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AROTECH CORP
Form 8-K
November 22, 2004

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

FORM 8-K

CURRENT REPORT
PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

DATE OF REPORT (DATE OF EARLIEST EVENT REPORTED): NOVEMBER 22, 2004

AROTECH CORPORATION
(Exact name of registrant as specified in its charter)

DELAWARE (State or other jurisdiction of incorporation)	0-23336 (Commission File Number)	95-4302784 (IRS Employer Identification No.)
250 WEST 57TH STREET, SUITE 310, NEW YORK, NEW YORK (Address of Principal Executive Offices)		10107 (Zip Code)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (212) 258-3222

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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ITEM 2.02 RESULTS OF OPERATIONS AND FINANCIAL CONDITION.

The Audit Committee of our Board of Directors concluded on November 22, 2004 to restate certain previously issued financial statements contained in our Annual Report on Form 10-K for the year ended December 31, 2003, as described in more detail in Item 4.02(a) of this report, below.

ITEM 4.02 NON-RELIANCE ON PREVIOUSLY ISSUED FINANCIAL STATEMENTS OR A RELATED AUDIT REPORT OR COMPLETED INTERIM REVIEW.

(a) On November 22, 2004, the Audit Committee of our Board of Directors, on the recommendation of our management and after discussion with and based on a new and revised review of accounting treatment by our independent auditors, made an internal determination and concluded that our Annual Report on Form 10-K for

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the year ended December 31, 2003 (the "2003 10-K"), including the financial statements that our auditors had previously audited that are contained therein, contained certain errors related to the re-pricing of warrants and grant of additional warrants to certain of its investors and others and the amortization of debt discount arising from the allocation of the debt discount between the convertible debentures and their detachable warrants. These errors also affected our Quarterly Reports on Form 10-Q for the quarters ended June 30, 2004, March 31, 2004, September 30, 2003 and June 30, 2003 (collectively, the "10-Qs").

The decision to restate these financial statements was made by our Audit Committee, upon the recommendation of our management and with the concurrence of our independent auditors. In addition, our Audit Committee, upon the recommendation of management, made an internal determination that the previously-issued financial statements contained in the 2003 10-K and the 10-Qs should not be relied upon.

The net effect of these errors, which are described below and which generally related to the timing and characterization of certain non-cash expenses, was to increase our net loss attributable to common stockholders for 2003 by approximately \$579,000 and to decrease our net loss for the first half of 2004 by approximately \$608,000.

On November 22, 2004, our Audit Committee discussed the matters disclosed in this Item 4.02(a) with management and with our auditors, Kost, Forer, Gabbay & Kassierer, a member of Ernst & Young Global. Our auditors informed the Audit Committee that they concur with our conclusions described above.

We will file a Form 10-K/A amending the 2003 10-K as soon as practicable. Since all relevant changes have been reflected in our Quarterly Report on Form 10-Q for the quarter ended September 30, 2004 that we are filing today (the "Third Quarter 10-Q"), as well as in this Current Report on Form 8-K, we do not anticipate filing Forms 10-Q/A amending the 10-Qs.

Additionally, our financial results for the three and nine months ended September 30, 2004, as reported in the Third Quarter 10-Q, differ from the financial results that we announced on November 9, 2004 by, among other things, decreasing our net loss attributable to common stockholders for the nine and three months ended September 30, 2004 by approximately \$1,583,778 and \$976,129, respectively, as follows (unaudited):

	NINE MONTHS ENDED SEPTEMBER 30,	
	2004	2003
	(AS PREVIOUSLY ANNOUNCED)	
Revenues	\$ 33,383,023	\$ 13,232,4
Cost of revenues	22,680,921	8,365,2
Gross profit	10,702,102	4,867,2
Research and development expenses	1,302,773	762,6
Sales and marketing expenses	3,435,183	2,395,1
General and administrative expenses	9,365,378	3,579,3
Amortization of intangible assets	1,731,425	727,1
	15,834,759	7,464,3

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Operating income (loss)	(5,132,657)	(2,597,000)
Financial income (expenses), net	(3,079,404)	(1,084,500)
Net income (loss) before taxes	(8,212,062)	(3,681,600)
Tax expenses	(286,525)	(308,100)
Net income (loss) before minority interest in profit of subsidiary	(8,498,587)	(3,989,700)
Minority interest in loss (earnings) of a subsidiary	(35,363)	134,800
Net income (loss) from continuing operations	\$ (8,533,950)	\$ (3,854,900)
Net income (loss) from discontinued operations	--	80,800
Net income (loss) for the period	\$ (8,533,950)	\$ (3,774,100)
Deemed dividend to certain stockholders of common stock	(2,165,952)	
Net income (loss) attributable to stockholders of common stock	\$ (10,699,902)	\$ (3,774,100)
Basic and diluted net earnings (loss) per share for continuing operations	\$ (0.16)	\$ (0.16)
Basic and diluted net earnings (loss) per share for discontinued operations	\$ --	\$ 0.00
Combined basic and diluted net earnings (loss) per share	\$ (0.16)	\$ (0.16)
Weighted average number of shares outstanding	67,072,069	32,276,200

* Restated.

	THREE MONTHS ENDED SEPTEMBER 30,	
	2004	2003
	(AS PREVIOUSLY ANNOUNCED)	
Revenues	\$ 16,272,521	\$ 5,705,800
Cost of revenues	11,548,948	3,252,300
Gross profit	4,723,573	2,453,500
Research and development expenses	431,146	252,000
Sales and marketing expenses	1,294,488	757,600
General and administrative expenses	2,162,925	1,105,800
Amortization of intangible assets	739,400	103,500
	4,627,959	2,219,100
Operating income (loss)	95,614	234,400
Financial income (expenses), net	180,126	(100,700)
Net income (loss) before taxes	275,741	133,600
Tax expenses	(116,460)	(31,000)
Net income (loss) before minority interest in profit of subsidiary .	159,281	102,500

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Minority interest in loss (earnings) of a subsidiary	(8,655)	(25,4
	-----	-----
Net income (loss) from continuing operations	\$ 150,626	\$ 77,0
Net income (loss) from discontinued operations	--	(2,2
	-----	-----
Net income (loss) for the period	\$ 150,626	\$ 74,8
Deemed dividend to certain stockholders of common stock	(2,165,952)	
	-----	-----
Net income (loss) attributable to stockholders of common stock	(2,015,326)	74,8
	=====	=====

Basic and diluted net earnings (loss) per share for continuing operations	\$ (0.03)	\$ 0.
	=====	=====
Basic and diluted net earnings (loss) per share for discontinued operations	\$ --	\$
	=====	=====
Combined basic and diluted net earnings (loss) per share	\$ (0.03)	\$ 0.
	=====	=====
Basic and diluted weighted average number of shares outstanding	76,744,251	40,371,9
	=====	=====

* Restated.

SUMMARY INFORMATION - FINANCIAL STATEMENT RESTATEMENT

During our management's review of our interim financial statements for the period ended September 30, 2004, we, after consultation with and based on a new and revised review of accounting treatment by our independent auditors, conducted a comprehensive review on the re-pricing of warrants and grant of new warrants to certain of our investors and others during 2003 and 2004. As a result of that review, we, upon recommendation of our management and with the approval of the Audit Committee of our Board of Directors after consultation with our independent auditors, reconsidered the accounting related to these transactions and are now reclassifying certain expenses as a deemed dividend, a non-cash item, instead of as general and administrative expenses due to the recognition of this transaction as a capital transaction that should not be expensed. The consolidated financial statements for the nine months ended September 30, 2003, for the six months ended June 2003 and 2004, for the three months ended March 31, 2004 and the year ended December 31, 2003 are being restated to record a deemed dividend and to decrease general and administrative expenses accordingly. These restatements do not affect our balance sheet, shareholders' equity or cash flow statements. In addition and as a result of the remeasurement described above, we have reviewed assumptions used in the calculation of fair value of all warrants granted during the year 2003. As a result of this comprehensive review, we decreased our general and administrative expenses in the amount of \$150,000, related to errors found in valuation underlying assumptions of warrants granted as a result of a litigation settlement, in the financial statements for the year ended December 31, 2003.

In addition, during our management's review of our interim financial statements for the period ended September 30, 2004, we also reviewed our calculation of amortization of debt discount attributable to the beneficial conversion feature of convertible debentures. As a result of this review, we found errors which increased (decreased) our financial expenses for the nine

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months ended September 30, 2003, for the six months ended June 2003 and 2004, for the three months ended March 31, 2004 and the year ended December 31, 2003. The errors were related to the debt discount attributable to the warrants and their related convertible debentures, whereby we understated the amount of amortization in the year ended December 31, 2003 attributable to the conversion of certain of the convertible debentures, and we overstated the amount of amortization in the six months ended June 30, 2004 attributable to the exercise of certain of the warrants.

The impacts of these restatements are summarized below:

Statement of Operations Data:

	FOR THE THREE MONTHS ENDED JUNE 30, 2004		
	PREVIOUSLY REPORTED	ADJUSTMENT	AS RESTATED
General and administrative expenses	\$3,521,461	\$ (149,527)	\$3,371,934
Operating loss	2,191,705	(149,527)	2,042,178
Financial expenses, net	1,985,576	167,235	2,152,811
 Loss from continuing operations	 4,378,415	 17,708	 4,396,123
Net loss	4,378,415	17,708	4,396,123
 Basic and diluted net loss per share from continuing operations	 \$ 0.07	 \$ 0.00	 \$ 0.07
Basic and diluted net loss per share	\$ 0.07	\$ 0.00	\$ 0.07

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	FOR THE SIX MONTHS ENDED JUNE 30, 2004		
	PREVIOUSLY REPORTED	ADJUSTMENT	AS RESTATED
General and administrative expenses	\$ 7,202,454	\$ (1,742,384)	\$ 5,460,070
Operating loss	5,228,267	(1,742,384)	3,485,883
Financial expenses, net	3,259,530	(28,174)	3,231,356
 Loss from continuing operations	 8,684,570	 (1,770,558)	 6,914,012
Net loss	8,684,570	(1,770,558)	6,914,012
Deemed dividend to certain stockholders of common stock	--	1,163,000	1,163,000
Net loss attributable to common stockholders	\$ 8,684,570	\$ (607,558)	\$ 8,077,012
 Basic and diluted net loss per share from continuing operations	 \$ 0.14	 \$ (0.03)	 \$ 0.11

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Basic and diluted net loss per share	\$ 0.14	\$ (0.01)	\$ 0.13
	=====	=====	=====
FOR THE THREE MONTHS ENDED MARCH 31, 2004			
	PREVIOUSLY REPORTED	ADJUSTMENT	AS RESTATED
	-----	-----	-----
General and administrative expenses	\$ 3,680,993	\$ (1,592,857)	\$ 2,088,136
Operating loss	3,036,562	(1,592,857)	1,443,705
Financial expenses, net	1,273,954	(195,409)	1,078,545
Loss from continuing operations	4,306,155	(1,788,266)	2,517,889
	-----	-----	-----
Net loss	4,306,155	(1,788,266)	2,517,889
Deemed dividend to certain stockholders of common stock	--	1,163,000	1,163,000
	-----	-----	-----
Net loss attributable to common stockholders	\$ 4,306,155	\$ (625,266)	\$ 3,680,889
	=====	=====	=====
Basic and diluted net loss per share from continuing operations	\$ 0.07	\$ (0.03)	\$ 0.04
	=====	=====	=====
Basic and diluted net loss per share	\$ 0.07	\$ (0.01)	\$ 0.06
	=====	=====	=====
FOR THE YEAR ENDED DECEMBER 31, 2003			
	PREVIOUSLY REPORTED	ADJUSTMENT	AS RESTATED
	-----	-----	-----
General and administrative expenses	\$6,196,779	\$ (338,903)	\$5,857,876
Operating loss	5,408,932	(338,903)	5,070,029
Financial expenses, net	3,470,459	568,250	4,038,709
Loss from continuing operations	9,118,684	229,347	9,348,031
	-----	-----	-----
Net loss	9,008,274	229,347	9,237,621
Deemed dividend to certain stockholders of common stock	--	350,000	350,000
	-----	-----	-----
Net loss attributable to common stockholders	\$9,008,274	\$ 579,347	\$9,587,621
	=====	=====	=====
Basic and diluted net loss per share from continuing operations	\$ 0.23	\$ 0.01	\$ 0.24
	=====	=====	=====
Basic and diluted net loss per share	\$ 0.23	\$ 0.02	\$ 0.25
	=====	=====	=====

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FOR THE NINE MONTHS ENDED
SEPTEMBER 30, 2003

	PREVIOUSLY REPORTED	ADJUSTMENT	AS RESTATED
General and administrative expenses	\$3,579,371	\$ (123,085)	\$3,456,286
Operating loss	2,597,043) 123,085 (2,473,958
Financial expenses, net	1,084,582	129,000	1,213,582
Net income from continuing operations	3,854,949	5,915	3,860,864
Net loss	3,774,066	5,915	3,779,981
Deemed dividend to certain stockholders of common stock	--	267,026	267,026
Net loss attributable to common stockholders	\$3,774,066	\$ 272,941	\$4,047,007
Basic and diluted net loss per share from continuing operations	\$ 0.10	\$ 0.01	\$ 0.11
Basic and diluted net loss per share	\$ 0.10	\$ 0.01	\$ 0.11

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FOR THE THREE MONTHS ENDED
SEPTEMBER 30, 2003

	PREVIOUSLY REPORTED	ADJUSTMENT	AS RESTATED
General and administrative expenses	\$1,105,864	\$ (123,085)	\$ 982,779
Operating income	234,428	123,085	357,513
Financial expenses, net	100,761	(18,428)	82,333
Net income from continuing operations	77,093	141,513	218,606
Net income	74,808	141,513	216,321
Deemed dividend to certain stockholders of common stock	--	(94,676)	(94,676)
Net income attributable to common stockholders	\$ 74,808	\$ 46,837	\$ 121,645
Basic and diluted net earnings per share from continuing operations	\$ 0.00	\$ 0.00	\$ 0.00
Basic and diluted net earnings per share	\$ 0.00	\$ 0.00	\$ 0.00

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FOR THE SIX MONTHS ENDED
JUNE 30, 2003

	PREVIOUSLY REPORTED	ADJUSTMENT	AS RESTATED
Financial expenses, net	\$ 983,821	\$ 147,428	\$1,131,249
Loss from continuing operations	3,932,041	147,428	4,079,469
Net loss	3,848,875	147,428	3,996,303
Deemed dividend to certain stockholders of common stock	--	172,350	172,350
Net loss attributable to common stockholders	<u>\$3,848,875</u>	<u>\$ 319,778</u>	<u>\$4,168,653</u>
Basic and diluted net loss per share from continuing operations	<u>\$ 0.11</u>	<u>\$ 0.00</u>	<u>\$ 0.11</u>
Basic and diluted net loss per share	<u>\$ 0.11</u>	<u>\$ 0.01</u>	<u>\$ 0.12</u>

FOR THE THREE MONTHS ENDED
JUNE 30, 2003

	PREVIOUSLY REPORTED	ADJUSTMENT	AS RESTATED
Financial expenses, net	\$ 725,609	\$ 147,428	\$ 873,037
Loss from continuing operations	2,640,920	147,428	2,788,348
Net loss	2,461,793	147,428	2,609,221
Deemed dividend to certain stockholders of common stock	--	172,350	172,350
Net loss attributable to common stockholders	<u>\$2,461,793</u>	<u>\$ 319,778</u>	<u>\$2,781,571</u>
Basic and diluted net loss per share from continuing operations	<u>\$ 0.07</u>	<u>\$ 0.01</u>	<u>\$ 0.08</u>
Basic and diluted net loss per share	<u>\$ 0.07</u>	<u>\$ 0.01</u>	<u>\$ 0.08</u>

Balance sheet data:

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AS OF JUNE 30, 2004

	PREVIOUSLY REPORTED	ADJUSTMENT	AS RESTATED
Convertible debenture	\$ 737,235	\$ 540,075	\$ 1,277,310
Total long term liabilities	6,278,225	540,075	6,818,300
Additional paid in capital	167,789,043	(2,081,287)	165,707,756
Accumulated deficit	(118,366,463)	1,541,212	(116,825,257)
Total shareholders' equity	44,707,225	(540,075)	44,167,150

AS OF MARCH 31, 2004

	PREVIOUSLY REPORTED	ADJUSTMENT	AS RESTATED
Convertible debenture	\$ 849,037	\$ 372,841	\$ 1,221,878
Total long term liabilities	6,062,891	372,841	6,435,732
Additional paid in capital	162,331,180	(1,931,760)	160,399,420
Accumulated deficit	(113,988,048)	1,558,919	(112,429,129)
Total shareholders' equity	44,019,328	(372,841)	43,646,487

AS OF DECEMBER 31, 2003

	PREVIOUSLY REPORTED	ADJUSTMENT	AS RESTATED
Other accounts payable and accrued expenses	\$ 4,180,411	\$ (150,000)	\$ 4,030,411
Convertible debenture	881,944	568,250	1,450,194
Total long term liabilities	4,066,579	568,250	4,634,829
Additional paid in capital	135,891,316	(188,903)	135,702,413
Accumulated deficit	(109,681,893)	(229,347)	(109,911,240)
Total shareholders' equity	22,044,127	(418,250)	(21,625,877)

AS OF SEPTEMBER 30, 2003

	PREVIOUSLY REPORTED	ADJUSTMENT	AS RESTATED
Convertible debenture	\$ 1,115,001	\$ 129,000	\$ 1,244,001
Total long term liabilities	4,178,147	129,000	4,307,147
Additional paid in capital	120,105,276	(123,085)	119,982,191

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Accumulated deficit	(104,447,685)	(5,915)	(104,453,600)
Total shareholders' equity	11,411,175	(129,000)	11,282,175

AS OF JUNE 30, 2003

	PREVIOUSLY REPORTED	ADJUSTMENT	AS RESTATED
Convertible debenture	\$ 988,572	\$ 147,428	\$ 1,136,000
Total long term liabilities	4,358,568	147,428	4,505,996
Accumulated deficit	(104,522,494)	(147,428)	(104,669,922)
Total shareholders' equity	10,356,181	(147,428)	10,208,753

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Cash flow data:

FOR THE SIX MONTHS ENDED JUNE 30, 2004

	PREVIOUSLY REPORTED	ADJUSTMENT	AS RESTATED
Net loss	\$ 8,684,570	\$ (1,770,558)	\$ 6,914,012
Stock based compensation related to repricing of warrants granted to investors and the grant of new warrants	1,742,384	(1,742,384)	--
Amortization of compensation related to beneficial conversion feature and warrants issued to holders of convertible debentures ..	2,967,791	(28,174)	2,939,617

FOR THE THREE MONTHS ENDED MARCH 31, 2004

	PREVIOUSLY REPORTED	ADJUSTMENT	AS RESTATED
Net loss	\$ 4,306,155	\$ (1,788,266)	\$ 2,517,889
Stock based compensation related to repricing of warrants granted to investors and the grant of new warrants	1,592,857	(1,592,857)	--
Amortization of compensation related to beneficial conversion feature and warrants issued to holders of convertible debentures ..	1,117,093	(195,409)	921,684

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	FOR THE YEAR ENDED DECEMBER 31, 2003		
	PREVIOUSLY REPORTED	ADJUSTMENT	AS RESTATED
Net loss	\$ 9,008,274	\$ 229,347	\$ 9,237,621
Stock based compensation related to repricing of warrants granted to investors and the grant of new warrants	388,403	(188,903)	199,500
Amortization of compensation related to beneficial conversion feature and warrants issued to holders of convertible debentures ..	3,359,987	568,250	3,928,237

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	FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2003		
	PREVIOUSLY REPORTED	ADJUSTMENT	AS RESTATED
Net loss	\$ 3,774,066	\$ 5,915	\$ 3,779,981
Stock based compensation related to repricing of warrants granted to investors and the grant of new warrants	152,844	(123,085)	29,759
Amortization of compensation related to beneficial conversion feature and warrants issued to holders of convertible debentures ..	1,005,001	129,000	1,134,001

	FOR THE SIX MONTHS ENDED JUNE 30, 2003		
	PREVIOUSLY REPORTED	ADJUSTMENT	AS RESTATED
Net loss	\$ 3,848,875	\$ 147,428	\$ 3,996,303
Amortization of compensation related to beneficial conversion feature and warrants issued to holders of convertible debentures ..	878,572	147,428	1,026,000

Our management and the Audit Committee of our Board of Directors have discussed with our independent accountants the foregoing matters disclosed in this Item 4.02(a).

(b) Not applicable.

(c) Not applicable.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

AROTECH CORPORATION
(REGISTRANT)

By: /s/ Robert S. Ehrlich

Name: Robert S. Ehrlich
Title: Chairman, President and CEO

Dated: November 22, 2004