the Annual Meeting (up to the total number of directors to be elected) will be elected. As a result, abstentions and “broker non-votes” (see below) will not affect the outcome of the vote on this proposal.

With respect to the second proposal (amending our certificate of incorporation to reduce our authorized shares), the affirmative vote of a majority of all outstanding shares of our common stock entitled to vote on this proposal is required to approve the proposal. As a result, abstentions and “broker non-votes” (see below) will have the same practical effect as a negative vote on this proposal.

With respect to the third proposal (amending our certificate of incorporation to authorize our Board of Directors to amend our by-laws), the affirmative vote of a majority of all outstanding shares of our common stock entitled to vote on this proposal is required to approve the proposal. As a result, abstentions and “broker non-votes” (see below) will have the same practical effect as a negative vote on this proposal.

With respect to the fourth proposal (amending our certificate of incorporation to opt into the protections of Section 203 of the Delaware General Corporation Law), the affirmative vote of a majority of all outstanding shares of our common stock entitled to vote on this proposal is required to approve the proposal. As a result, abstentions and “broker non-votes” (see below) will have the same practical effect as a negative vote on this proposal.

With respect to the fifth proposal (approval of the Arotech 2009 Equity Incentive Plan), the affirmative vote of a majority of the total votes cast at the Annual Meeting on this proposal, in person or by proxy, is required to approve the proposal. As a result, abstentions will have the same practical effect as a negative vote on this proposal, and “broker non-votes” (see below) will not affect the outcome of the vote on this proposal.

The solicitation of proxies will be conducted over the Internet and by mail, and we will bear all attendant costs. These costs will include the expense of preparing and mailing proxy solicitation materials for the annual meeting and reimbursements paid to brokerage firms and others for their expenses incurred in forwarding solicitation materials regarding the annual meeting to beneficial owners of our common stock. We have hired Broadridge Financial Solutions, Inc. to assist us in providing Internet access and in the distribution of notices and of proxy materials. We will also reimburse brokerage houses and other custodians, nominees and fiduciaries for their reasonable out-of-pocket expenses for forwarding proxy and solicitation materials to stockholders. We may conduct further solicitation personally, telephonically or by facsimile through our officers, directors and employees, none of whom will receive additional compensation for assisting with the solicitation.

We are not aware of any matters other than those described in this proxy statement that will be acted upon at the annual meeting. In the event that any other matters do come before the annual meeting for a stockholder vote, the persons named as proxies in the form of proxy being delivered to you along with this proxy statement will vote in accordance with their best judgment on those matters.

At least ten days before the annual meeting, we will make a complete list of the stockholders entitled to vote at the meeting open to the examination of any stockholder for any purpose germane to the annual meeting. The list will be open for inspection during ordinary business hours at our principal executive offices, which are located at 1229 Oak Valley Drive, Ann Arbor, Michigan 48108, and will also be made available to stockholders present at the annual meeting.

PROPOSAL NUMBER 1

ELECTION OF DIRECTORS

Our certificate of incorporation and by-laws provide for a Board of three or more directors, composed of three classes of similar size. The number of directors is currently set at seven. The members of each class are elected in different years, so that only about one-third of the Board is elected in any single year.

Dr. Eastman and Messrs. Esses and Marrus are designated Class I directors and have been elected for a term expiring this year and until their successors are elected and qualified; Prof. Jones and Mr. Ehrlich are designated Class II directors and have been elected for a term expiring in 2011 and until their successors are elected and qualified; and Messrs. Borey and Sloyer are designated Class III directors and have been elected for a term that expires in 2010 and until their successors are elected and qualified.

Unless instructions are given to the contrary, each of the persons named as proxies will vote the shares to which each proxy relates FOR the election of each of the Class I director nominees listed below, for a term of three years expiring at the annual meeting of stockholders to be held in 2012, and until the nominee's successor is duly elected and qualified or until the nominee's earlier death, removal or res–ignation. The nominees named below are presently serving as directors, and all of them are anticipated to be available for election and able to serve. However, if they should become unavailable, the proxy will be voted for substitute nominee(s) designated by the Board. The three nominees who receive the greatest number of votes properly cast for the election of directors will be elected.

The following table contains information concerning the nominees for directors and the other incumbent directors:

Name	Age	Position with Arotech	Class	Director Since
Dr. Jay M. Eastman(1)(2)	60	Director	I	October 1993
Steven Esses(3)	44	President, Chief Operating Officer and Director	I	July 2002
Michael E. Marrus(1)(2)(3)	45	Director	I	October 2007
Prof. Seymour Jones(2)(4)	77	Director	II	August 2005
Robert S. Ehrlich(3)	70	Chairman of the Board and Chief Executive Officer	II	May 1991

Edward J. Borey(4)	58	Director	III	December 2003
Elliot Sloyer(1)(3)(4)	44	Director	III	October 2007

(1) Member of the Compensation Committee.
(2) Member of the Nominating Committee.
(3) Member of the Executive and Finance Committee.
(4) Member of the Audit Committee.

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Nominees for Election as Class I Directors

Dr. Jay M. Eastman has been one of our directors since October 1993. Since November 1991, Dr. Eastman has served as President and Chief Executive Officer of Lucid, Inc., which is developing laser technology applications for medical diagnosis and treatment. Dr. Eastman served as Senior Vice President of Strategic Planning of PSC, Inc. ("PSCX"), a manufacturer and marketer of laser diode bar code scanners, from December 1995 through October 1997. Dr. Eastman is also a director of Dimension Technologies, Inc., a developer and manufacturer of 3D displays for computer and video displays. From 1981 until 1983, Dr. Eastman was the Director of the University of Rochester's Laboratory for Laser Energetics, where he was a member of the staff from 1975 to 1981. Dr. Eastman holds a B.S. and a Ph.D. in Optics from the University of Rochester in New York.

Steven Esses has been a director since July 2002, our Executive Vice President since January 2003, our Chief Operating Officer since February 2003 and our President since December 2005. From 2000 until 2002, Mr. Esses was a principal with Stillwater Capital Partners, Inc., a New York-based investment research and advisory company (hedge fund) specializing in alternative investment strategies. During this time, Mr. Esses also acted as an independent consultant to new and existing businesses in the areas of finance and business development. In 1995, Mr. Esses founded the Dunkin' Donuts franchise in Israel and was its Managing Director and CEO until 2005. Before founding Dunkin' Donuts Israel, Mr. Esses was the Director of Retail Jewelry Franchises with Hamilton Jewelry, and before that he served as Executive Director of Operations for the Conway Organization, a major off-price retailer with 17 locations.

Michael E. Marrus has been one of our directors since October 2007. Mr. Marrus is an investment banker who until February 2009 was a Managing Director of Collins Stewart LLC, the US operations of Collins Stewart plc, a London based corporate broker traded on the London Stock Exchange. Prior thereto, Mr. Marrus was a Managing Director of C. E. Unterberg, Towbin, an investment banking firm that was acquired by Collins Stewart plc. Prior to joining Unterberg, Towbin in 1998, Mr. Marrus was a Principal and founding member of Fieldstone Private Capital Group, an investment banking firm specializing in corporate, project and structured finance. Previously, he was employed at Bankers Trust Company, initially in the Private Equity and Merchant Banking Groups and subsequently in BT Securities, the securities affiliate of Bankers Trust. Mr. Marrus has an A.B. from Brown University and an M.B.A. from the Graduate School of Business, University of Chicago.

Class II Directors

Seymour Jones has been one of our directors since August 2005. Mr. Jones has been a clinical professor of accounting at New York University Stern School of Business since September 1993. Professor Jones teaches courses in accounting, tax, forensic accounting and legal aspects of entrepreneurism. He is also the Associate Director of Ross Institute of Accounting Research at Stern School of Business. . His primary research areas include audit committees, auditing, entrepreneurship, financial reporting, and fraud. Professor Jones is the principal author of numerous books including Conflict of Interest, The Cooper & Lybrand Guide to Growing Your Business, The Emerging Business and The Bankers Guide to Audit Reports and Financial Statements. From April 1974 to September 1995, Mr. Jones was a senior partner of the accounting firm of Coopers and Lybrand, a legacy firm of PriceWaterhouseCoopers LLP. Professor Jones is a certified public accountant in New York State. Professor Jones received a B.A. in economics from City College, City University of New York, and an M.B.A. from NYU Stern.

Robert S. Ehrlich has been our Chairman of the Board since January 1993 and our Chief Executive Officer since October 2002. . From May 1991 until January 1993, Mr. Ehrlich was our Vice Chairman of the Board, from May

1991 until October 2002 he was our Chief Financial Officer, and from October 2002 until December 2005, Mr. Ehrlich also held the title of President. Mr. Ehrlich was a director of

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Eldat, Ltd., an Israeli manufacturer of electronic shelf labels, from June 1999 to August 2003. From 1987 to June 2003, Mr. Ehrlich served as a director of PSCX and, between April 1997 and June 2003, Mr. Ehrlich was the chairman of the board of PSCX. Mr. Ehrlich received a B.S. and J.D. from Columbia University in New York, New York.

Class III Directors

Edward J. Borey has been one of our directors since December 2003. From July 2004 until October 2006, Mr. Borey served as Chairman and Chief Executive Officer of WatchGuard Technologies, Inc., a leading provider of network security solutions (NasdaqGM: WGRD). From December 2000 to September 2003, Mr. Borey served as President, Chief Executive Officer and a director of PSCX. Prior to joining PSCX, Mr. Borey was President and CEO of TranSenda (May 2000 to December 2000). Previously, Mr. Borey held senior positions in the automated data collection industry. At Intermec Technologies Corporation (1995-1999), he was Executive Vice President and Chief Operating Officer and also Senior Vice President/General Manager of the Intermec Media subsidiary. Mr. Borey holds a B.S. in Economics from the State University of New York, College of Oswego, an M.A. in Public Administration from the University of Oklahoma, and an M.B.A. in Finance from Santa Clara University.

Elliot Sloyer has been one of our directors since October 2007. Mr. Sloyer is a Managing Member of WestLane Capital Management LLC, which he founded in 2005. From 1992 until 2005, Mr. Sloyer was a founder and Managing Director of Harbor Capital Management LLC, which managed convertible arbitrage portfolios. Mr. Sloyer is active in community organizations and currently serves on the investment committee of a charitable organization. Mr. Sloyer has a B.A. from New York University.

Vote Required

Directors will be elected by a plurality of the votes cast by the holders of our common stock voting in person or by proxy at the annual meeting. Abstentions and broker non-votes will each be counted as present for purposes of determining the presence of a quorum, but will have no effect on the vote for election of directors.

The Board of Directors Recommends a Vote FOR Election
of the Class I Nominees Described Above

PROPOSAL NUMBER 2

AMENDING ARTICLE FOUR OF OUR AMENDED AND RESTATED CERTIFICATE OF
INCORPORATION TO REDUCE OUR AUTHORIZED COMMON
STOCK FROM 250,000,000 SHARES TO 50,000,000 SHARES.

Background

Our Board has approved and recommended for stockholder approval a proposed amendment to Article Four of our Amended and Restated Certificate of Incorporation (our "Certificate") to reduce the number of shares of common stock that we are authorized to issue from 250,000,000 to 50,000,000. The Board has directed that the proposed amendment be submitted to a vote of our stockholders at the annual meeting.

Our Certificate currently authorizes 251,000,000 shares of capital stock, consisting of 250,000,000 shares of common stock, $0.01 par value, and 1,000,000 shares of preferred stock, $0.01 par value. The proposed amendment would reduce the authorized common stock to 50,000,000 shares. The holders of common stock are entitled to (i) one vote for each share of common stock registered in the name of such holder, (ii) receive dividends on their shares of stock when and as declared by the Board, and (iii) in the event of liquidation, dissolution or the winding up of our affairs, share pro rata in the net assets available

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for distribution to holders of common stock after satisfaction of the prior claims of the holders of preferred stock of any series or any shares of any other class of capital stock ranking senior to the common stock as to assets, in accordance with our Certificate.

Text of the Amendment

If this proposal is adopted, the amended portion of Article Four of our Certificate will read as follows:

FOUR: The total number of shares of all classes of stock which the corporation shall have authority to issue is fifty-one million (51,000,000) consisting of two classes of shares designated as follows:

A. Fifty million (50,000,000) shares of common stock, $0.01 par value (the “Common Stock”); and

B. One million (1,000,000) shares of preferred stock, $0.01 par value (the “Preferred Stock”).

Reasons for Seeking Stockholder Approval

The reason for this proposal is to effect a significant saving in the amount of franchise tax that the Company must pay each year in Delaware. We pay franchise tax in Delaware based, in part, on the number of shares of our common stock and preferred stock that are authorized in our Certificate. Based on the authorized shares currently provided in our Certificate, we have been paying franchise tax in the amount of $165,000 per year, which is the maximum franchise tax payable in Delaware. By reducing the authorized number of shares as proposed, we anticipate that our annual franchise tax would be reduced by approximately $81,500.

As of April 21, 2009, there were 14,268,742 shares of common stock issued and outstanding, an additional 244,223 shares were reserved for issuance under our stock option plans and an additional 2,742,879 shares were reserved for issuance upon exercise of outstanding warrants and convertible debt. There were also 67,792 shares of common stock beneficially owned by us that were treasury shares and that were therefore not deemed to be issued and outstanding. On that date there were no shares of preferred stock outstanding. The Board believes that the new reduced level of authorized shares will be adequate to cover requirements in the foreseeable future. In the event that additional authorized shares are needed in the future, the stockholders will then be asked to approve an amendment to our Certificate to increase the authorized shares to the level needed at that time.

Board Recommendation

Our Board of Directors has determined that is in the best interests of Arotech and its stockholders to approve the proposal amending our Certificate to reduce our authorized common stock from 250,000,000 shares to 50,000,000 shares. Accordingly, our Board of Directors unanimously recommends that you vote “FOR” the proposal.

Vote Required

Since this is an amendment to our certificate of incorporation, under Delaware law the affirmative vote of the holders of a majority of the outstanding shares of our common stock entitled to vote on this proposal will be required for approval of this proposal. As a result, abstentions and broker non-votes will have the effect of votes against the proposal.

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The Board of Directors Unanimously Recommends a vote FOR
the Proposed Amendment to Article Four of Our Amended
and Restated Certificate of Incorporation
Reducing Our Authorized Common Stock
from 250,000,000 Shares to 50,000,000 Shares.

PROPOSAL NUMBER 3

AMENDING OUR AMENDED AND RESTATED CERTIFICATE OF INCORPORATION TO ENABLE THE BOARD OF DIRECTORS TO MAKE, AMEND AND REPEAL OUR BY-LAWS

Background

Our Board has approved and recommended for stockholder approval a proposed amendment to our Certificate to authorize the Board to make, amend and repeal our by-laws.

Reasons for Seeking Stockholder Approval

Section 109 of the Delaware General Corporation Law provides that in order for a board or directors to have the power to adopt, amend or repeal by-laws of a corporation, the certificate of incorporation of the corporation must include a provision conferring such powers upon the board of directors. Absent such a provision, the by-laws of a corporation may be adopted, amended or repealed only by the stockholders.

Our Certificate currently does not permit our Board to make, amend or repeal our by-laws. If adopted, this proposal would by adopting a new Article Seven G to our Certificate enable the Board, in addition to and not instead of the stockholders, to make, amend or repeal our by-laws under Delaware law. Further, any further amendment or repeal of Article Seven G would require a majority vote of the Board of Directors and the affirmative vote of at least 66 2/3% of all stockholders of the then outstanding shares of capital stock.

The certificates of incorporation of many public companies authorize their boards of directors to adopt, amend or repeal the by-laws. This authority allows the boards of directors of these companies to make changes to and update the by-laws in a quick and flexible manner without requiring stockholder approval. Even with this amendment, the stockholders always have the power to adopt, amend or repeal the by-laws.

By-laws typically provide rules and procedures for managing the business and affairs of the corporation, such as calling and providing notice of meetings of stockholders, quorum and voting requirements, voting and inspection procedures, number and term of directors, nomination procedures for election of persons to the board of directors, filling vacancies on the board and appointment of officers and officers' duties. From time to time, it may be desirable or necessary to add to or change by-law provisions to reflect changes in our practices or to reflect changes in applicable law. Granting our Board the power to amend our by-laws will allow the Board to effect such change in a more efficient, cost-effective manner without the necessity of incurring the expense and time delay of a stockholder meeting.

Effect of Stockholder Approval

The proposed amendment to Article Seven of our Certificate may have anti-takeover effects. Our current by-laws and our current Certificate contain certain provisions with potential anti-takeover effects. In addition, Delaware law permits adoption of additional measures designed to reduce a corporation's vulnerability to hostile takeover attempts. Many of these measures or other changes altering the rights of

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stockholders and powers of management could be implemented in the future by amendment of our by-laws.

This proposal is not the result of the Board's knowledge of any specific current effort to obtain control of Arotech by means of a merger, tender offer, proxy solicitation in opposition to management or otherwise. We are not submitting this proposal to enable us to frustrate any efforts by another party to acquire a controlling interest in us or to seek Board representation.

However, if this proposal is adopted, then our Board could amend, and subsequently adopt without stockholder approval, the by-laws in the future to include, without limitation, any or all of the following provisions: requiring a supermajority vote of the Board and/or the stockholders to amend any by-law provision designed to reduce our vulnerability to hostile takeover attempts, including any amendment of our staggered Board provision; and/or requiring a supermajority vote of the stockholders or directors to increase the size of the Board or fill vacancies on the Board. These types of provisions, if adopted, could have the effect of discouraging or delaying a third party from making a tender offer or otherwise attempting to obtain control of Arotech or remove incumbent management.

Text of the Amendment

If this proposal is approved, Article Seven G of our Certificate will read in its entirety as follows:

"G. In furtherance and not in limitation of the powers conferred upon the stockholders of the corporation by statute, the Board of Directors is expressly authorized to make, amend and repeal the by-laws of the corporation. Notwithstanding any provision of this Amended and Restated Certificate of Incorporation to the contrary, the approval by a majority vote of the full Board of Directors of the corporation and the affirmative vote of at least sixty-six and two-thirds percent (66-2/3%) of the votes which all stockholders of the then outstanding shares of capital stock of the corporation would be entitled to vote thereon, voting together as a single class, shall be required to amend or repeal this Article Seven G."

Board Recommendation

Our Board of Directors has determined that is in the best interests of Arotech and its stockholders to approve the proposal allowing the Board to make, amend and repeal by-laws. Accordingly, our Board of Directors unanimously recommends that you vote "FOR" the proposal.

Vote Required

Since this is an amendment to our certificate of incorporation, under Delaware law the affirmative vote of the holders of a majority of the outstanding shares of our common stock entitled to vote on this proposal will be required for approval of this proposal. As a result, abstentions and broker non-votes will have the effect of votes against the proposal.

The Board of Directors Unanimously Recommends a Vote FOR the Proposed Amendment
to Article Seven of Our Certificate of Incorporation Enabling
the Board of Directors to Make, Amend and Repeal Our By-Laws.

PROPOSAL NUMBER 4

AMENDING OUR AMENDED AND RESTATED CERTIFICATE OF INCORPORATION TO ELECT TO BE GOVERNED BY SECTION 203 OF THE DELAWARE GENERAL CORPORATION LAW

Background

Our Board has approved and recommended for stockholder approval a proposed amendment to our Certificate revising Article Six to provide that we will be governed by Section 203 of the Delaware General Corporation Law (the "DGCL"). Under Section 203 of the DGCL, certain business combinations with interested stockholders of Delaware corporations are subject to a three-year moratorium unless specified conditions are met. The proposed amendment to opt into the provisions of Section 203 is not prompted by any specific takeover effort currently perceived by the Board of Directors.

Description of Section 203 of the DGCL

Section 203 of the DGCL provides that, subject to certain exceptions specified therein, a corporation shall not engage in any business combination with any "interested stockholder" for a three-year period following the date that such stockholder becomes an interested stockholder unless (i) prior to such date, the board of directors of the corporation approved either the business combination or the transaction which resulted in the stockholder becoming an interested stockholder, (ii) upon consummation of the transaction which resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced (excluding shares held by directors who are also officers and employee stock purchase plans in which employee participants do not have the right to determine confidentially whether plan shares will be tendered in a tender or exchange offer) or (iii) on or subsequent to such date, the business combination is approved by the board of directors of the corporation and by the affirmative vote at an annual or special meeting, and not by written consent, of at least 66-2/3% of the outstanding voting stock which is not owned by the interested stockholder. Except as specified in Section 203 of the DGCL, an interested stockholder is defined to include (a) any person that is the owner of 15% or more of the outstanding voting stock of the corporation (including any rights to acquire stock pursuant to an option, warrant, agreement, arrangement or understanding, or upon the exercise of conversion or exchange rights, and stock with respect to which the person has voting rights only) or is an affiliate or associate of the corporation and was the owner of 15% or more of the outstanding voting stock of the corporation, at any time within three years immediately prior to the relevant date and (b) the affiliates and associates of any such person.

Under certain circumstances, Section 203 of the DGCL may make it more difficult for a person who would be an "interested stockholder" to effect various business combinations with a corporation for a three-year period. It is anticipated that the provisions of Section 203 of the DGCL may encourage persons or companies interested in acquiring us to negotiate in advance with our Board of Directors, since the stockholder approval requirement would be avoided if a majority of the directors then in office approve either the business combination or the transaction which results in the stockholder becoming an interested stockholder.

Reasons for Seeking Stockholder Approval

Article Six of our Certificate, as currently in effect, specifically opts out of the provisions of Section 203 of the DGCL. Now, however, our Board of Directors has carefully considered the potential adverse effects of being subject

to the provisions of Section 203 described above and has unanimously concluded that any adverse effects of Section 203 are substantially outweighed by the increased protection which the statute will afford our stockholders.

We believe it is in our best interest for Section 203 to apply to it because it will encourage any potential acquirer to negotiate with our Board of Directors and will reduce the likelihood of a hostile takeover. Section 203 also might have the effect of limiting the ability of a potential acquirer to make a two-tiered bid for us in which all stockholders would not be treated equally. The application of Section 203 to us will confer upon the Board of Directors the power to reject a proposed business combination in certain circumstances, even though a potential acquirer may be offering a premium for our capital stock or assets over the then-current market price. Section 203 may also discourage potential acquirers that are unwilling to comply with its provisions. Section 203 should not interfere with any merger or business combination approved by the Board of Directors. A substantial number of public companies are governed by Section 203 of the DGCL, and we believe that such election is consistent with good principles of corporate governance and is appropriate for widely-held public companies incorporated in Delaware that do not have a controlling stockholder.

Effect of Stockholder Approval

Upon approval of the proposal to amend our Certificate in accordance with Section 203(b) of the DGCL, “business combinations” with “interested stockholders” after the amendment becomes effective will be conditioned upon satisfaction of the provisions of Section 203 of the DGCL.

The provisions of Section 203 are designed to discourage or make more difficult a takeover or acquisition of control by interested stockholders without obtaining the consent of our Board of Directors and our stockholders. This provision, however, also could deprive stockholders of possible opportunities to realize a premium for their shares and reduce the risk to management that it might be displaced by a takeover.

Any amendment, alteration or repeal of proposed Article Six after it is adopted by our stockholders will require the affirmative vote of the holders of at least 66 2/3% of the combined voting power of all issued and outstanding shares of our voting stock, voting together as a single class.

Text of the Amendment

If this proposal is approved, Article Six of our Certificate will be deleted in its entirely and a new Article Six will be added to our Certificate as follows:

“SIX: The corporation expressly elects to be governed by Section 203 of the General Corporation Law of the State of Delaware. Any amendment, alteration or repeal of this Article Six will require the affirmative vote of the holders of at least 66 2/3% of the combined voting power of all issued and outstanding shares of the corporation’s voting stock, voting together as a single class.”

Board Recommendation

Our Board of Directors has determined that is in the best interests of Arotech and its stockholders to approve the proposal amending our Certificate to provide that we will be governed by Section 203 of the DGCL. Accordingly, our Board of Directors unanimously recommends that you vote “FOR” the proposal.

Vote Required

Since this is an amendment to our certificate of incorporation, under Delaware law the affirmative vote of the holders of a majority of the outstanding shares of our common stock entitled to vote on this proposal will be required for

approval of this proposal. As a result, abstentions and broker non-votes will have the effect of votes against the proposal.

The Board of Directors Unanimously Recommends a Vote FOR
Amending Our Certificate of Incorporation to
Elect to be Governed by Section 203 of the
Delaware General Corporation Law.

PROPOSAL NUMBER 5

APPROVAL OF THE 2009 EQUITY INCENTIVE PLAN AND
RATIFICATION OF CERTAIN PREVIOUS GRANTS OF RESTRICTED STOCK

General

The Board of Directors has adopted the 2009 Equity Incentive Plan (the "2009 Plan"), subject to its approval by our stockholders.

The Board believes that long-term incentive compensation programs align the interests of management, employees and the stockholders to create long-term stockholder value. The Board believes that plans such as the 2009 Plan increase our ability to achieve this objective, and, by allowing for several different forms of long-term incentive awards, help us to recruit, reward, motivate and retain talented personnel. The Board believes strongly that the approval of the 2009 Plan is essential to our continued success. In particular, the Board believes that our employees are our most valuable assets and that the awards permitted under the 2009 Plan are vital to our ability to attract and retain outstanding and highly skilled individuals in the extremely competitive labor markets in which we compete. Such awards also are crucial to our ability to motivate employees to achieve our goals.

Additionally, our current equity compensation plans for employees have all either expired or have no more shares reserved for issuance under them, making it imperative that we adopt a new plan. As part of this proposal, we are asking stockholders to ratify certain previous grants of restricted stock that were made to certain management-level officers and employees in 2006 and 2007 for a total of 2,412,740 shares of restricted common stock, as explained in further detail below. Ratification of these grants as proposed will result in bringing them under the 2009 Plan.

Purpose of the 2009 Plan

The 2009 Plan will allow us to make broad-based grants of stock options (nonstatutory and incentive), stock appreciation rights, restricted stock, restricted stock units, performance units and performance shares to employees, non-employee directors and consultants as key elements of compensation. The 2009 Plan will be administered by a committee appointed by the Board, in accordance with the provisions contained in the 2009 Plan.

Description of the Equity Incentive Plan

The following description of the principal terms of the 2009 Plan is a summary and is qualified in its entirety by the full text of the 2009 Plan, which is attached as Appendix B hereto.

Administration. The 2009 Plan provides that it may be administered by the Board of Directors or by one or more committees appointed by the Board of Directors (as the case may be, the "Administrator"). The Board has appointed the

Compensation Committee to administer the 2009 Plan.

The 2009 Plan was adopted by the Board, subject to stockholder approval, on April 20, 2009 and has a term of ten years measured from the date of stockholder approval. Accordingly, no grants may be made under the 2009 after the ten-year anniversary of the date of stockholder approval, but the 2009 Plan will continue thereafter while previously granted options, rights and awards remain subject to the 2009 Plan.

Types of Options and other Awards. The 2009 Plan authorizes the Administrator to grant options ("Options") that are Incentive Stock Options within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended (the "Code"), Nonstatutory Stock Options or a combination of both. In addition, the 2009 Plan authorizes the Administrator to grant Stock Appreciation Rights ("SARs"), and Restricted and Unrestricted Stock Awards ("Awards").

Eligibility. All our and our affiliates' officers, employees and consultants are eligible to receive Options, SARs, and Awards under the 2009 Plan (approximately 450 persons as of March 31, 2009). An employee who also serves as a director is eligible to receive Options, SARs and Awards under the 2009 Plan. Grants of Options, SARs, and Awards under the 2009 Plan are discretionary, and we are, except to the extent indicated below with respect to ratification of previous grants, unable, at the present time, to determine the identity or number of directors, officers and other employees who may be granted Options, SARs, and Awards under the 2009 Plan in the future.

Shares Subject to the 2009 Plan. Subject to adjustments set forth in the 2009 Plan, the aggregate number of shares of common stock available for issuance in connection with all Options, SARs, and Awards granted to employees and consultants under the 2009 Plan will be 5,000,000, in each case subject to customary adjustments for stock splits, stock dividends or similar transactions. Incentive Stock Options may be granted under the 2009 Plan with respect to all of those shares.

If any Option, SAR or Award granted under the 2009 Plan terminates without having been exercised in full or if any Award is forfeited, the number of shares of common stock as to which such Option or SAR was not exercised or Award has been forfeited shall be available for future grants within certain limits under the 2009 Plan. No employee, director or consultant may receive Options or SARs relating to more than 1,000,000 shares of common stock in the aggregate in any year.

Terms and Conditions of Options. The Administrator determines the exercise price of Options granted under the 2009 Plan. The exercise price of Options may not be less than the fair market value, on the date of grant, per share of common stock issuable upon exercise of the Option (or 110% of fair market value in the case of Incentive Stock Options granted to a ten-percent stockholder

If on the date of grant the common stock is listed on a stock exchange or is quoted on the automated quotation system of Nasdaq, the fair market value shall generally be the closing sale price on the date of grant (or, if no trades were made on the date of grant, for the last trading day before the date of grant). If no such prices are available, the fair market value shall be determined in good faith by the Administrator based on the reasonable application of a reasonable valuation method. On April 16, 2009, the closing sale price of a share of common stock on the Nasdaq Global Market was $0.73.

No option may be exercisable for more than ten years (five years in the case of an Incentive Stock Option granted to a ten-percent stockholder) from the date of grant. Options issued under the 2009 Plan will be exercisable at such time or times as the Administrator prescribes at the time of grant. No employee may receive Incentive Stock Options that first become exercisable in any calendar year in an amount exceeding $100,000.

Generally, the option price may be paid (a) in cash or by certified check, (b) through delivery of shares of common stock having a fair market value equal to the purchase price, or (c) a combination of these methods. The Administrator also is authorized to establish a cashless exercise program.

No Option may be transferred other than by will or by the laws of descent and distribution, and during a recipient's lifetime an Option may be exercised only by the recipient. Unless otherwise provided by the Administrator, Options

that are exercisable at the time of a recipient's termination of service with us will continue to be exercisable for three months, unless the optionee terminates employment or service

with us due to death, disability or retirement in which case the Option will be exercisable for a period of one year, or for cause, in which case the Option will cease to be exercisable upon termination.

Stock Awards. The Administrator also may grant an Award of restricted stock, restricted stock units ("Restricted Stock Units") or unrestricted stock to any eligible employee, consultant or director. Under a restricted stock Award, shares of common stock that are the subject of the Award are generally subject to forfeiture to the extent that the recipient terminates service with us prior to the Award having vested or if the performance goals established by the Administrator as a condition of vesting are not achieved. Shares of common stock subject to a restricted stock Award cannot be sold, transferred, assigned, pledged or otherwise encumbered or disposed of by the recipient of the award unless and until the applicable restrictions lapse. Unless otherwise determined by the Administrator, holders of restricted shares will have the right to vote such shares and to receive any cash dividends with respect thereto during the restriction period. Any stock dividends will be subject to the same restrictions as the underlying shares of restricted stock.

Under a Restricted Stock Unit Award, Restricted Stock Units that are the subject of the Award are generally subject to forfeiture to the extent that the recipient terminates service with us prior to the Award having vested or if the performance goals established by the Administrator as a condition of vesting are not achieved. To the extent that the Award of Restricted Stock Units vests, the recipient shall become entitled to receive a number of shares of common stock equal to the number of Restricted Stock Units that became vested. Restricted Stock Units cannot be sold, transferred, assigned, pledged or otherwise encumbered or disposed of by the recipient of the award and during a recipient's lifetime may be exercised only by the recipient. Prior to the delivery of shares of common stock with respect to an Award of Restricted Stock Units, the recipient shall have no rights as a shareholder of the Company.

Unrestricted stock Awards are grants of shares of common stock that are not subject to forfeiture.

To the extent that the Administrator grants Awards that are subject to the satisfaction of performance goals specified by the Administrator ("Performance Awards"), the Administrator shall establish the specified levels of performance goals. Performance goals may be weighted for different factors and measures. The Administrator will have discretion to make adjustments to a Performance Award in certain circumstances, such as when a person is promoted into a position of eligibility for a Performance Award, is transferred between eligible positions with different performance goals, terminates employment and is subsequently rehired, takes a leave of absence, or other similar circumstances deemed appropriate by the Administrator. The Administrator may also increase or decrease an Award to any individual, except that, an Award intended to be "qualified performance-based compensation" for purposes of Section 162(m) of the Code, may not be increased. The Administrator will certify the degree of attainment of performance goals after the end of each year.

If Awards are intended to satisfy the conditions for deductibility under Section 162(m) of the Code as "performance-based compensation," the performance criteria will be selected from among the following, which may be applied to us as a whole, or to an individual recipient, or to a department, unit, division or function within our company or an affiliate, and they may apply on a pre- or post-tax basis, either alone or relative to the performance of other businesses or individuals (including industry or general market indices): (a) earnings (either in the aggregate or on a per-share basis, reflecting dilution of shares as the Administrator deems appropriate and, if the Administrator so determines, net of or including dividends) before or after interest and taxes ("EBIT") or before or after interest, taxes, depreciation, and amortization ("EBITDA"); (b) gross or net revenue or changes in annual revenues; (c) cash flow(s) (including either operating or net cash flows); (d) financial return ratios; (e) total stockholder return, stockholder return based on growth measures or the attainment by the shares of a specified value for a specified period of time, share price, or share price appreciation; (f) earnings growth or growth in earnings per share; (g)

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return measures, including return or net return on assets, net assets, equity, capital, investment, or gross sales; (h) adjusted pre-tax margin; (i) pre-tax profits; (j) operating margins; (k) operating profits; (l) operating expenses; (m) dividends; (n) net income or net operating income; (o) growth in operating earnings or growth in earnings per share; (p) value of assets; (q) market share or market penetration with respect to specific designated products or product groups and/or specific geographic areas; (r) aggregate product price and other product measures; (s) expense or cost levels, in each case, where applicable, determined either on a company-wide basis or in respect of any one or more specified divisions; (t) reduction of losses, loss ratios or expense ratios; (u) reduction in fixed costs; (v) operating cost management; (w) cost of capital; (x) debt reduction; (y) productivity improvements; (z) average inventory turnover; or (aa) satisfaction of specified business expansion goals or goals relating to acquisitions or divestitures.

Stock Appreciation Rights. An SAR may be granted by the Administrator either alone, or in tandem with, Options or other Awards under the 2009 Plan. An SAR shall relate to such number of shares of common stock as the Administrator determines. Each SAR will have an exercise period determined by the Administrator not to exceed ten years from the date of grant. Upon exercise of an SAR, the holder will receive a number of shares of common stock equal to (i) the number of shares for which the SAR is exercised times the appreciation in the fair market value of a share of common stock between the date the SAR was granted and its date of exercise; divided by (ii) the fair market value of a share of common stock on the date that the SAR is exercised.

Effect of Certain Corporate Transactions. In the event that we liquidate or dissolve, to the extent not previously exercised or settled, and unless otherwise determined by the Administrator, Options and SARs shall terminate immediately prior to the liquidation or dissolution. In the event that we merge or consolidate with another corporation, or if we sell substantially all of our assets (any of the foregoing, a “Corporate Transaction”), then except as otherwise provided in the applicable grant agreement, each Option or SAR will either be assumed or substituted by the successor corporation. If the successor corporation refuses to assume the Options and/or SARs, the Options and/or SARs will become fully vested and exercisable for a specified period, and then terminate. In the event of a Corporate Transaction in which the successor corporation does not assume or substitute each outstanding Award, unless otherwise provided in the Award agreement, all vesting periods and conditions under the Award will be deemed to be satisfied.

Amendment, Termination. The 2009 Plan may be amended or terminated at any time by the Board, except that no amendment may be made without shareholder approval if such approval is required by Rule 16b-3 promulgated under the Securities Exchange Act of 1934, as amended, or other applicable law, and no amendment or revision may alter or impair an outstanding Option, SAR or Award without the consent of the holder thereof.

Federal Income Consequences

Following is a summary of the federal income tax consequences of Option and other grants under the 2009 Plan. Optionees and recipients of SARs and/or Awards granted under the 2009 Plan are advised to consult their personal tax advisors before exercising an Option, SAR or Award or disposing of any stock received pursuant to the exercise of an Option, SAR or Award. In addition, the following summary is based upon an analysis of the Code as currently in effect, existing laws, judicial decisions, administrative rulings, regulations and proposed regulations, all of which are subject to change and does not address state, local or other tax laws.

Nothing contained in this discussion of certain federal income tax considerations is intended or written to be used, and cannot be used, for the purpose of (i) avoiding tax-related penalties under the Internal Revenue Code or (ii) promoting, marketing, or recommending to another party any transactions or tax-related matters addressed herein.

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Treatment of Options

The Code treats Incentive Stock Options and Nonstatutory Stock Options differently. However, as to both types of Options, no income will be recognized to the optionee at the time of the grant of the options under the 2009 Plan, nor will we be entitled to a tax deduction at that time.

Generally, upon exercise of a Nonstatutory Stock Option, an optionee will recognize ordinary income tax on the excess of the fair market value of the stock on the exercise date over the option price. We will be entitled to a tax deduction in an amount equal to the ordinary income recognized by the optionee in the fiscal year which includes the end of the optionee's taxable year. We will be required to satisfy applicable withholding requirements in order to be entitled to a tax deduction. In general, if an optionee, in exercising a Nonstatutory Stock Option, tenders shares of our common stock in partial or full payment of the option price, no gain or loss will be recognized on the tender. However, if the tendered shares were previously acquired upon the exercise of an Incentive Stock Option and the tender is within two years from the date of grant or one year after the date of exercise of the Incentive Stock Option, the tender will be a disqualifying disposition of the shares acquired upon exercise of the Incentive Stock Option.

For Incentive Stock Options, there is no taxable income to an optionee at the time of exercise. However, the excess of the fair market value of the stock on the date of exercise over the exercise price will be taken into account in determining whether the "alternative minimum tax" will apply for the year of exercise. If the shares acquired upon exercise are held until at least two years from the date of grant and more than one year from the date of exercise, any gain or loss upon the sale of such shares, if held as capital assets, will be long-term capital gain or loss (measured by the difference between the sales price of the stock and the exercise price). Under current federal income tax law, a long-term capital gain will be taxed at a rate which is less than the maximum rate of tax on ordinary income. If the two-year and one year holding period requirements are not met (a "disqualifying disposition"), an optionee will recognize ordinary income in the year of disposition in an amount equal to the lesser of (i) the fair market value of the stock on the date of exercise minus the exercise price or (ii) the amount realized on disposition minus the exercise price. The remainder of the gain will be treated as long-term capital gain, depending upon whether the stock has been held for more than a year. If an optionee makes a disqualifying disposition, we will be entitled to a tax deduction equal to the amount of ordinary income recognized by the optionee.

In general, if an optionee, in exercising an Incentive Stock Option, tenders shares of common stock in partial or full payment of the option price, no gain or loss will be recognized on the tender. However, if the tendered shares were previously acquired upon the exercise of another incentive stock option and the tender is within two years from the date of grant or one year after the date of exercise of the other option, the tender will be a disqualifying disposition of the shares acquired upon exercise of the other option.

As noted above, the exercise of an Incentive Stock Option could subject an optionee to the alternative minimum tax. The application of the alternative minimum tax to any particular optionee depends upon the particular facts and circumstances which exist with respect to the optionee in the year of exercise. However, as a general rule, the amount by which the fair market value of the common stock on the date of exercise of an option exceeds the exercise price of the option will constitute an item of "adjustment" for purposes of determining the alternative minimum taxable income on which the alternative tax may be imposed. As such, this item will enter into the tax base on which the alternative minimum tax is computed, and may therefore cause the alternative minimum tax to become applicable in any given year.

Generally, options granted with a per share exercise price no less than 100% of the fair market value of the common stock as of the date of grant are not subject to "additional taxes" under Code Section 409A. However, options with a

lower exercise price may be subject to Code Section 409A, and the re-

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cipients of such options may become subject to a 20% “additional tax” that may be imposed as of the date of grant, whether or not the option is exercised. Recipients of options with an exercise price less than 100% of the fair market value of the common stock as of the date of grant are urged to consult with their personal tax or legal advisor.

Treatment of Stock Awards

Generally, absent an election to be taxed currently under Section 83(b) of the Code (a “Section 83(b) Election”), there will be no federal income tax consequences to either the recipient or us upon the grant of a restricted stock Award. At the expiration of the restriction period and the satisfaction of any other restrictions applicable to the restricted shares, the recipient will recognize ordinary income and we generally will be entitled to a corresponding deduction equal to the fair market value of the common stock at that time. If a Section 83(b) Election is made within 30 days after the date the restricted stock Award is granted, the recipient will recognize an amount of ordinary income at the time of the receipt of the restricted shares, and we generally will be entitled to a corresponding deduction, equal to the fair market value (determined without regard to applicable restrictions) of the shares at such time. If a Section 83(b) Election is made, no additional income will be recognized by the recipient upon the lapse of restrictions on the shares (and prior to the sale of such shares), but, if the shares are subsequently forfeited, the recipient may not deduct the income that was recognized pursuant to the Section 83(b) Election at the time of the receipt of the shares.

The recipient of a Restricted Stock Unit Award will recognize ordinary income as and when the units vest. The amount of the income will be equal to the fair market value of the shares of the common stock issued at that time, and the Company will be entitled to a corresponding deduction. The recipient of a Restricted Stock Unit Award will not be permitted to make a Section 83(b) Election with respect to such Award.

The recipient of an Unrestricted Stock Award will recognize ordinary income, and we generally will be entitled to a corresponding deduction, equal to the fair market value of the common stock at the time the Award is made.

Treatment of Stock Appreciation Rights

Generally, the recipient of a SAR will not recognize any income upon grant of the SAR, nor will we be entitled to a deduction at that time. Upon exercise of the SAR, the holder will recognize ordinary income, and we generally will be entitled to a corresponding deduction, equal to the fair market value of the common stock at that time.

Potential Limitation on Company Deductions

Code Section 162(m) denies a deduction to any publicly held corporation for compensation paid to certain “covered employees” in a taxable year to the extent that compensation exceeds $1 million for a covered employee. It is possible that compensation attributable to Options granted in the future under the 2009 Plan, when combined with all other types of compensation received by a covered employee from us, may cause this limitation to be exceeded in any particular year. Certain kinds of compensation, including qualified “performance-based compensation,” are disregarded for purposes of the deduction limitation. In accordance with Treasury regulations issued under Code Section 162(m), compensation attributable to options will qualify as performance-based compensation, provided that: (i) the stock award plan contains a per-employee limitation on the number of shares for which stock options may be granted during a specified period; (ii) the per-employee limitation is approved by the stockholders; (iii) the award is granted by a compensation committee comprised solely of “outside directors”; and (iv) the exercise price of the award is no less than the fair market value of the stock on the date of grant.

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Tax Withholding

We, as and when appropriate, shall have the right to require each optionee purchasing shares of common stock and each grantee receiving an Award of shares of common stock to pay any federal, state or local taxes required by law to be withheld, or in the case of stock Awards to issue stock net of tax withholding.

Section 409A

Section 409A of the Code provides certain requirements with respect to non-qualified deferred compensation arrangements. These include requirements with respect to an individual's election to defer compensation and the timing and form of distribution of the deferred compensation. Section 409A also generally provides that distributions must be made on or following the occurrence of certain events (e.g., the individual's separation from service, a predetermined date, or the individual's death). Section 409A imposes restrictions on an individual's ability to change his or her distribution timing or form after the compensation has been deferred. For certain individuals who are officers, Section 409A generally requires that such individual's distribution commence no earlier than six months after such officer's separation from service.

Awards granted under the Plan with a deferral feature may be subject to the requirements of Section 409A. If an Award is subject to and fails to satisfy the requirements of Section 409A, the recipient of that Award will recognize ordinary income on the amounts deferred under the Award, to the extent vested, which may be prior to when the compensation is actually or constructively received. Also, if an Award that is subject to Section 409A fails to comply with Section 409A's provisions, Section 409A imposes an additional 20% federal income tax on compensation recognized as ordinary income, as well as possible interest charges and penalties. Certain states have enacted laws similar to Section 409A which impose additional taxes, interest and penalties on non-qualified deferred compensation arrangements. We will also have withholding and reporting requirements with respect to such amounts.

THE FOREGOING IS ONLY A SUMMARY OF THE EFFECT OF U.S. FEDERAL INCOME TAXATION UPON PARTICIPANTS AND US WITH RESPECT TO THE GRANT AND EXERCISE OF AWARDS UNDER THE 2009 PLAN. IT DOES NOT PURPORT TO BE COMPLETE, AND DOES NOT DISCUSS THE TAX CONSEQUENCES OF A PARTICIPANT'S DEATH OR THE PROVISIONS OF THE INCOME TAX LAWS OF ANY MUNICIPALITY, STATE OR FOREIGN COUNTRY IN WHICH THE PARTICIPANT MAY RESIDE.

Ratification of Certain Previous Restricted Stock Grants

This proposal also seeks ratification of certain previous grants of restricted stock ("Previous Grants") that were made to certain management-level officers and employees for a total of 2,412,740 shares of restricted common stock. Ratification of these grants as proposed will result in bringing them under the 2009 Plan. If this proposal is approved, we will issue new restricted stock grant agreements to the recipients in place of the existing agreements on substantially similar vesting and other terms as the existing agreements, and such grants will be subject to the 2009 Plan. As a result, the number of shares reserved for issuance under the 2009 Plan will be reduced by the number granted (2,412,740).

The following table identifies by name those of our executive officers who are recipients of Previous Grants and as a group all non-executive officers who were recipients of Previous Grants, as well as indicating the aggregate number of shares granted to each recipient These grants are generally subject to forfeiture to the extent (i) the recipient's service is terminated prior to the grant becoming vested and exercisable and/or (ii) the recipient fails to satisfy certain performance goals established by the Compensation Committee of the Board of Directors.

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Name	Aggregate Number of Shares
Robert S. Ehrlich	848,767(1)
Steven Esses	633,973(2)
Thomas J. Paup	150,000
All non-executive officers as a group	420,000
TOTAL	2,412,740

(1) On April 19, 2009, we agreed with our Chairman and Chief Executive Officer, Mr. Robert S. Ehrlich, to modify Mr. Ehrlich's employment agreement. Under the terms of Mr. Ehrlich's employment agreement, we were obligated to pre-fund Mr. Ehrlich's severance into a trust, in cash. Mr. Ehrlich has in the past waived this obligation. By agreement with Mr. Ehrlich, we funded $240,000 of Mr. Ehrlich's severance package in shares of our stock rather than in cash, to be held in a trust until such time as Mr. Ehrlich shall be entitled to payment of his severance package. Based on the closing price of our stock ($0.73) on the Nasdaq Stock Market on April 17, 2009 (the date on which our Board of Directors and Mr. Ehrlich agreed to this arrangement), it was agreed that a total of 328,767 shares would be issued and given over to the trust, to remain there until such time as Mr. Ehrlich shall be entitled to his severance package pursuant to the terms of his employment agreement. The economic risk of gain or loss on these shares is to be borne by Mr. Ehrlich. Should Mr. Ehrlich leave our employ under circumstances in which he is not entitled to his severance package (primarily, termination for Cause as defined in his employment agreement), these shares would be returned to us for cancelation.

(2) On April 19, 2009, we agreed with our President and Chief Operating Officer, Mr. Steven Esses, to modify Mr. Esses's employment agreement. Under the terms of Mr. Esses's employment agreement, we were obligated to pre-fund Mr. Esses's severance into a trust, in cash. Mr. Esses has in the past waived this obligation. By agreement with Mr. Esses, we funded $200,000 of Mr. Esses's severance package in shares of our stock rather than in cash, to be held in a trust until such time as Mr. Esses shall be entitled to payment of his severance package. Based on the closing price of our stock ($0.73) on the Nasdaq Stock Market on April 17, 2009 (the date on which our Board of Directors and Mr. Esses agreed to this arrangement), it was agreed that a total of 273,973 shares would be issued and given over to the trust, to remain there until such time as Mr. Esses shall be entitled to his severance package pursuant to the terms of his employment agreement. The economic risk of gain or loss on these shares is to be borne by Mr. Esses. Should Mr. Esses leave our employ under circumstances in which he is not entitled to his severance package (primarily, termination for Cause as defined in his employment agreement), these shares would be returned to us for cancelation.

Effect of a Failure to Obtain Stockholder Approval

If this proposal is not approved, we will have little if any ability to grant equity incentive awards to employees or consultants, as our current equity compensation plans for employees have all either expired or have no more shares reserved for issuance under them. In addition, if this proposal is not approved, the previous grants of restricted stock

disclosed in the table above will not be ratified, and we will ask the recipients of these grants to agree to cancel these grants. Cancellation of the grants, if agreed to by the recipients, may have accounting, tax and/or other consequences to us and tax consequences to the recipients.

Vote Required

The affirmative vote of a majority of the votes cast at the meeting at which a quorum representing a majority of all outstanding shares of our common stock is present and voting, either in person or by proxy, is required for approval of this proposal. Abstentions and broker non-votes will each be counted as present for purposes of determining the presence of a quorum; abstentions will have the same practical effect as a negative vote on this proposal, and broker non-votes will not have any effect on the outcome of this proposal.

The Board of Directors Recommends a Vote FOR
Adoption of the 2009 Equity Compensation Plan.

CORPORATE GOVERNANCE

We operate within a corporate governance plan for the purpose of defining responsibilities, setting high standards of professional and personal conduct, and assuring compliance with such responsibilities and standards. We monitor developments in the area of corporate governance. The Board has initiated actions consistent with the Sarbanes-Oxley Act of 2002, the Securities and Exchange Commission and The Nasdaq Stock Market.

In the fiscal year ending December 31, 2008, the Board held seven meetings. All directors attended at least 75% of the aggregate number of meetings of the Board and meetings of the committees of the Board on which such director serves.

As of January 1, 2009, members of the Board of Directors satisfied the applicable independent director requirements of both the Securities and Exchange Commission and Rule 4200 of The Nasdaq Stock Market. Our non-management directors meet regularly in executive session separate from management.

It is our policy that each of our directors is invited and encouraged to attend our annual meeting of stockholders. All of our directors attended our 2008 annual meeting of stockholders.

Our Board of Directors has an Audit Committee, a Compensation Committee, a Nominating Committee and an Executive and Finance Committee. The current composition of the various committees of the Board of Directors is as follows (the name of the chairman of each committee appears in italics):

Audit Committee	Compensation Committee	Nominating Committee	Executive and Finance Committee
Seymour Jones	Jay M. Eastman	Michael E. Marrus	Robert S. Ehrlich
Edward J. Borey	Michael E. Marrus	Jay M. Eastman	Steven Esses
Elliot Sloyer	Elliot Sloyer	Seymour Jones	Elliot Sloyer
			Michael E. Marrus

Audit Committee

Created in December 1993, the purpose of the Audit Committee is to review with management and our independent auditors the scope and results of the annual audit, the nature of any other services provided by the independent auditors, changes in the accounting principles applied to the presentation of our financial statements, and any comments by the independent auditors on our policies and procedures with respect to internal accounting, auditing and financial controls. The Audit Committee was established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended. In addition, the Audit Committee is charged with the responsibility for making decisions on the engagement, compensation, retention and oversight of the work of our independent auditors.

The Audit Committee consists of Prof. Jones (Chair) and Messrs. Borey and Sloyer. Each member of the Audit Committee is an "independent director," as that term is defined in Rule 4200(a)(15) of the listing standards and Marketplace Rules of the National Association of Securities Dealers (the "NASD") and the SEC's Rule 10A-3. All Audit Committee members possess the required level of financial literacy. Prof. Jones has been designated as the "Audit Committee's Financial Expert." The Audit Committee operates under a formal charter that governs its duties, which charter is publicly available through a hyperlink located on the investor relations page of our website, at http://www.arotech.com/compro/investor.html. Additionally, in compliance with SEC rules we are required to append

a copy of the Audit Committee Charter to our proxy statement at least once every three years. We last sent a copy of our charter to our stockholders in our 2006 proxy statement. We have accordingly attached a copy of our Audit Committee Charter as Appendix B hereto.

The Audit Committee held four meetings during the fiscal year ending December 31, 2008.

Compensation Committee

The Compensation Committee was established in December 1993. The duties of the Compensation Committee are to recommend compensation arrangements for our executive officers and review annual compensation arrangements for all other officers and significant employees.

The Compensation Committee consists of Dr. Eastman (Chair) and Messrs. Marrus and Sloyer. Each member of the Compensation Committee is an independent director as that term is defined in the NASD listing standards. The Compensation Committee operates under a formal charter that governs its duties, which charter is publicly available through a hyperlink located on the investor relations page of our website, at http://www.arotech.com/compro/investor.html.

The Compensation Committee maintains compensation and incentive programs designed to motivate, retain and attract management and utilize various combinations of base salary, bonuses payable upon the achievement of specified goals, discretionary bonuses and grants of restricted stock. Our Chief Executive Officer, Robert S. Ehrlich, our Chief Operating Officer, Mr. Steven Esses, and our Chief Financial Officer, Mr. Thomas J. Paup, are all parties to employment agreements with us. The Compensation Committee reviews the compensation, both cash and stock, of our executive officers on an annual basis, while taking into account as well changes in compensation during previous years. Some of these components, such as salary, are generally fixed and do not vary based on our financial and other performance; some components, such as bonus, are in whole or in part dependent upon the achievement of certain goals jointly agreed upon by our management and the Compensation Committee; and some components, such as stock options and restricted stock, have a value that is dependent upon our stock price at the time of award and going forward. The Compensation Committee reviews the compensation, both cash and stock, of our executive officers on an annual basis, while taking into account as well changes in compensation during previous years.

The Compensation Committee performs an annual review of our executive officers' cash compensation and share and option holdings to determine whether they provide adequate compensation for the services they perform, as well as adequate incentives and motivation to our executive officers and whether they adequately compensate our executive officers relative to comparable officers in other companies.

Compensation Committee meetings typically have included, for all or a portion of some of the meetings, a representative of The Burke Group, Inc., a well-known consulting firm specializing in executive officer compensation, as well as preliminary discussion with our Chairman and Chief Executive Officer prior to our Compensation Committee deliberating without any members of management present. For compensation decisions, including decisions regarding the grant of equity compensation relating to executive officers (other than our Chairman and Chief Executive Officer), the Compensation Committee typically considers the recommendations of our Chairman and Chief Executive Officer.

The Compensation Committee held two meetings during the fiscal year ending December 31, 2008.

Nominating Committee

The Nominating Committee, created in February 2003, identifies and proposes candidates to serve as members of the Board of Directors. Proposed nominees for membership on the Board of Directors submitted in writing by stockholders to Arotech's Secretary will be brought to the attention of the Nominating Committee.

The Nominating Committee consists of Mr. Marrus (Chair), Dr. Eastman and Prof. Jones. Each member of the Nominating Committee is an independent director as that term is defined in the NASD list-

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ing standards. The Nominating Committee makes recommendations to the Board of Directors regarding new directors to be selected for membership on the Board of Directors and its various committees. The Nominating Committee operates under a formal charter that governs its duties. The Nominating Committee's charter is publicly available through a hyperlink located on the investor relations page of our website, at http://www.arotech.com/compro/investor.html.

The Nominating Committee held one meeting during the fiscal year ending December 31, 2008.

Policies Regarding Director Qualifications

The Board has adopted policies regarding director qualifications. To be considered for nomination as a director, any candidate must meet the following minimum criteria:

a. Ability and willingness to undertake a strategic governance role, clear and distinct from the operating role of management.

b. High-level leadership experience in business, government, or other major complex professional or non-profit organizations that would have exposed the individual to the challenges of leadership and governance in a dynamic and highly competitive marketplace.

c. Highly accomplished in their respective field, with superior credentials and recognition.

d. Demonstrated understanding of the elements and issues relevant to the success of a large publicly-traded company in the current volatile business, legal and governance environment.

e. Demonstrated business acumen and creative/strategic thinking ability.

f. Personal Characteristics:

Ø Ability and willingness to contribute special competencies to the Board in a collaborative manner. The areas of expertise required at any point in time may vary, based on the existing composition of the Board. They may include, but would not be limited to, capabilities honed as a CEO or a senior functional leader in operations, finance, information technology, marketing, organizational development, and experience making step change to transform a business.

Ø Personal integrity and highest ethical character. Absence of any conflicts of interest, either real or perceived.

Ø Willingness to apply sound and independent business judgment, enriching management and Board proposals or challenging them constructively as appropriate.

Ø Willing to exert influence through strong influence skills and constructive teamwork. This is essential to effective collaboration with other directors as well as providing constructive counsel to the CEO.

Ø Understanding of and full commitment to our governance principles and the obligation of each director to contribute to good governance, corporate citizenship, and corporate image for Arotech.

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Willingness to devote the time necessary to assume broad fiduciary responsibility and to participate fully in Arotech governance requirements with appropriate due diligence and attention.

In this regard, each nominee will be asked to disclose the boards of directors on which he or she currently sits, and each current director will be asked to inform the Nominating Committee of additional corporate board nominations (both for-profit and non-profit). This notification is to ensure appropriate dialogue about the impact of the added responsibilities on the individual's availability to perform thoroughly his or her duties as an Arotech director.

The Board of Directors will consist of a majority of people who are active, primarily in business roles, and selected retired individuals. Those active in the business community will bring the most current business thinking, and retirees will bring their long experience and seasoned business judgment. Every effort will be made to achieve diversity in the Board's membership.

From time to time, the particular capabilities needed to round out the total Board's portfolio of competencies may vary. The Nominating Committee is empowered to consider the demographics of the total Board as it considers the requirements for each Board vacancy and to identify particular unique capabilities needed at that point in time.

Policies Regarding Director Nominations

The Board's Nominating Committee is responsible for the Board of Director's nomination process. New candidates for the Board of Directors may be identified by existing directors, a third party search firm (paid for its professional services) or may be recommended by stockholders. In considering new candidates submitted by stockholders, the Nominating Committee will take into consideration the needs of the Board of Directors and the qualifications of the candidate. However, all director nominees will be evaluated against the same standards and in the same objective manner, based on competencies and personal characteristics listed above, regardless of how they were identified. To have a candidate considered by the Nominating Committee, a stockholder must submit the recommendation in writing and must include the following information:

- Ø The name of the stockholder and evidence of the person's ownership of our stock, including the number of shares owned and the length of time of ownership; and

- Ø The name of the candidate, the candidate's resume or a listing of his or her qualifications to be a director of Arotech and the person's consent to be named as a director if selected by the Nominating Committee and nominated by the Board of Directors.

The stockholder recommendation and information described above must be sent to Arotech's Secretary at 1229 Oak Valley Drive, Ann Arbor, Michigan 48108, and must be received by Arotech's Secretary not less than 120 days prior to the anniversary date of our most recent proxy statement in connection with our previous year's annual meeting of stockholders.

Once a person has been identified by the Nominating Committee as a potential candidate, the Committee may collect and review publicly available information regarding the person to assess whether the person should be considered further. If the Nominating Committee determines that the candidate warrants further consideration, the Chairman or another member of the Committee will contact the person. Generally, if the person expresses a willingness to be considered and to serve on the Board of Directors, the Nominating Committee will request information from the candidate, review the person's accomplishments and qualifications, including in light of any other candidates that the Committee might be considering, and conduct one or more interviews with the candidate. In certain instances, Committee members may contact one or more references provided by the candidate or may contact other members of the business community or other persons that may have greater first-hand knowledge of the candidate's accom-

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plishments. The Committee's evaluation process does not vary based on whether or not a candidate is recommended by a stockholder, although, the Board of Directors may take into consideration the number of shares held by the recommending stockholder and the length of time that such shares have been held.

Executive and Finance Committee

The Executive and Finance Committee, created in August 2001, exercises the powers of the Board during the intervals between meetings of the Board, in the management of our property, business and affairs (except with respect to certain extraordinary transactions).

The Executive and Finance Committee consists of Messrs. Ehrlich (Chair), Esses, Marrus and Sloyer.

The Executive and Finance Committee met once during the fiscal year ending December 31, 2008.

COMPENSATION AND OTHER MATTERS

Director Compensation

Non-employee members of our Board of Directors are paid a cash retainer of $7,000 (plus expenses) per quarter, plus $500 per quarter for each committee on which such outside directors serve. The Chairman of the Audit Committee receives an additional retainer of $1,500 per quarter, and the Chairman of the Compensation Committee receives an additional retainer of $1,000 per quarter. No per-meeting fees are paid. In addition, we have adopted a Non-Employee Director Equity Compensation Plan, pursuant to which non-employee directors receive an initial grant of a number of restricted shares having a fair market value on the date of grant equal to $25,000 upon their election as a director, and an annual grant on March 31 of each year of a number of restricted shares having a fair market value on the date of grant equal to $15,000. Each grant of restricted stock shall become free of restrictions in three equal installments on each of the first, second and third anniversaries of the grant, unless the director resigns from the Board prior to such vesting. Restrictions lapse automatically in the event of a director being removed for service other than for cause, or being nominated as a director but failing to be elected, or death, disability or mandatory retirement. Furthermore, all restrictions lapse prior to the consummation of a merger or consolidation involving us, our liquidation or dissolution, any sale of substantially all of our assets or any other transaction or series of related transactions as a result of which a single person or several persons acting in concert own a majority of our then-outstanding common stock.

The following table shows the compensation earned or received by each of our non-officer directors for the year ended December 31, 2008:

DIRECTOR COMPENSATION

Name	Fees Earned or Paid in Cash ($)	Stock Awards(1) ($)	Total ($)
Dr. Jay M. Eastman	$ 32,000	$ 15,000 (2)	$ 47,000
	$ 32,000	$ 15,000(3)	$ 47,000

Edward J. Borey						
Seymour Jones	$	36,000	$	15,000(4)	$	51,000
Elliot Sloyer	$	32,000	$	25,000(5)	$	57,000
Michael E. Marrus	$	32,000	$	25,000(6)	$	57,000
Jack Rosenfeld(7)	$	30,000	$	15,000	$	45,000
Lawrence M. Miller(7)	$	30,000	$	15,000	$	45,000

(1) This column reflects the compensation cost for the year ended December 31, 2008 of each director's restricted stock, calculated in accordance with SFAS 123R.

(2) As of December 31, 2008, Dr. Eastman held 8,785 restricted shares of our common stock.

(3) As of December 31, 2008, Mr. Borey held 8,785 restricted shares of our common stock.

(4) As of December 31, 2008, Prof. Jones held 8,785 restricted shares of our common stock.

(5) As of December 31, 2008, Mr. Sloyer held 10,978 restricted shares of our common stock.
(6) As of December 31, 2008, Mr. Marrus held 10,978 restricted shares of our common stock.
(7) This individual retired as a director as of October 27, 2008.

Executive Officer Compensation

The following table, which should be read in conjunction with the explanations provided above, shows the compensation that we paid (or accrued) to our executive officers during the fiscal years ended December 31, 2008 and 2007:

SUMMARY COMPENSATION TABLE(1)

Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards(2) ($)	All Other Compensation ($)	Total ($)
Robert S. Ehrlich Chairman, Chief Executive Officer and a director	2008	$ 400,000	$ 90,000	$ –	$ 518,017(3)	$ 1,008,017
	2007	$ 400,000	$ 175,000	$ 753,783	$	