SAPIENS INTERNATIONAL CORP N V
Form 20-F
March 11, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 20-F

.. REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2012

OR

.. TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ____________ to _______________

OR

.. SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report. . . . .

Commission file number 000-20181

SAPIENS INTERNATIONAL CORPORATION N.V.

(Exact name of Registrant as specified in its charter)

Curaçao

(Jurisdiction of incorporation or organization)

Landhuis Joonchi

Kaya Richard J. Beaujon z/n

P.O. Box 837

Curaçao

(Address of principal executive offices)

Roni Giladi, Chief Financial Officer

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Rabin Science Park

PO Box 4011

Nes Ziona 74140 Israel

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of Class:	Name of each exchange on which registered:
Common Shares, par value € 0.01 per share	**NASDAQ Capital Market**

Securities registered or to be registered pursuant to Section 12(g) of the Act: **None**

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: **None**

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report

As of December 31, 2012, the issuer had 38,679,505 Common Shares, par value € 0.01 per share, outstanding.

Indicate by check mark if the registrant is well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ¨ No x

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes ¨ No x

Indicate by checkmark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of “accelerated filer” and “large accelerated filer” in Rule 12b-2 of the Exchange Act.

¨ Large Accelerated Filer ¨ Accelerated Filer x Non-Accelerated Filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

x U.S. GAAP ¨ International Financial Reporting Standards as issued by the International Accounting Standards Board ¨ Other

If “Other” has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow:

Item 17 ¨ Item 18 ¨

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ¨ No x

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INTRODUCTION

Definitions

In this annual report, unless the context otherwise requires:

References to “Sapiens,” the “Company,” the "Registrant," “us,” “we” and “our” refer to Sapiens International Corporation N.V a Curaçao company, and its consolidated subsidiaries.

References to “our shares,” “Common Shares” and similar expressions refer to the Registrant’s Common Shares, par value € 0.01 per share.

References to “dollars”, “US dollars” or “$” are to United States Dollars.

References to “GBP” are to Great British Pound.

References to “NIS” are to New Israeli Shekels, the Israeli currency.

Cautionary Statement Regarding Forward-Looking Statements

Certain matters discussed in this annual report are forward-looking statements that are based on our beliefs and assumptions as well as information currently available to us. Such forward-looking statements may be identified by the use of the words “anticipate,” “believe,” “estimate,” “expect,” “may,” “will,” “plan” and similar expressions. Such statemen reflect our current views with respect to future events and are subject to certain risks and uncertainties. While we believe such forward-looking statements are based on reasonable assumptions, should one or more of the underlying assumptions prove incorrect, or these risks or uncertainties materialize, our actual results may differ materially from those described herein. Please read the risks discussed in Item 3 – “Key Information” under the caption “Risk Factors” and cautionary statements appearing elsewhere in this annual report in order to review conditions that we believe could cause actual results to differ materially from those contemplated by the forward-looking statements.

We undertake no obligation publicly to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties, and assumptions, the forward-looking events discussed in this annual report might not occur.

PART I

Item 1. Identity of Directors, Senior Management and Advisers

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

A. Selected Financial Data.

The following tables summarize certain selected consolidated financial data for the periods and as of the dates indicated. We derived the statement of operations financial data for the years ended December 31, 2010, 2011 and 2012 and the balance sheet data as of December 31, 2011 and 2012 from our audited consolidated financial statements included elsewhere in this annual report. The selected consolidated statement of operations financial data for the years ended December 31, 2008 and 2009 and the balance sheet data as of December 31, 2008, 2009 and 2010 are derived from our audited financial statements not included in this annual report. Our historical consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") and presented in U.S. dollars. You should read the information presented below in conjunction with those statements.

The information presented below is qualified by the more detailed historical consolidated financial statements, the notes thereto and the discussion under "Operating and Financial Review and Prospects" included elsewhere in this Annual Report.

Selected Financial Data:	Year Ended December 31, (In thousands, except per share data)				
	2008	2009	2010	2011	2012
Revenues	$43,534	$45,695	$52,235	$69,927	$113,909
Cost of revenues	26,457	26,571	29,921	40,067	66,459
Gross profit	17,077	19,124	22,314	29,860	47,450
Operating Expenses:					
Research and development, net	3,884	2,735	3,293	5,008	10,169
Selling, marketing, general and administrative	10,708	11,048	12,310	18,113	25,236
Acquisition-related and restructuring costs	-	-	-	1,115	-
Total operating expenses	14,592	13,783	15,603	24,236	35,405
Operating income	2,485	5,341	6,711	5,624	12,045
Financial income (expenses), net	(2,204)	(880)	(364)	104	193
Income before taxes on income	281	4,461	6,347	5,728	12,238
Taxes on income (benefit)	584	260	177	(230)	435
Net income (loss)	(303)	4,201	6,170	5,958	11,803
Attributable to non-controlling interest	41	-	18	61	23
Net income (loss) attributable to Sapiens	(344)	4,201	6,152	5,897	11,780
Basic net earnings (loss) per share attributable to Sapiens' shareholders	$(0.02)	$0.19	$0.28	$0.21	$0.29

Diluted net earnings (loss) per share attributable to Sapiens' shareholders	$(0.02)	$0.19	$0.28	$0.19	$0.28
Weighted average number of shares used in computing basic net earnings (loss) per share	21,532	21,573	21,583	28,460	39,953
Weighted average number of shares used in computing diluted net earnings (loss) per share	21,532	21,574	22,181	30,764	41,671

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Balance Sheet Data:	At December 31, 2008	2009	2010	2011	2012
	(In thousands)				
Cash and cash equivalents	$7,938	$11,172	$16,182	$21,460	$29,050
Working capital (deficit)	(4,506)	925	4,868	7,736	18,723
Total assets	47,867	48,731	58,719	153,468	162,584
Accrued severance pay (1)	3,826	3,895	4,446	10,711	11,645
Other long-term liabilities	296	34	299	617	803
Capital stock	132,562	132,821	133,418	208,464	210,594
Total equity	$21,876	$26,415	$34,118	$110,247	$118,439

(1) Accrued severance pay relates to accrued severance obligations mainly to our Israeli employees as required under Israeli labor law. We are legally required to pay severance upon certain circumstances, primarily upon termination of employment by our company, retirement or death of the respective employee. Our obligation for our Israeli employees is fully provided for by monthly deposits with insurance policies and by provision in accordance with Israeli Severance Pay Law (For more details – refer to Note 2 of our consolidated financial statements included elsewhere this annual report).

B. Capitalization and Indebtedness.

Not applicable.

C. Reasons for the Offer and Use of Proceeds.

Not applicable.

D. Risk Factors.

We operate globally in a dynamic and rapidly changing environment that involves numerous risks and uncertainties. The following section lists some, but not all, of those risks and uncertainties that may have a material adverse effect on our business, financial position, results of operations or cash flows.

Risks Relating to Our Business, Our Industry and our Financing Activities

We are exposed to general global economic and market conditions, particularly those impacting the financial services industry generally and the insurance industry specifically, including the rate of information technology spending.

Our business depends on the overall demand for information technology from, and on the economic health of, our current and prospective customers. In addition, the purchase of our products is discretionary and involves a significant commitment of capital and other resources by our customers. Economies throughout the world currently face a number of economic challenges, including threatened sovereign defaults, credit downgrades, restricted credit for businesses and consumers and potentially falling demand for a variety of products and services. Notwithstanding the improving economic conditions in some of our markets, many companies are still cutting back expenditures or delaying plans to add additional personnel or systems. Continued challenging economic conditions in many of our markets, or a reduction in information technology spending even where economic conditions improve, could adversely impact our business, results of operations and financial condition in a number of ways, including longer sales cycles and lower prices for our products and services

The market for software solutions and related services is highly competitive.

The market for software solutions and related services and for business solutions for the insurance and financial services industry in particular, is highly competitive. Many of our smaller competitors have been acquired by larger competitors, which provides such smaller competitors with greater resources and potentially a larger client base for which they can develop solutions. Our customers or potential customers could prefer suppliers that are larger than us, are better known in the market or that have a greater global reach. In addition, we and some of our competitors have developed systems to allow customers to outsource their core systems to external providers (known as BPO). We are seeking to partner with BPO providers, but there can be no assurance that such BPO providers will adopt our solutions rather than those of our competitors. Determinations by current and potential customers to use BPO providers that do not use our solutions may result in the loss of such customers and limit our ability to gain new customers.

Our development cycles are lengthy, we may not have the resources available to complete development of new solutions and enhancements and modifications of our current solutions and we may incur significant expenses before we generate revenues, if any, from new solutions or such enhancements or modifications.

Because our solutions are complex and require rigorous testing, development cycles can be lengthy, taking us up to two years to develop and introduce new, enhanced or modified products. Moreover, development projects can be technically challenging and expensive. The nature of these development cycles may cause us to experience delays between the time we incur expenses associated with research and development and the time we generate revenues, if any, from such expenses. There can be no assurance that we will have sufficient resources to make such investments or that these investments will bring the full advantages or any advantage as planned.

If we are not able to accurately predict and rapidly respond to market developments or customer needs our competitive position will be impaired.

The market for our solutions is characterized by changing business conditions and customer requirements, including requirements based on regulations to which our customers are subject. We may need to develop and introduce additional software and enhancements to our existing solutions to satisfy our current customers and maintain our competitive position in the marketplace. We may also need to modify our software so that it can operate with new or enhanced software that may be introduced by other software vendors, be used in different environments and comply with regulatory requirements to which our customers are subject. While changing conditions and requirements may result in market growth, estimates of expected growth resulting therefrom are inherently uncertain and are subject to many risks and assumptions. The failure to anticipate changes in technology, partner and customer requirements and successfully develop, enhance or modify our software solutions, or the failure to do so on a timely basis, could limit our revenue growth and competitive position.

If existing customers do not make subsequent purchases from us and continue using our solutions and services or if our relationships with our largest customers are impaired, our revenue could be negatively affected.

Our existing customers are a key asset, and we depend on repeat product and service revenues from our base of customers. Five of our customers represent 33% of our revenue in 2012. There can be no assurance that our existing customers will enter into new project contracts with us or that they will continue using our technologies. A significant decline in our revenue stream from existing customers would have an adverse effect on our operating results.

Failure to meet customer expectations with respect to the implementation and use of our solutions could result in negative publicity, reduced sales and diversion of resources, all of which would harm our business, results of operations, financial condition and growth prospects.

We generally provide our customers with upfront estimates regarding the duration, budget and costs associated with the implementation of our products. Implementation of our solutions is complex and meeting the anticipated duration, budget and costs often depend on factors relating to our customers or their other vendors. We may not meet the upfront estimates and expectations of our customers for the implementation of products as a result of our product capabilities or service engagements by us, our system integrator partners or our customers' IT employees.

If we fail to meet upfront estimates and the expectations of our customers for the implementation of our products our reputation could be harmed, which could adversely affect our ability to attract new customers and sell additional products and services to existing customers.

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The quality of our solutions, enhancements and new versions is critical to our success. Since our software solutions are complex, they may contain errors that can be detected at any point in their life cycle. While we continually test our solutions for errors or defects and work with customers to identify and correct them, errors in our technology may be found in the future. Testing for errors or defects is complicated because it is difficult to simulate the breadth of operating systems, user applications and computing environments that our customers use and our solutions themselves are increasingly complex. Errors or defects in our technology could result in delayed or lost revenue, claims against us, diversion of development resources and increased service, warranty and insurance costs. In addition, time-consuming implementations may also increase the number of services personnel we must allocate to each customer, thereby increasing our costs and adversely affecting our business, results of operations and financial condition.

Our business involves long-term, large projects, some of which are fixed-price projects that involve uncertainties, such as estimated project costs and profit margins.

Our business is characterized by relatively large projects or engagements that can have a significant impact on our total revenue and cost of revenue from quarter to quarter. A high percentage of our expenses, particularly employee compensation, are relatively fixed. Therefore, a variation in the timing of the initiation, progress or completion of projects or engagements can cause significant variations in operating results from quarter to quarter. Some of our solutions are sold as fixed-price projects with delivery requirements spanning more than one year. As our projects can be highly complex, we may not be able to accurately estimate our actual costs of completing a fixed-price project. If our actual cost-to-completion of these projects differs significantly from the estimated costs, we could experience a loss on the related contracts, which would have a material adverse effect on our results of operations, financial position and cash flow. Similarly, delays in executing client contracts may affect our revenue and cause our operating results to vary widely. Our solutions are delivered over periods of time ranging from several months to a few years. Payment terms are generally based on periodic payments or on the achievement of milestones. Any delays in payment or in the achievement of milestones may have a material adverse effect on our results of operations, financial position or cash flows.

Our sales cycle is variable, depends upon many factors outside our control, and could cause us to expend significant time and resources prior to earning associated revenues.

The typical sales cycle for our solutions and services is lengthy and unpredictable, requires pre-purchase evaluation by a significant number of persons in our customers' organizations, and often involves a significant operational decision by our customers. Our sales efforts involve educating our customers and industry analysts and consultants about the use and benefits of our products, including the technical capabilities of our products and the potential cost savings achievable by organizations deploying our solutions. Customers typically undertake a significant evaluation process, which frequently involves not only our products, but also those of our competitors and can result in a lengthy sales cycle. Our sales cycle for new customers is typically six to eighteen months and can extend even longer in some cases. We spend substantial time, effort and money in our sales efforts without any assurance that such efforts will produce any sales.

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Our business involves business-critical solutions which expose us to potential liability claims.

Since our customers rely on our solutions to operate, monitor and improve the performance of their business processes, they are sensitive to potential disruptions that may be caused by the use of, or any defects in, our software. As a result, we may be subject to claims for damages related to software errors in the future. Liability claims could require us to spend significant time and money in litigation or to pay significant damages. Regardless of whether we prevail, diversion of key employees' time and attention from our business, incurrence of substantial expenses and potential damage to our reputation might result. While the terms of our sales contracts typically limit our exposure to potential liability claims and we carry errors and omissions insurance against such claims, there can be no assurance that such insurance will continue to be available on acceptable terms, if at all, or that such insurance will provide us with adequate protection against any such claims. A significant liability claim against us could have a material adverse effect on our results of operations and financial position.

As part of our business strategy, we have made and may continue to make acquisitions, which, if not successfully integrated into our business, could harm our results of operations and financial condition and, if we issue securities or need to obtain debt financing to complete such acquisitions, could negatively impact our capital structure.

As part of our growth strategy, we have acquired and may consider acquiring other products and businesses to grow our revenues and increase our customer base. We face the risk that businesses we may acquire in the future may ultimately fail to further our strategies. In addition, we may not be able to successfully integrate acquired technologies and achieve expected synergies or take advantage of the increase in our customer base. Further, we may not be able to retain the key employees that may be necessary to operate the businesses we acquired and may acquire and we may not be able to timely attract new skilled employees and management to replace them.

We may also compete with others to acquire businesses or other technologies, and such competition may result in decreased availability of, or increased prices for, suitable acquisition candidates. In addition, for various commercial and economic considerations, we may not be able to consummate acquisitions that we have identified as crucial to the implementation of our strategy. Furthermore, attempted acquisitions may divert management, operational and financial resources from the conduct of our core business, and we may not complete any attempted acquisition.

In addition, for some of our recent acquisitions, we have used capital stock, thereby diluting our shareholders and if we use capital stock in connection with future acquisitions, our existing shareholders will experience further dilution. If we use cash or debt financing, our financial liquidity will be reduced, the holders of our debt would have claims on our assets ahead of holders of our Common Shares and our business operations may be restricted by the terms of any debt. An acquisition may involve accounting charges and/or amortization of significant amounts of intangible assets, which would adversely affect our ability to achieve and maintain profitability.

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The skilled and highly qualified workforce that we need to develop, implement and modify our solutions may be difficult to hire, train and retain, and we could face increased costs to attract and retain our skilled workforce.

Our business operations depend in large part on our ability to attract, train, motivate and retain highly skilled information technology professionals, particularly those with knowledge and experience in the insurance industry. In addition, our competitive success will depend on our ability to attract and retain other outstanding, highly qualified employees, consultants and other professionals. Because our software solutions are highly complex and are generally used by our customers to perform critical business functions, we depend heavily on skilled technology professionals. Skilled technology professionals are often in high demand and short supply. If we are unable to hire or retain qualified technology professionals to develop, implement and modify our solutions, we may be unable to meet the needs of our customers. In addition, serving several new customers or implementing several new large-scale projects in a short period of time may require us to attract and train additional IT professionals at a rapid rate. We may face difficulties identifying and hiring qualified personnel. Although we are heavily investing in training our new employees, we may not be able to train them rapidly enough to meet the increasing demands on our business. Our inability to hire, train and retain the appropriate personnel could increase our costs of retaining a skilled workforce and make it difficult for us to manage our operations, meet our commitments and compete for new projects. Furthermore, we may need to increase the levels of our employee compensation more rapidly than in the past to remain competitive.

Although we apply measures to protect our intellectual property rights and our source code, there can be no assurance that the measures that we employ to do so will be successful.

In accordance with industry practice, since we have no registered patents, we rely on a combination of contractual provisions and intellectual property law to protect our proprietary technology. We believe that due to the dynamic nature of the computer and software industries, copyright protection is less significant than factors such as the knowledge and experience of our management and personnel, the frequency of product enhancements and the timeliness and quality of our support services. We seek to protect the source code of our products as trade secret information and as unpublished copyright works. We also rely on security and copy protection features in our proprietary software. We distribute our products under software license agreements that grant customers a personal, non-transferable license to use our products and contain terms and conditions prohibiting the unauthorized reproduction or transfer of our products. In addition, we attempt to protect trade secrets and other proprietary information through non-disclosure agreements with employees, consultants and distributors. Although we intend to protect our rights vigorously, there can be no assurance that these measures will be successful. Our failure to protect our rights, or the improper use of our products by others without licensing them from us could have a material adverse effect on our results of operations and financial condition.

If our products experience data security breaches or there is unauthorized access to our customers' data, we may lose current or future customers and our reputation and business may be harmed.

Our products are used by our customers to manage and store proprietary information and sensitive or confidential data relating to their businesses. Although we maintain security features in our products, our security measures may not detect or prevent hacker interceptions, break-ins, security breaches, the introduction of viruses or malicious code, and other disruptions that may jeopardize the security of information stored in and transmitted by our products. A party that is able to circumvent the security measures in our products could misappropriate our or our customers' proprietary or confidential information, cause interruption in their operations, damage or misuse their computer systems, and misuse any information that they misappropriate. If any compromise of the security of our products were to occur, we may lose customers and our reputation, business, financial condition and results of operations could be harmed.

Risks Relating to Our International Operations

Our international operations expose us to risks associated with fluctuations in foreign currency exchange rates that could adversely affect our business

Most of our revenues are derived from international operations that are conducted in local currencies, mainly in US dollars but also in GBP, EURO and NIS. Our primary economic environment currency is the US dollar and therefore our functional currency is the US dollar.

Fluctuations in exchange rates between the US dollar and other currencies which we and our subsidiaries use, especially the NIS, may negatively affect our earnings. A significant portion of our expenses, including research and development, personnel and facilities-related expenses, are incurred in Israel, in NIS. Consequently, we are particularly exposed to the risk of appreciation of the NIS in relation to the US dollar. This appreciation would cause an increase in our expenses as recorded in our US dollar denominated financial statements even if the expenses denominated in local currencies remains unchanged. In addition, our level of revenues and profits may be adversely affected by exchange rate fluctuations.

In certain locations, we engage in currency-hedging transactions intended to reduce the effect of fluctuations in foreign currency exchange rates on our financial position and results of operations. However, there can be no assurance that any such hedging transactions will materially reduce the effect of fluctuation in foreign currency exchange rates on such results. In addition, if for any reason exchange or price controls or other restrictions on the conversion of foreign currencies were imposed, our financial position and results of operations could be adversely affected.

Conducting business in Israel entails certain inherent risks that could harm our business.

Our corporate headquarters and the majority of our research and development facilities are located in the State of Israel. Political, economic and military conditions in Israel directly affect our operations. We could be adversely affected by any major hostilities involving Israel, the interruption or curtailment of trade between Israel and its trading partners or a significant downturn in the economic or financial condition of Israel. In addition, several countries still restrict business with Israel and with companies doing business in Israel. These political, economic and military conditions in Israel could have a material adverse effect on our business, financial condition, results of operations and future growth.

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Despite the progress towards peace between Israel and its Arab neighbors, the future of these peace efforts is uncertain and although Israel has entered into various agreements with Egypt, Jordan and the Palestinian Authority, there has been an increase in unrest and terrorist activity, which began in September 2000 and has continued with varying levels of severity through 2012. Ongoing and revived hostilities or other Israeli political or economic factors could harm our operations and cause our revenues to decrease.

Recent political uprisings and social unrest in various countries in the Middle East and North Africa are affecting the political stability of those countries. This instability may lead to deterioration of the political relationships that exist between Israel and these countries, and have raised new concerns regarding security in the region and the potential for armed conflict. Among other things, this instability may affect the global economy and marketplace through changes in oil and gas prices. In addition, Iran has publicly threatened to attack Israel and is widely believed to be developing nuclear weapons. Iran is also believed to have a strong influence (including through the provision of funding and other support) among extremist groups in the region, such as Hamas in Gaza and Hezbollah in Lebanon. This situation may potentially escalate in the future to violent events which may negatively affect Israel. Continued hostilities between Israel and its neighbors and any future armed conflict, terrorist activity or political instability in the region could adversely affect our operations in Israel and adversely affect the market price of our Common Shares. Further escalation of tensions or violence might result in a significant downturn in the economic or financial condition of Israel, which could have a material adverse effect on our operations in Israel and our business.

Some of our employees in Israel are obligated to perform military reserve duty, currently consisting of approximately 30 days of service annually (or more for reserves officers or non-officers with certain expertise). Additionally, they are subject to being called to active duty at any time upon the outbreak of hostilities. While we have operated effectively under these requirements since the establishment of Sapiens, no assessment can be made as to the full impact of such requirements on our business or work force and no prediction can be made as to the effect on us of any expansion of such obligations.

Risks Related to an Investment in our Common Shares

Our Common Shares are traded on more than one market and this may result in price variations.

Our Common Shares are traded on the NASDAQ Capital Market and the TASE. Trading in our Common Shares on these markets is in different currencies (US dollars on the NASDAQ Capital Market and NIS on the TASE), and at different times (resulting from different time zones, different trading days and different public holidays in the U.S. and Israel). The trading prices of our Common Shares on these two markets may differ due to these and other factors. Any decrease in the trading price of our Common Shares on one of these markets could cause a decrease in the trading price of our Common Shares on the other market.

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There is limited trading volume for our Common Shares, which may cause the stock price to be volatile and which may lead to losses by investors.

There is limited trading volume for our Common Shares, both on the NASDAQ Capital Market and the TASE. As a result, our Common Shares have experienced significant market price volatility in the past and may experience significant market price and volume fluctuations in the future, in response to factors such as announcements of developments related to our business, announcements by competitors, quarterly fluctuations in our financial results and general conditions in the industry in which we compete.

Formula Systems (1985) Ltd. and its parent company, Asseco Poland SA, may exercise control and influence corporate actions in a manner that potentially conflicts with our other public shareholders and our election of "controlled company" status as a basis for exempting ourselves from certain NASDAQ corporate governance requirements may remove certain potential checks on such shareholders' control of our company.

Formula Systems (1985) Ltd. ("Formula"), whose ADRs trade on the NASDAQ Global Select Market (under the trading symbol: FORTY) directly owns 56.6% of our outstanding Common Shares as of February 25, 2013. Asseco Poland SA, whose shares trade on the Warsaw Stock Exchange ("Asseco"), directly owns 50.2% of Formula's outstanding share capital.

Asseco, through Formula, is and may continue to be in a position to exercise control over most matters requiring shareholder approval. Formula may use its share ownership or representation on our Board of Directors to substantially influence corporate actions that conflict with the interests of our other public shareholders including, without limitation, changing the size and composition of our Board of Directors and committees of our Board of Directors, causing the issuance of further securities, amending our governing documents or otherwise controlling the outcome of shareholder votes. Furthermore, our exemption from certain NASDAQ corporate governance requirements as a "controlled company" of which greater than 50% of the voting power is held by a group (i.e., Asseco and Formula) and the determination to opt out of these NASDAQ corporate governance requirements as permitted for a foreign private issuer, may have the effect of removing potential checks on Asseco's and Formula's control over our company. As a result of such election, we are not required to comply with the following NASDAQ Listing Rule requirements: maintenance of a majority of independent directors on our board of directors; selection of director nominees by a wholly independent nominating committee of the board or a majority of our independent directors; adoption of a written charter or board resolution addressing the director nominations process; determination of our executive officers' compensation by an independent compensation committee or a majority of our independent directors; and shareholder approval for certain matters. Our exemption from these requirements could strengthen Asseco's and Formula's control over our board of directors and management. See Item 6.C below "Board Practices— NASDAQ Exemptions for a Controlled Company" and "Board Practices— NASDAQ Opt-Out for a Foreign Private Issuer".

Furthermore, actions by Formula with respect to the disposition of the Common Shares it beneficially owns, or the perception that such actions may occur, may adversely affect the trading price of our Common Shares.

If we are classified as a passive foreign investment company, our U.S. shareholders may suffer adverse tax consequences.

Generally, if for any taxable year, after applying certain look-through rules, 75% or more of our gross income is passive income, or at least 50% of the value of our assets are held for the production of, or produce, passive income, we may be characterized as a passive foreign investment company ("PFIC") for U.S. federal income tax purposes. Passive income for this purpose generally includes, among other things, certain dividends, interest, royalties, rental and gains from commodities and securities transactions and from the sale or exchange of property that gives rise to passive income. This characterization could result in adverse U.S. tax consequences to our shareholders who are U.S. taxpayers, including having gain realized on the sale of our Common Shares being treated as ordinary income rather than capital gain income, and could result in punitive interest charges being applied to such sales proceeds. Rules similar to those applicable to dispositions apply to amounts treated as "excess distributions."

We believe we were not a PFIC in 2012 just as we believe we were not a PFIC for at least the past 5 years. We currently expect that we will not be a PFIC in 2013. However, PFIC status is determined as of the end of the taxable year and is dependent on a number of factors. Therefore, there can be no assurance that we will not become a PFIC for the year ending December 31, 2013 or in any other future taxable year. U.S. shareholders should consult with their own U.S. tax advisors with respect to the U.S. tax consequences of investing in our Common Shares. For a discussion of how we might be characterized as a PFIC and related tax consequences, please see Item 10.E, "Additional Information – Taxation - U.S. Federal Income Tax Considerations - Tax Consequences if We Are a Passive Foreign Investment Company."

Item 4. Information on the Company

A. History and Development of the Company.

Corporate Details

Our legal and commercial name is Sapiens International Corporation N.V., and we were incorporated and registered in Curaçao on April 6, 1990. We are a public limited liability company and operate under the provisions of the Curaçao Commercial Code. Our registered office is located at Landhuis Joonchi, Kaya Richard J. Beaujon z/n, Curaçao, and our telephone number in Curaçao is + 5999-736-6277. United International Trust N.V. is the Company's agent in Curaçao and serves as a member of our Board of Directors. Our World Wide Web address is www.sapiens.com. The information contained on the web site is not a part of this annual report. We have not had any important events in the development of our business since January 1, 2013.

Capital Expenditures and Divestitures since January 1, 2010

On April 27, 2010, we acquired Harcase Software Limited ("Harcase"), for aggregate consideration of approximately $3 million in cash and 454,546 Common Shares. On August 21, 2011, we acquired FIS Software Ltd. ("FIS") in total consideration of $49.7 million which was comprised of $6.75 million in cash, 10,016,875 of our Common Shares and warrants to purchase 1,000,000 of our Common Shares. In addition, on August 31, 2011 we acquired IDIT I.D.I. Technologies Ltd. ("IDIT") for total consideration of $31.4 million which was comprised of 7,483,125 of our Common Shares. The aggregate shares issued upon completion of the foregoing transactions constituted, immediately upon such completion, 44.2% of our issued and outstanding share capital. Options to purchase shares of FIS and IDIT were replaced at the closing with options to purchase an aggregate of 1,938,844 of our Common Shares.

Our principal capital expenditures during the last three years related mainly to the purchase of computer equipment and software for use by our subsidiaries. These capital expenditures totaled $662 thousand in 2010, $482 thousand in 2011 and $1,327 thousand in 2012.

B. Business Overview.

We are a global provider of innovative software solutions for the financial services industry, with a focus on insurance. We offer our customers a broad range of software solutions and services, comprised primarily of:

- **Core software solutions** for the Insurance industry – including Property & Casualty/General Insurance ("P&C") and Life, Annuities, Pension and retirement ("L&P") products
- **Business decision management solutions** for all financial services, including insurance, banking and capital markets
- **Project delivery and implementation of our mission critical solutions** using best practices

Our portfolio of core software solutions for insurance includes

- **Sapiens ALIS –** a comprehensive software solution for the management of diversified ranges of products for Life, Annuities, Savings, Pensions and Retirement
- **Sapiens IDIT -** a component-based software solution, designed for the General Insurance / Non-Life market, with a focus on Europe and Asia Pacific, supporting a broad range of business lines, including personal lines, commercial lines and specialty lines
- **Sapiens RapidSure** - a component-based software solution designed for the North America P&C market, supporting a broad range of business lines, including homeowners, fleet insurance and specialty lines
- **Sapiens Reinsurance -** a software solution designed to enable General Insurance / Property & Casualty insurance carriers to manage their reinsurance programs
- We also continue to provide support for our other legacy solutions, such as **Insight for P&C, Insight for L&P**, and **Insight for Closed Books**

Our solution for Business Decision Management (BDM)

- **Sapiens DECISION** - business decision software that allows organizations and business people to deploy their organization's business logic and adhere with new policy and regulatory change, via a centralized repository, to improve the decision management process.

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Project delivery methodologies and best practices implementation services

- A portfolio of insurance best practices with over 30 years of experience in delivering software solutions to financial services organizations, including insurance, retirement, and mortgage providers

- Bandwidth of professional services to deliver and support our software solutions backed by a global team of insurance and technology experts, with operations in North America, the United Kingdom, EMEA, APAC, and Israel

eMerge

We also offer our customers in the financial services industry, eMerge, an application development platform, for fast deployment of tailor-made complex solutions

Our Strategy

Our primary goal is to become a market leader in the global software solutions marketplace for the financial services industry, while focusing on insurance. Our strategy is to continue our growth, both organically and through acquisitions, while retaining profitability. We plan to achieve our goals by focusing on the following principles:

- **Continuing expansion of our market share** through organic growth, by acquiring new customers and expanding our business within our existing client base

- **Achieving growth through acquisitions** of complementary software solutions or customer base

- **Developing long-term relations with our customers -** strengthening our recurring revenue model by providing additional solutions, support, maintenance, assistance, and implementation services

- **Continuing to enhance our software package-based solutions** to ensure their leading functional and technical edge for the benefit of our customers and partners by focusing on innovation and domain expertise

Our Marketplace and its Needs

Our Target Markets

Sapiens operates in the traditional core insurance and financial services markets. Its history of working closely with insurance and financial services providers results in a deep understanding of these markets and their needs. Our target market includes both insurance carriers using legacy systems and those using new technologies. The following provides some basics on the insurance and financial services environments in which we operate.

Life Insurance, Annuities, Savings, Pensions and Retirement (“L&P”)

L&P providers offer their customers a wide range of products for long-term savings, protection, pension and insurance to assist policyholders in financial planning, through life insurance, retirement, pensions and investment products. L&P products can be classified in several areas, primarily Investment and Savings products, Risk and Protection products, and Pension products – and can exist both as individual-targeted products as well as group-related and employer-related products. Some L&P providers as well as other financial services providers also offer retirement services products, particularly management of and recordkeeping for defined contribution retirement plans.

Property & Casualty/General Insurance (“P&C”)

P&C insurance (also known as General Insurance or “GI”) protects policyholders against a range of losses on items of value. P&C insurance includes the Personal segment (insurance coverage for individuals, including products such as motor, home, personal property and travel), the Commercial segment (covering aspects of commercial activity such as commercial property, marine, engineering and professional liability), and Specialty Lines (covering unique domains such as art and credit insurance). While some forms of P&C insurance are optional, others, such as automobile insurance, workers’ compensation insurance and medical malpractice insurance, are obligatory.

Reinsurance

Reinsurance is insurance that is purchased by an insurance company (“ceded reinsurance”) from another insurance company (“assumed reinsurance”) as a means of risk management. The reinsurer and the insurer enter into a reinsurance agreement which details the conditions upon which the reinsurer would pay the insurer's losses. The reinsurer is paid a reinsurance premium by the insurer, and the insurer issues insurance policies to its own policyholders.

Decision Management

Differing regulatory requirements throughout the world require specialized data to handle business logic, including all related business decisions and business rules. Financial organizations in general, and large-scale ones in particular, face ongoing challenges around creating, maintaining and governing the business logic in their organization. This exposes these organizations to financial as well as regulatory risk, in the lack of means to properly adhere to regulations or fit their products to their customers. This market is now gaining traction with the growing regulatory pressures to manage risks following the 2008 financial crisis worldwide.

Our Target Market Needs

Insurance & Pension - L&P, P&C, Retirement Services

The insurance market is a large, complex, and highly regulated environment. Insurance carriers operate under a rigid regulatory regime and are required to comply with regulations that are frequently changing.

In order to efficiently manage their operations, insurance carriers require IT platforms that enable rapid introduction of changes via configurable user-driven activities, integrate with other internal and external systems, control and audit the internal employees work, support multi-channel distribution and provide clear visibility of the carrier's business operations.

According to research and advisory firm CELENT *(IT Spending in Insurance – A Global Perspective, March 2012)*, global IT spending in insurance is expected to grow to $150.1 billion in 2013 and to $157.5 billion in 2014. As global IT spending continues to increase over the next decade a shift from spending on insurers' legacy systems to new solutions is expected to occur.

We believe that many insurance carriers are experiencing substantial operational challenges due to the inefficiency of their legacy policy administration systems. Such systems, which include both technical and functional limitations, have acute impact on the ability of the carriers to face the growing challenges of the rapidly-changing insurance marketplace around innovation, shift of power to the consumer, and dynamic and changing regulatory environment.

We believe that the key factors that insurance carriers take into consideration when considering an upgrade of their legacy systems with new technologies are:

- **Dynamic business environment with ever-changing regulation**

In today's dynamic and highly competitive environment, insurance carriers are constantly seeking new competitive advantages and differentiators. Accordingly, there is a clear need for a flexible core system that supports rapid implementation of changes. Many insurance carriers still use outdated legacy systems that are costly and time-consuming to modify or upgrade. This has prevented insurance carriers from innovating and growing, including by modifying current products, introducing new products and reaching new market segments. Varied and frequently changing regulatory requirements throughout the world require specialized data and business rules, which makes implementation of changes particularly challenging.

- **Change in end-consumers' behavior and shift of power to consumers**

Insurance carriers must adapt rapidly to the shifting needs and behaviors of consumers, including the types and terms of insurance products offered and how consumers can access information to compare insurance products. Consequently, insurance carriers require systems with integration capability and support of multi-channel distribution to allow them to reach their consumers customers and partners in a variety of means.

- **A need to improve operational efficiency and reduce Total Cost of Ownership (TCO)**

We believe that a majority of insurance carriers are still using inefficient and outdated processes which lack automation of operation, workflow and efficient process management. These processes tend to be inefficient and have high error rates. Additionally, the ongoing maintenance of these legacy systems is expensive and technically difficult. A specialized IT staff with the requisite skills and experience needed to maintain these systems is difficult to find or replace. Insurers seek systems that are modern, automated, efficient and easy to maintain and which can effect a decrease of costs in the long run.

· **Increasing global and multi-national operation**

Insurers are increasing their global reach through acquisitions and business initiatives. These insurers in turn are seeking sole providers who can deliver solutions that can be used across markets, combining the support of local regulatory requirements and specific customer needs while driving a generic corporate business approach and strategy across the globe, reducing costs and overhead.

· **Conditions in the retirement services/ L&P market are ripe for technological innovation**

Employer- related plans, including specialized contribution plans are the primary retirement savings vehicles in the U.S., holding nearly two-thirds of retirement assets. Financial services and insurance companies, among others, provide recordkeeping services for employer-related plans. Many recordkeeping service providers use legacy or in-house software solutions to manage their books.

We believe that this marketplace is seeking a recordkeeping technology solution that is more cost-effective to operate and maintain and yet is scalable and efficient, in order to provide better support to their current clients while creating a platform for future growth.

Business Decision Management (BDM)

Many large organizations, particularly in the financial services market, struggle with similar business challenges around regulatory compliance and complex decision processes and an ever-changing market landscape that require their response to change. While the business logic is defined by the business owners and compliance officers, IT departments are expected to translate those requirements into code, ensuring that the result accurately reflects the requirements, that the new requirements do not conflict with or override previous requirements, and that the whole process is audit trailed and done in a timely manner. In recent years, there has been a rapid increase in the demand for business process management ("BPM") software, as businesses around the world strive to implement strategic process automation to overcome organizational barriers. A recent Companies and Markets study (www.companiesandmarkets.com) found that the global BPM software market revenues will rise from approximately $2.6 billion in 2011 to $7 billion by 2018.

Business Decision Management solutions are required to align the Business Rules Management (BRM) systems and Business Process Management (BPM) systems that are typically operated by large organizations. The spread of business logic across multiple systems in the organization can expose the organization to risk as well as to efficiency-related challenges. These challenges are acute when the organization has to rapidly introduce a new product to the market, or adhere with new regulation, which occurs often in today’s highly competitive and highly regulated business environment.

Increasingly, organizations are looking to treat their business logic as an asset. Business logic drives each and every one of the financial services transactions and is the very backbone of an organization's policies and strategies and its ability to comply with regulations.

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Sapiens' Software Solutions

Solutions for the Global Financial Industries, with a focus on Insurance

Sapiens focuses on delivering package-based software solutions that provide the financial services industry and, in particular, the insurance industry, with the ability to be more agile in the face of the new and changing business environment, while simultaneously reducing IT costs.

We offer our customers a range of package-based software solutions that are:

- **Comprehensive and function-rich**, supporting generic insurance standards, regulation and processes by providing field proven functionality and best practices

- **Customizable** to easily match specific business requirements and expandable/flexible architecture that allows quick functionality augmentation that permits use of our platform across different markets and regulatory regimes using our knowledge of insurance best practices

- **Based on model-driven architecture** (incorporating "Service Oriented Architecture - SOA") and engineered to provide streamlined secure processing, while maintaining total platform independence and system reliability.

- **Component-based and scalable** in order to help our customers implement our software in their environments to better serve their clients and quickly respond to insurance regulatory and market changes that result in a rapid time to market.

The foregoing features of our insurance solutions offer a broad range of advantages to the operational environment of an organization and the ability to create new, added value through:

- **Rapid deployment of new insurance products** by providing highly configurable software and offering the opportunity to achieve a competitive advantage in the P&C and L&P market by arriving to the market early with new products

- **System support for global expansion of the insurance business**, allowing users of our solutions to leverage a single software solution to support operations globally while simultaneously addressing local requirements

- **Compliance with regulatory requirements** by using configuration-based capabilities to easily introduce changes to the system to support complex insurance regulations

- **Support of multiple innovative channels** to our customers' clients, including mobile technologies, social media and internet to align with the shift of power to the consumer

- **Improvement of operational efficiency** by providing full automation of insurance process, with configurable workflow, audit and control, streamlined insurance practices and easy integration and maintenance

- **Reduction of overhead for IT maintenance** through easy-to-integrate solutions with flexible and modern architecture resulting in lower costs for ongoing maintenance, modifications, additions and integration

- **Prevention of claims leakage** with a comprehensive, auditable approach to management of reinsurance programs

- **Modern architecture and technical design** utilizing component-based and full service-oriented architecture to provide easy integration to all external sources, scalability and powerful performance

Our Solution Offerings

Life, Pension & Annuity Solutions:

Sapiens ALIS

Sapiens ALIS is a comprehensive L&P software solution for individual, group and worksite insurance products. ALIS provides comprehensive support for the complete policy lifecycle of all life insurance products from quotation and illustrations, through underwriting, insurance billing and servicing up to the claims management and exit processing.

Sapiens ALIS supports a wide range of insurance product lines across multiple territories, including:

- Individual and Group Life, Investment & Savings
- Individual and Group Protection and Risk Products
- Individual and Group Pension and Retirement Plans
- Group/Worksite Life and Protection Products
- Annuity Products

· Hybrid Products

Sapiens ALIS is a modular system and its functional components include all the components necessary for L&P insurers to manage their business. ALIS allows insurance carriers to manage their entire core business on a single ALIS platform and also to integrate ALIS with customers' other systems for the performance of a specific activity or domain.

Sapiens ALIS integrates all of the following functions into one solution:

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- Quotation and Illustration
- New Business
- Underwriting
- Policy Servicing
- Billing , Collection and Payments Management
- Claims Processing
- Agency and Commission
- Document Management
- CRM and Customer Management
- Workflow
- Compliance and Calculation engine

Sapiens ALIS Recordkeeping for Retirement Services

Based on ALIS, we have also developed Sapiens ALIS Recordkeeping for Retirement Services, an end-to-end package-based software solution for record-keeping management for Defined Contribution Recordkeeping providers.

Sapiens Recordkeeping solution offers a complete end-to-end support of the recordkeeping functionality, based on a modular deployment structure allowing flexibility on using specific modules and also seamlessly integrate with our customers' preferred systems/modules. Sapiens Recordkeeping for Retirement Services supports the full range of Defined Contribution retirement products, including among others, 401(k), ESOP and Profit Sharing and the associated plan variations, including ERISA, Non-ERISA, Safe Harbor, Taft Hartley and others.

Property & Casualty/General Insurance Solutions:

Sapiens IDIT

Sapiens IDIT is a component based software solution, addressing the specific needs of general insurance carriers for traditional insurance, direct insurance, bancassurance and brokers markets, primarily in Europe and in the Asia-Pacific markets.

Sapiens IDIT integrates multiple front office and back office processes, including insurance product design, policy administration, underwriting, call center and remote users and partners, backed by fully secured internet-based capabilities.

Sapiens IDIT supports a broad range of general, personal and commercial lines of business, including:

- Personal lines – e.g. motor, personal property & homeowners, yacht, travel, medical insurance etc.
- Commercial lines – e.g. fleet insurance, marine, cargo, engineering, real estate and commercial building etc.
- Specialty lines – e.g. credit insurance or art insurance

Sapiens IDIT provides a full set of components to support insurance core operations lifecycle from inception to renewal and claims, including:

- Complete Policy Administration
- Claims Management
- Billing and Collection

Modular software components can be customized to match specific insurance business requirements, while providing pre-configured functionality, including:

- Customer Relationship Management (CRM)
- Product Factory
- Policy Administration
- Billing and Collection
- Claims Management
- Intermediary Management
- Workflow Management

- Technical Accounting
- Document Management
- Business Intelligence

Sapiens RapidSure

Sapiens RapidSure is a component-based software solution, designed specifically to meet the business and regulatory requirements of P&C insurance providers in North America. RapidSure supports a broad range of general, personal and commercial lines of business, including homeowners, fleet insurance and specialty lines insurance products, and is designed to handle complex policies and high volume transactions.

Sapiens RapidSure is based on SOA architecture which facilitates ease of integration with existing corporate and external systems such as ACORD and ISO. It offers a user friendly interface which allows insurance carriers to improve efficiency through ease of operation and provides a broad set of applications to support the P&C insurance core operations lifecycle including:

- Policy Administration
- Product Configurator
- Point-of-Sale Portal

Other components of RapidSure include:

- Customer Relationship Management (CRM)
- Enterprise Agency System (EAS)
- Insurance Enterprise Architecture
- Business Integration Platform
- Conversion

Sapiens Reinsurance

Sapiens Reinsurance enables P&C/General Insurance carriers and brokers to handle all of their P&C/General reinsurance activities on a single platform, with full financial control and auditing support. By incorporating in-depth, fully automated functions readily adaptable to each company's business procedures, Reinsurance provides full financial control of the reinsurance practice, including support for all auditing requirements and regulatory reporting.

Reinsurance provides end-to-end processing, including:

- Setup of and definition of the reinsurance program
- Import of premium and claims transactions
- Automatic allocation of premiums and claims to reinsurance contracts

· Performing required calculations

· Production of statements & accounts to reinsurance participants

Business Decision Management Solutions:

Sapiens DECISION

Sapiens DECISION is an innovative business decision software solution which allows business professionals, with no IT skills, to design, simulate, implement, change, analyze, and visualize business logic that drives financial operations and compliance in a business-friendly format and environment.

Sapiens DECISION is based on The Decision Model methodology, which we license under a long term license from the Decision Model Licensing LLC. The Decision Model is an innovative approach to business logic. When implemented properly, it can resolve the disparate nature of the logic across the organization to provide an enterprise management of logic. It allows a single representation of the logic across the organization and treats it as an enterprise asset.

Sapiens DECISION offers a way to maintain governance across all applications, across any rules engine or business process management system, and it does not replace the organization’s BRM or BPM.

Some of the key benefits to organizations that use Sapiens DECISION are:

- Improved risk management by having a single version of the organization's business logic, that is managed in a central repository and applied across the organization

- Better corporate governance through a secured authorization process for the introduction of new business logic or changes to existing logic and full audit trail for traceability

- Quick and easy deployment of new or changed business logic for products, services and regulations in a single, centralized repository using business-like language

- Empowerment of business people